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**SPANISH
ECONOMY
REPORT**



**GOBIERNO
DE ESPAÑA**

**MINISTERIO DE
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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

Financial markets

The financial markets evolution in March was conditioned by the monetary policy meetings of the major central banks, the uncertainties regarding the economic policy decisions in the United States, the electoral uncertainty in Europe and the calling of Article 50 of the Treaty of Lisbon by the United Kingdom in a context of favourable business results and macroeconomic figures. As a result, the European stock indices rebounded, European public debt yields increased in most cases and the euro appreciated 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 forecasts for December last year, keeping the forecasts for 2019 unchanged.

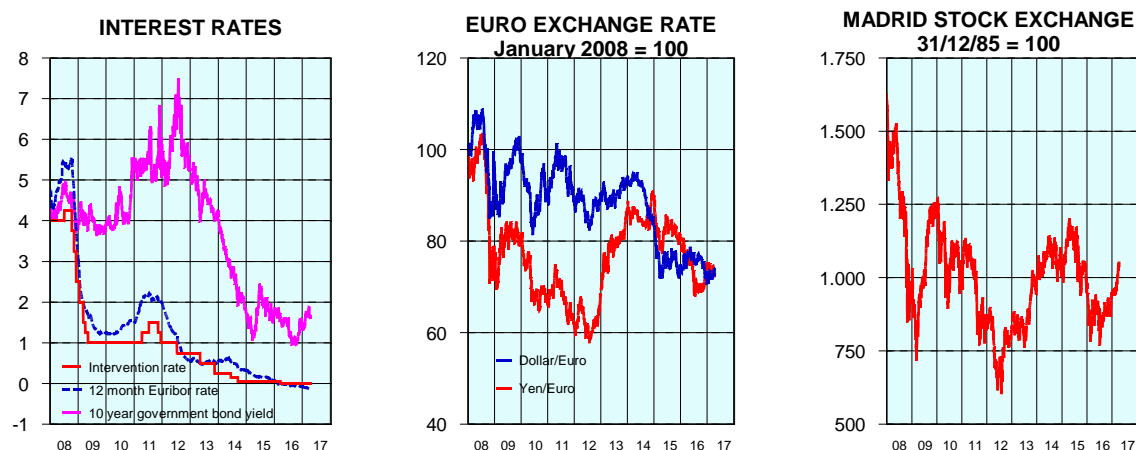
The Fed increases the interest rates

The Federal Open Market Committee (FOMC) of the Federal Reserve (Fed), in its two day meeting held on 14th and 15th March, decided to increase the target range for the Federal Funds by one quarter of a percentage point, up to 0.75%-1.00%, from the range of 0.50% -0.75% in force since the last rise, which took place on 15th December 2016. According to the statement that followed the meeting, labour market indicators have continued to improve, as shown by the employment dynamism, and the economic activity has expanded at a moderate pace, forecasting two additional interest rate increases in the baseline scenario in 2017. According to the FOMC, in order to determine the timing and size of the forthcoming adjustments of the interest rate target range, the progress in achieving the employment and inflation objectives will be assessed, taking into account information regarding the indicators of the labour market, inflationary pressures and expectations and the international context.

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 15th March, 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.

G1. MONETARY AND FINANCIAL INDICATORS (1)



(1) Daily data.

Source: ECB, Banco de España and Bolsa de Madrid.

The BoJ maintains the interest rates and the monetary stimulus plans

In the meeting held on 15th and 16th March, 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.

The 12 month Euribor continues registering negative rates

In the interbank market of the Eurozone, interest rates remained negative in March, in a context where the ECB maintained an accommodative monetary policy. On 31st March, the one, six and twelve-month Euribor stood at -0.373%, -0.241% and -0.109%, respectively, versus the -0.371%, -0.239% and -0.114% recorded at the end of February. The stability of the 12 month Euribor in this period is due to the fact that the expectations of a slight increase of interest rates (the OIS increases by 2 b.p. in this period) offset the fall of risk premiums required in the market (the Euribor-OIS differential decreased by 2 b.p.).

European public debt yields increase

In the secondary public debt market, European yields rebounded during the first weeks of March, in the context of an upward revision of the ECB's growth and inflation forecasts and the electoral uncertainty in some European countries. However, since the middle of the month, European yields showed a downward trend, given the lower expectations of a possible monetary policy tightening. Thus, the 10-year Spanish bond yield stood at 1.67% on 31st March, 6 b.p. below the figure recorded on 28th February. On the other hand, the German bond yield rose 12 b.p. in the same period, up to 0.33%, the Spain-Germany differential standing at 134 b.p., 18 b.p. below the level recorded in late February. Meanwhile, the Spain-Italy differential stood at -65 b.p., compared to -36 b.p. recorded on 28th February.

T 1. Public debt yields and differentials

(in % and basis points)

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-30-16 (1)	Feb-28-17 (2)	Mar-31-17 (3)	Variation in spreads		Dec-30-16 (4)	Feb-28-17 (5)	Mar-31-17 (6)	Variation in spreads	
				Period (3)-(2)	Annual (3)-(1)				Period (6)-(5)	Annual (6)-(4)
Germany	0.21	0.21	0.33	12	12					
Holland	0.35	0.32	0.42	10	7	14	11	9	-2	-5
Finland	0.35	0.36	0.45	9	10	14	15	12	-3	-2
Austria	0.42	0.43	0.54	11	12	21	22	21	-1	0
Belgium	0.55	0.70	0.85	15	30	34	49	52	3	18
France	0.68	0.88	0.98	10	30	47	67	65	-2	18
Ireland	0.77	0.88	0.99	11	22	56	67	66	-1	10
Spain	1.40	1.73	1.67	-6	27	119	152	134	-18	15
Italy	1.82	2.09	2.32	23	50	161	188	199	11	38
Portugal	3.78	3.88	3.97	9	19	357	367	364	-3	7
Greece	7.11	7.15	6.99	-16	-12	690	694	666	-28	-24

Source: Financial Times.

Stock indices rebound in March

In the stock markets, European indices rebounded between late February and late March, boosted by the favourable macroeconomic data and the business results, as well as by the electoral outcome in the Netherlands, in a context where political uncertainty continues in Europe. In Europe, the Eurostoxx 50 index rose by 5.5% during the period between 28th February and 31st March this year. In Spain, the IBEX 35 registered a growth of 9.5% in that period, higher than that of the other European indices and exceeding the 10,000 points. In the US market, the S&P 500 index recorded a null variation during the period, in a context of volatility due to the uncertainty surrounding the future economic policy decisions and the expectations about the Fed increasing the interest rates.

T 2. International stock exchange

Countries	Index	Level Mar-31-17	% Variation	
			Feb-28-17	Dec-30-16
Germany	DAX	12,312.87	4.0	7.2
France	CAC 40	5,122.51	5.4	5.4
Italy	FTSE MIB	20,492.44	8.3	6.5
Spain	IBEX 35	10,462.90	9.5	11.9
Eurozone	EUROSTOXX 50	3,500.93	5.5	6.4
United Kingdom	FTSE 100	7,322.92	0.8	2.5
United States	S&P 500	2,362.72	0.0	5.5
Japan	NIKKEI 225	18,909.26	-1.1	-1.1
China	SHANGHAI COMP	3,222.51	-0.6	3.8
Mexico	IPC	48,541.56	3.6	6.4
Brazil	BOVESPA	64,984.07	-2.5	7.9
Argentina	MERVAL	20,265.32	6.0	19.8

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

The euro appreciates against the dollar

With respect to the currency market, the euro exchange rate against the dollar rebounded in March, coinciding with the inflation increase in the Eurozone and affected by the Fed's caution with regards to the upcoming interest rate movements and the uncertainty surrounding the future economic policy decisions in the United States. Thus, in the period between late February and late March, the euro appreciated by 0.9% against the dollar, 0.3% against the pound and 0.6% against the yen, trading at the end of the 31st March session at 1.0691 dollars, 0.85553 pounds and 119.55 yen. In the same period, the euro appreciated by 0.5% in nominal effective terms.

The M3 broad monetary aggregate slows down slightly in February...

The M3 broad aggregate slowed down by one tenth in February 2017, registering a y-o-y increase of 4.7%, as a result of the moderation of the growth rate of marketable instruments (3.8 points, down to 3.5%) and overnight deposits (9.2%, compared to the 9.3% registered in the previous month), partially offset by the acceleration of currency in circulation (three tenths, up to 3.9%) and the lower decline in other short-term deposits (from -2.2% to -2.1%).

T 3. Eurozone monetary aggregates

Monetary aggregates	February 2017 Balance (Billion €)	% Year-on-year variation		
		December 2016	January 2017	February 2017
1. Currency in circulation	1,086	3.5	3.6	3.9
2. Overnight deposits	6,209	9.8	9.3	9.2
M1 (= 1 + 2)	7,295	8.8	8.4	8.4
3. Other short-term deposits (= 3.1. + 3.2.)	3,504	-2.6	-2.2	-2.1
3.1. Term deposits up to two years	1,326	-7.5	-6.7	-6.2
3.2. Deposits redeemable at notice up to three months	2,178	0.7	0.8	0.7
M2 (= M1 + 3)	10,799	4.8	4.7	4.8
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	673	8.8	7.3	3.5
4.1. Repurchase agreements	67	-5.8	-7.3	-24.3
4.2. Money market funds shares/units	507	8.8	8.9	8.1
4.3. Securities other than shares up to two years	99	23.7	12.0	6.8
M3 (= M2 + 4)	11,472	5.0	4.8	4.7

Source: European Central Bank.

...and so does the financing to the private sector in the Eurozone

The main counterpart to M3, the financing to the private sector in the Eurozone, slowed down by one tenth in February, down to 2.6% y-o-y, due to the moderation in the pace of increase of loans (two tenths, down to 2%) and securities other than shares (6.7%, compared to the 7.1% registered in the previous month), while shares and other equity accelerated one point, up to 3.6% y-o-y. Within loans, those received by households stabilised the growth rate at 2.4% and those received by non-financial corporations slowed down by three tenths, to 1.5%.

T 4. Financing of private sector in the Eurozone (1)

	February 2017 Balance (Billion €)	% Year-on-year variation		
		December 2016	January 2017	February 2017
Credit to the private sector	12,916	2.5	2.7	2.6
Loans	10,720	2.2	2.2	2.0
Households	5,443	2.3	2.4	2.4
<i>House purchases</i>	4,072	2.7	2.8	2.9
<i>Consumer credit</i>	624	4.0	4.6	4.1
<i>Other lending</i>	748	-1.4	-1.2	-1.3
Non-financial corporations	4,323	1.9	1.8	1.5
Insurance companies & pension funds	112	-9.0	-8.6	-11.4
Other financial intermediaries	842	5.3	4.5	3.8
Securities other than shares	1,404	6.2	7.1	6.7
Shares and other equities	793	0.7	2.6	3.6

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

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

The stock of financing to the private non-financial sector in Spain moderated the y-o-y fall rate in February by two tenths, to 0.1%. Financing received by firms rose by 0.8%, three tenths more than in January, due to the acceleration of foreign loans and securities other than shares (0.3 and 3.5 points, up to 1.5% and 11.4%, respectively), while bank loans increased their rate of decline by one tenth, up to 1.1%. On the other hand, financing received by households recorded a y-o-y rate of -1.3%, one tenth higher in comparison to the figure registered in the previous month, due to the lower drop in loans for housing and the acceleration of other bank loans.

T 5. Financing of non-financial sectors residents in Spain

	February 2017 Balance (Billion €)	% Year-on-year variation		
		December 2016	January 2017	February 2017
Non-financial corporations and Households	1,615	-0.7	-0.3	-0.1
Non-financial corporations	906	-0.2	0.5	0.8
<i>Bank loans</i>	526	-1.1	-1.0	-1.1
<i>Securities⁽¹⁾</i>	89	4.7	7.9	11.4
<i>External loans</i>	291	0.0	1.2	1.5
Households	708	-1.4	-1.4	-1.3
<i>Bank loans. Housing</i>	541	-3.0	-3.1	-3.0
<i>Bank loans. Other</i>	167	4.3	4.6	4.7
General Government	-	3.1	3.9	-
Total financing	-	0.8	1.3	-

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

...and new loan and credit operations to households and SMEs slow down

The amount of new loan and credit operations to households, in cumulative terms for the last twelve months, increased by 6% y-o-y in February 2017, versus the 7.2% increase registered in the previous month. This slowdown is due to the lower increase of loans for housing (4.6% versus 6.1% in the previous month) and for consumption (26.6%, versus 28.5% registered in the previous month), as well as by the greater fall recorded by credits for other purposes (-12.3%, in comparison to the -12.1% registered in the previous month). 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 February this year, by 2.9% y-o-y, one tenth less than in the previous month. On the other hand, the amount of new loan and credit operations exceeding one million euros declined by 34.6% y-o-y, a drop 2.3 points higher than in January.

Spanish economy

Domestic Demand and production

The Bank of Spain revises three tenths upwards its growth forecast for the Spanish economy for 2017, up to 2.8%

In its update of the macroeconomic forecasts for the Spanish economy, the Bank of Spain (BoS) revised three tenths upwards its real GDP growth forecast for 2017, up to 2.8%, mainly due to a more-favourable-than-expected evolution of the activity in the first quarter of this year. For the years 2018 to 2019, the BoS foresees an extension of the expansionary path of the Spanish economy, although at a more moderate pace, projecting a real GDP growth of 2.3% in 2018 and 2.1% in 2019, rates that are two and one tenth higher, respectively, compared to those of the previous forecast.

With regards to the composition of growth, the BoS foresees that it will remain balanced. Although domestic demand will continue to be the main growth driver, the external sector will record positive contributions in the forecast horizon, although at a decreasing pace. The BoS reviewed upwards the domestic demand contribution in 2017 by 0.1 p.p., up to 2.3 p.p. and maintained it at 2 p.p. in 2018. The external sector is expected to contribute with 0.5 p.p. in 2017 and 0.3 p.p. in 2018, two tenths more than expected in December last year. In 2019, the domestic demand contribution remains at 1.9 p.p., and that of net external demand increases 0.1 p.p., up to 0.2 p.p.

With regards to employment, the BoS improves its growth forecast by three and two tenths for 2017 and 2018, respectively, up to 2.6% and 1.9%, and foresees a slight slowdown in 2019, down to 1.8%, a rate one tenth higher than the one forecast in December 2016.

In the same vein, the OECD also revised upwards the real GDP growth forecast of the Spanish economy for 2017, by two tenths, up to 2.5%, and maintained it at 2.2% for the coming year. By components, the domestic demand growth for 2017 is revised downwards by one tenth, down to 2.3%, and the external sector contribution increases by three tenths, up to 0.3 p.p. The growth pace moderation expected for the next year is explained by the smaller contribution of the external sector, two tenths down, to 0.1 p.p., and by the lower contribution of domestic demand, which decreases from 2.2 p.p. in 2017 to 2.1 p.p. in 2018. The employment growth foreseen by the OECD for 2017 remains at 2.4% and that of 2018 increases by one tenth compared to November last year forecasts, to 1.9 %.

The economic activity extends the expansionary trend in the first months of the year

Available short-term indicators for the first quarter of 2017 point to an extension of the economic activity dynamism, in a context of intense job creation and favourable expectations and financing conditions.

Among the qualitative indicators, the *Global Activity Composite PMI* for Spain registered a level of 56.8 in March, very similar to the figure recorded in the previous month (57, the highest value reached since August 2015). This result, which is almost half a point higher than that registered in the Eurozone (56.4), points to a virtual stabilisation in the global activity growth pace compared to February. The first quarter of the year ended with an average level of 56.2 (55.6 in the Eurozone). 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, stood at 99.9 in February for the second consecutive month, a figure almost identical to its long-term average (100).

On the other hand, the *Economic Sentiment Indicator* (ISE, by its Spanish abbreviation) for Spain, published by the European Commission, fell 1.8 points in March in comparison to the previous month, down to 106.9 (average 1990-2016 = 100). By components, confidence in services (2.1 points), industry (2.6 points) and construction (6.9 points) decreased, while retail and consumer confidence rose 0.2 and 1.6 points, respectively.

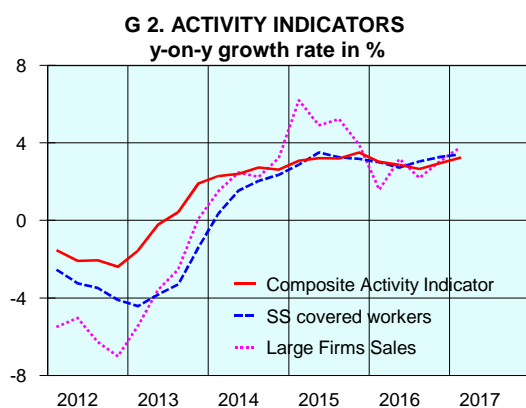
Among quantitative indicators, *total large firm sales*, with fixed-sample, deflated and calendar adjusted data, accelerated seven tenths in February 2017, up to 4.1% y-o-y, due to the greater pace of progress of domestic sales (2.9% y-o-y, one point higher than in January), partially offset by the 0.6 points slowdown registered by exports, down 8.2% y-o-y. On the other hand, imports grew by 5%, a rate 2.3 points higher than the figure registered in the previous month. In the same direction, the *Business Turnover Index* (BTI) continued its dynamism in January, registering a 6.1% increase, with calendar adjusted data, half a point less when compared to last December. This result is explained both by the reduced dynamism of the turnover in the trade and market non-financial services, partially offset by the acceleration in the extractive and manufacturing industries and in the electricity and water supply sector.

Private consumption maintains a high dynamism

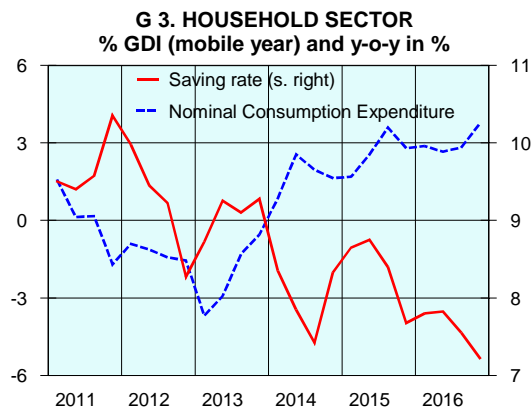
The short-term information about private consumption during the first months of this year shows positive signs. Among the qualitative indicators, the *Consumer Confidence Indicator* (CCI), published by the CIS increased 4.6 points in March compared to the previous month, reaching 99.7. This rise was due to the evolution of its two components, current situation and expectations, which increased by 5.9 and 3.2 points, respectively, up to 91.4 and 107.9. Likewise, the consumer confidence indicator published by the European Commission rose 1.6 points in March, up to -2.2. In the first quarter of the year, the European Commission consumer confidence indicator registered an average value of -2.8 and the one published by the CIS was 97.7, both higher than the figures registered in the previous quarter (-3.2 and 96.9, respectively).

The positive evolution of private consumption was also shown by the quantitative indicators, such as *domestic sales in large companies of consumer goods and services*, which, with deflated, fixed-sample and calendar adjusted data, registered a y-o-y increase of 3.8% in February, four tenths higher in comparison to the figure recorded in the previous month and where consumer services stood out, which accelerated by three points, up to 5.7% y-o-y. Moreover, according to the figures provided by ANFAC (Spanish Association of Vehicles Manufacturers),

passenger car registrations in March gained momentum, registering a 12.6% y-o-y rate increase, following the slight 0.2% rise recorded in the previous month, ending the first quarter of 2017 with a 7.9% y-o-y increase, 1.1 points lower than the figure registered in the last quarter of 2016.



Sources: AEAT, MESS and MEIC.



Source: INE.

In the same direction, *retail sales*, with deflated and calendar adjusted data, rose by 0.2% y-o-y in February, in comparison to the 1.3% decrease registered in the previous month. By product type, this evolution is explained by the 0.8 points acceleration registered by the food group, up to 1.8% y-o-y, and by the lower decrease rate of the non-food component (-0.3%, versus the 2.7% registered in the previous month). The large retail outlets component moderated the y-o-y decline rate by almost one point in February, down to -0.4%.

The savings rate of households falls

According to the Quarterly Non-Financial Accounts for the Institutional Sectors, Households and Non-profit Institutions Serving Households (NPISHs) decreased their net lending by € 3.6 billion in the last year, from 5.7% of GDP in the last quarter of 2015 down to 4.3% in the same period of 2016. This lower net lending is explained by the decrease in savings experienced in the sector (-7.7% y-o-y), as well as by the 12.2% increase in investment and the lower amount of other net capital income. In turn, the fall in savings is due to an increase in final consumption expenditure (3.7%) higher than that of the households gross disposable income (2.3%). The wage and non-wage incomes (2.8% and 3%, respectively), as well as the increase in current transfers received (3.2%) have contributed to the increase of gross disposable income (GDI), partially offset by the increase in current taxes on income and wealth (5%) and current transfers paid (4.3%).

As a result, the sector registered a gross saving of € 21.9 billion in the fourth quarter of 2016, compared to the € 23.8 billion recorded a year earlier, the savings rate reaching 11.8% of its GDI, 1.3 points lower than a year earlier

Equipment investment indicators show mixed signals

The available short-term information on equipment investment shows mixed results in the first months of the year. According to figures provided by the DGT, *truck registrations* rose in the two-month period from January to February, 8.2% y-o-y, versus the 6% rise registered in the last quarter of last year, while *domestic sales of equipment and software* moderated their growth rate

during that period, registering a 2.6% y-o-y increase, in comparison to the 3.3% rise registered in the fourth quarter of 2016.

On the other hand, according to the Business Tendency Survey, the *Industry Climate Indicator* for investment goods fell 3.7 points in March compared to the previous month, registering a balance of 1.9 points. This evolution is attributed to its three components: orders portfolio, stock level and to a lesser extent, production expectations. Despite this, the first quarter ended with a balance improvement of 1.1 points compared to the previous quarter.

On the other hand, *domestic availability of equipment goods* maintained their y-o-y growth rate unchanged at 1.3% in the first quarter of the year (the latest observed data corresponds to January), due to the fact that the slower pace of decline in domestic production (from -1.5% in the fourth quarter of 2016 down to -0.3% in the first quarter of 2017) and the acceleration of imports (three points, up to 5.1% y-o-y), offset the exports rebound (11.3% compared to the 1.7% decline recorded in the previous quarter).

Non-financial corporations moderate their net lending in the last quarter of 2016...

According to the Quarterly Non-Financial Accounts for the Institutional Sectors data, non-financial corporations showed a net lending position equal to 3% of GDP in the fourth quarter of 2016, six tenths lower than that registered a year earlier. This performance is due to an increase in business investment (7.7% y-o-y) higher than that for the GDI of the sector (3.3%). In turn, the increase in the latter item was due to the rise of the gross operating surplus (6%) and to the fall in net current transfers paid (-11.2%), partially offset by the strong momentum of the corporate tax (35.7%) and the slight rise of net property income paid (0.3%). The rise of the gross value added of companies (4.5%) and the rise in subsidies net of taxes on production (20.1%) contributed to the increase in the gross operating surplus, while the compensation of employees rose by 3.5%. Gross saving, together with the positive balance of net capital transfers received, was enough to finance the investment of non-financial corporations, resulting in a net lending of € 8.7 billion, € 1.5 billion lower than in the same period of 2015

...and the Central Balance Sheet results show an improvement in corporate profitability ratios

According to the *Quarterly Central Balance Sheet* data published by the Bank of Spain, for the fourth quarter of 2016, non-financial corporations included in the sample recorded a more intense growth in their productive activity at the end of last year. Thus, the nominal gross value added (GVA) rose by 7.2% y-o-y, 2.5 points more than in the previous quarter, which resulted in a 13.6% increase in the gross operating profit (GOP), four points higher than in the previous quarter, despite a slight increase in personnel expenses, which went from falling by 0.3% in the third quarter to increasing by 0.9% in the fourth quarter. This evolution, together with the further decline recorded by financial expenses, (-11.4% versus -7.5% in the third quarter), explains the sharp growth of the net ordinary result (47.1%, 17.3 points higher than in the previous quarter).

In this context, the ordinary return ratios continued to grow. The ordinary return on net assets for all the companies in the sample continued the upward trend in the last quarter of 2016, up to 6.4%, almost one point and a half higher than the figure recorded in the previous quarter. On the other hand, the ratio that measures the financial cost (financial expenses over liabilities) rose one tenth, up to 2.8%, so the differential between them (which is an indicator of companies' economic incentives to invest) rose 1.5 points, reaching 3.7 percentage points.

Construction investment indicators extend the expansionary trend

The indicators related to residential investment show the strengthening of its expansionary trend. According to the INE Statistics based on the properties recorded in the Property Registers, *housing sales* experienced a 9.3% y-o-y growth in the period between January and February, (10.3% in the last quarter of 2016). This growth was due to the 13.3% increase of used housing purchases, partially offset by the 5.6% drop of new housing purchases. According to the protection system considered, private housing purchases (89.6% of the total) increased by 9.4% in the two month period and social housing purchases grew by 8.6% (10.2% and 11.3%, respectively, in the last quarter of last year).

On the other hand, the *number of mortgages on housing* accelerated ten points in January, up to 16.9% y-o-y. The average amount per mortgaged house registered a y-o-y increase of 6.4%, three points higher in comparison to the figure recorded in December last year, so the capital borrowed rose by 24.5%, almost fourteen points more than in the previous month.

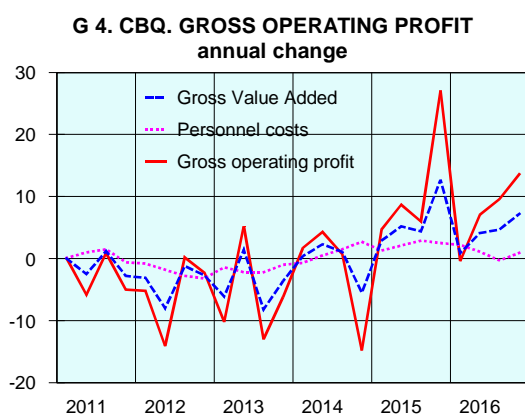
Finally, in real terms, the *price of private housing* rose 0.5% in the fourth quarter of 2016 (1.8% in the third quarter) according to the statistics of the Ministry of Public Works (according to appraisal values), while according to the INE statistics (based on sale scripts), it grew by 3.5% in that same period, seven tenths less than in the previous quarter.

The dynamism of the industrial production index moderates slightly

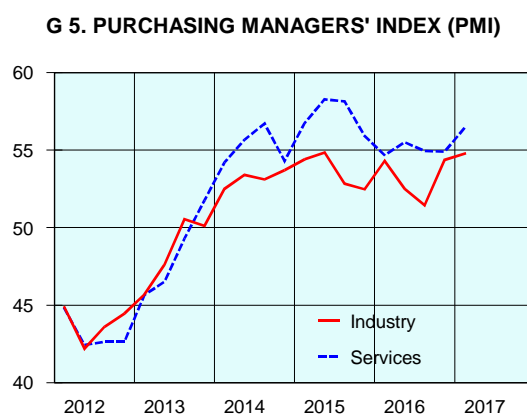
From the supply point of view, amongst the industrial activity indicators, the *Industrial Production Index* (IPI), with calendar adjusted data, recorded a slightly lower dynamism in February, registering a y-o-y increase of 2.4%, three tenths lower than that of the previous month. In m-o-m terms, and with seasonally and calendar adjusted data, the IPI rate was negative in February (-0.2%), following the 0.3% rise recorded in January. By economic destination, and adjusted for calendar effects, the IPI y-o-y moderation in February is explained by the sharp slowdown in energy, partially offset by the increase in equipment goods (2.5%), after the fall observed in the previous month (-0.3%), as well as by the lower rate of decline of consumer goods (-0.4%, compared to the -1.8% registered in the previous month), and by the more expansionary trend of intermediate goods (which accelerated by half a point, up to 4.3%).

The *Industry Turnover Index* (ITI) and the *Industry New Orders Index* (INOI), adjusted for calendar effects, showed a stronger dynamism in January, experiencing a y-o-y increases of 7.3% the former and 6.4% the latter (6.8% and 0.7% in the previous month). This evolution is mainly due to the strong momentum of energy, which registered rises exceeding 60% in both indices, and to the more expansionary trend of equipment goods, while intermediate and consumer goods slowed down.

The activity dynamism of the industrial sector was also reflected in the qualitative indicators. The *manufacturing PMI* for Spain reached 54.8 in the first quarter, four tenths higher than in the last quarter of 2016. Likewise, the *Industrial Confidence Index* published by the European Commission rose almost by one point in the first quarter, mainly due to a more favourable valuation of the production forecasts and the order portfolio, which increased by 4 and 0.9 points, respectively.



Source: BE (Central Balance Quarterly).



Source: Markit Group.

Construction activity moderates...

Among the available indicators relating to the construction activity, the *Production Index in the Construction Industry* (PICI), with deflated and calendar adjusted data, published by the Eurostat, experienced a 13.1% y-o-y decrease in January, compared to the 5.4% increase recorded in the previous month. The PICI contractionary trend is explained both by the evolution of the building component, whose rate reached -15.4%, over eighteen points lower than the one registered in December last year, and the civil works component, which slowed down by more than thirteen points, down to 8.8% y-o-y.

...while the sector leading indicators show a high dynamism

On the other hand, construction activity leading indicators, according to construction new permits of the Ministry of Public Works, show signs of acceleration. *Floorage approvals in new construction* continued to rise sharply in January, recording a y-o-y rate of 8.3%, 2.8 points higher than in the previous month. This evolution was due to the strong boost of the residential component (29%, compared to the 1% registered in December last year), partially offset by the fall in the non-residential component (-33.9% versus the 20.9% increase observed in December 2016). On the other hand, *cement apparent consumption* (domestic sales plus imports minus exports in volume) slowed down in February by 12.4 points in y-o-y terms, down to 4.2%, although it ended the first two month period of the year with an annual increase close to 10%.

The services sector indicators register favourable signs...

With regards to the services sector, the *Services Sector Turnover Index* (SSTI), with work calendar adjusted data, increased by 5.2% y-o-y in January, 1.3 points less than in the previous month. The SSTI more moderate growth is explained by the lower dynamism of both trade (5.3% in January, compared to the 7% recorded in December last year) and other services, whose 4.9% increase was seven tenths lower than the one reached in the previous month.

On the other hand, the *Services PMI* reached 57.4 in March, three tenths less in comparison to the figure registered in the previous month, the highest level in the last eighteen months (57.7), and above the figure reached by the Eurozone (56). This activity growth in the sector was due to a higher order entry from new and existing clients, which in turn is due to the expectations improvement for the next twelve months. The first quarter ended with a services PMI increase of one and a half points, up to 56.4.

...and the tourism sector indicators continue the expansionary trend

Tourism indicators extended the dynamism in February, as shown by the number of *tourists* that visited Spain, which increased by 11.9% compared to the same period of 2016, 1.2 points more than in the previous month. The *expenditure by foreign tourists* who visited Spain points in the same direction, as it almost reached € 4.3 billion, a figure 16.2% higher than the one recorded a year earlier (13.8% in January).

On the other hand, *overnight stays in hotels* fell by 2% y-o-y in February, after the 3.5% increase registered in the previous month. This evolution is due to the less expansionary trend of foreign overnight stays, which rose by 2.1%, 7.2 points less than in January, and to the higher fall rate in hotel overnight stays by Spanish nationals (-8.4%, versus -6.1% in the previous month). In the same month, the pace of increase of *air passenger traffic* moderated by almost five points, to 5.1% y-o-y, due to the domestic and international components slowdown.

Prices

The CPI y-o-y rate stands at 3% in February 2017

The Consumer Price Index (CPI) rose by 3% y-o-y in February, an identical rate to the one registered in the previous month, and matching the flash estimate issued by the INE at the end of February. The y-o-y rate stability is mainly due to the fact that the price slowdown in electricity, processed food and non-energy industrial goods offset the acceleration in non-processed food and fuels and gas prices, while services prices kept their variation rate unchanged.

Energy products prices grow by 16.8% y-o-y

Energy products prices grew by 16.8% y-o-y in February, following the 17.5% increase registered in the previous month. This evolution is explained by the moderation of the electricity prices growth rate, which fell from 26.2% y-o-y in January down to 18.9% in February, partially offset by the acceleration of fuels and gas prices, which rose from 13.9% up to 16.4%.

Non-processed food inflation stood at 5.4%, a rate 2.7 points higher than the one registered in the previous month, the evolution of fresh fruits prices (which went from falling by 0.3% y-o-y in January to increasing by 7.6% in February) and, to a lesser extent, of legumes and fresh vegetables (whose prices accelerated by 4.3 points, up to 22.2%) standing out.

Core inflation decreases by one tenth, down to 1%

Core inflation, which excludes the most volatile elements from the general index (non-processed food and energy) fell one tenth in February, down to 1%, due to the slowdown of processed food and non-energy industrial goods prices, while services prices kept their variation rate unchanged.

Processed food, beverages and tobacco prices slowed down by three tenths, registering a null y-o-y variation, mainly as a result of the evolution of cereal and grain products prices, whose y-o-y drop in February sharpened by one point, to 1.1%, and dairy products, which fell by 1.3%, seven tenths more than in the previous month. In food as a whole, prices grew with greater intensity than in the previous month, six tenths more, reaching 1.7% y-o-y.

In February, non-energy industrial goods prices slightly moderated the pace of increase, by two tenths, to 0.6% y-o-y, mainly due to the personal use items prices, which intensified their drop by nearly one point, down to 1.4%.

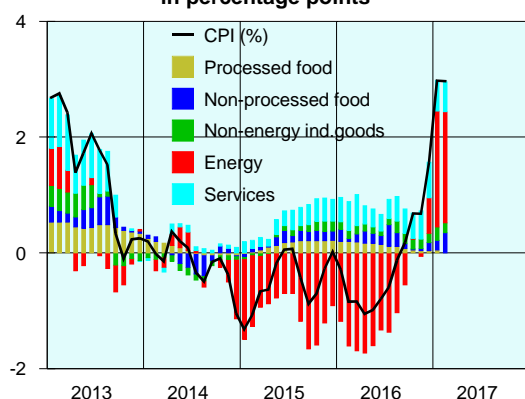
Services prices y-o-y rate remained stable at 1.3%. Among its components, the nine tenths fall of telephone and fax services growth rate, to 2%, is worth mentioning, as well as the evolution, in the opposite direction, of long-distance public transport services prices, which went from falling by 2.4% in January to increasing by 0.3% in February.

According to the CPI flash estimate, inflation falls by seven tenths in March, down to 2.3%

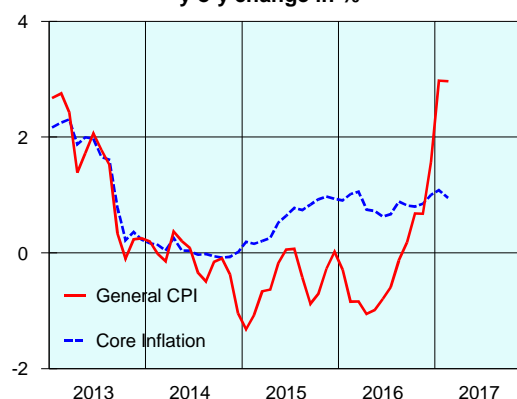
According to the flash estimate published by the INE, the y-o-y rate of the national CPI stood at 2.3% in March 2017, seven tenths less in comparison to February. According to the INE, the drop in fuel and electricity prices stands out in this behaviour. In m-o-m terms, the CPI remained stable in March, versus the 0.6% rise in the same month of last year.

Harmonised inflation, measured by the Spanish harmonised CPI y-o-y rate, stood at 2.1% in March, nine tenths lower compared to the figure registered in February. On the other hand, according to the flash indicator, inflation in the Eurozone decreased by five tenths in March, down to 1.5%, resulting in an inflation differential for Spain with respect to the Eurozone of six tenths, four tenths lower than last February.

G 6. CPI GROWTH CONTRIBUTION BY SECTORS
in percentage points



G 7. GENERAL CPI AND CORE INFLATION
y-o-y change in %

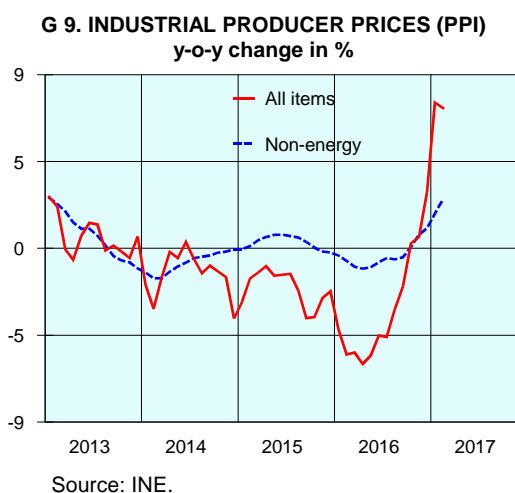
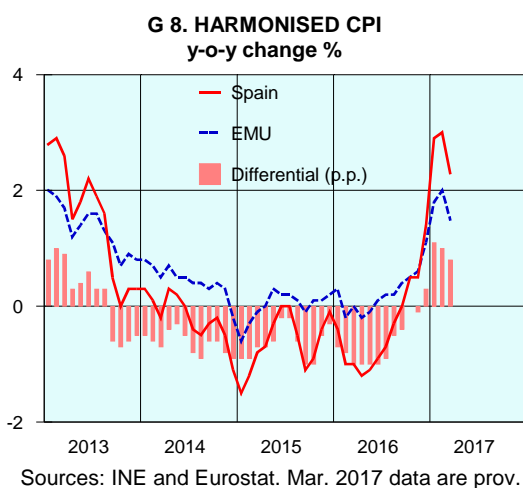


The PPI moderates slightly the growth rate in February

The Producer Price Index (PPI) registered a 1.3% decrease in February 2017 compared to the previous month (-1.1% in February 2016). In y-o-y terms, the PPI y-o-y variation rate stood at 7.3%, three tenths lower than that registered in January. This is explained by the lower growth of energy prices, partially offset by the acceleration of intermediate goods and consumer goods prices and, to a lesser extent, equipment goods prices.

Energy production prices rose by 22.9% y-o-y in February, 3.7 points less than in January, while in m-o-m terms they fell by 6.5%, almost three points more than in February of last year (-3.7% m-o-m). In the evolution of the energy component, and according to the NACE classification, it is worth noting the electricity, gas, steam and air-conditioning supply component, whose prices rose by 12.7% y-o-y, seven points less than in the previous month and, in the

opposite way, coke and oil refining, whose prices continued to accelerate, up to 57.9%, (rates of 26.4% and 51.6% in December and January, respectively), which represents the highest rate since October 2000 (64%).



Non-energy goods production prices intensified their y-o-y growth rate by seven tenths in February, up to 2.5%, the highest rate since January 2013. This acceleration was mainly due to the evolution of intermediate goods prices, which grew by 4%, 1.3 points more than in the previous month. In turn, this evolution was mainly influenced by the chemical industry prices, which grew by 5.3%, 3.7 points more than in January and, to a lesser extent, by metallurgy prices, which increased by 21.5%, 1.5 points more than in January. Within the chemical industry, the manufacturing prices for other basic organic chemistry products stand out (38.3%, a rate almost 10 points higher than the previous month), a division in which hydrocarbons stand out, and also plastic in primary forms prices (3.5%, after falling 3.1% in January).

Consumer goods also contributed to the non-energy PPI acceleration in February, registering a y-o-y rate of 1.9%, five tenths higher than in January. By components, the higher growth rate is explained by the evolution of non-durable consumer goods prices, which accelerated by six tenths, up to 2.1%. On the other hand, durable consumer goods prices slightly moderated their growth rate, by one tenth, down to 0.2%. Among non-durable consumer goods, olive oil stands out, its production prices accelerating by almost seven points, up to 14.2%. Consumer prices of food, beverages and tobacco, as a whole, increased by 2.5% (1.8% in January). On the other hand, equipment goods prices grew by 0.9% y-o-y, one tenth more than in January.

Labour Market

The labour market dynamism continued in March this year, considering the evolution of Social Security covered workers, which increased by 3.5% y-o-y, a rate one tenth higher than that in February and the highest in almost two years. By activity branches, this evolution is mainly explained by the acceleration of employment in construction and in industry. On the other hand, registered unemployment decreased by 9.6% y-o-y, reaching similar levels to those in 2009.

With regard to costs, the wage cost per worker and month fell in the fourth quarter of 2016, ending the year with an average annual drop of 0.3%, according to the Labour Costs Quarterly Survey.

Social Security covered workers grow by 3.5% y-o-y in March

The average number of Social Security covered workers rose by 161,752 people in March 2017, compared to February, versus the increase standing at 138,086 Social Security covered workers in March 2016, the average number of covered workers reaching 17,910,007. By activity branches, Social Security covered workers increased in services (134,178 more), construction (20,519) and industry (10,203), while they decreased in agriculture (3,148 less). With seasonally adjusted data, Social Security covered workers increased by 73,941 people in March, 0.4% (46,079 in February, 0.3%), linking more than three years of positive m-o-m rates (since December 2013).

In comparison to a year earlier, 604,209 Social Security covered workers more were registered in March, 3.5% y-o-y, that represents an acceleration of one tenth. By activity branches, the number of Social Security covered workers gained momentum in construction and in industry, 1.2 points and three tenths, respectively, up to 6.2% and 3.2%. In services, the growth rate continued stabilised at 3.4%, for the fourth consecutive month, and in agriculture, Social Security covered workers grew by 2.1% y-o-y, one tenth less than in the previous month. Social Security covered workers, excluding the agriculture sector, increased by 3.6%, one tenth more than in February.

According to the professional situation, the y-o-y wage-earner growth rate rose by two tenths, up to 4.1%, while the self-employed one remained at 0.9% for the fifth consecutive month.

In the General Regime and for the total of covered workers whose type of contract is specified in the statistics, 54.1% of the y-o-y job creation in March was of a permanent nature and 45.9% of a temporary nature, with an increase of 3.7% for the former, the same as in February, and of 6.6% for the latter, four tenths higher than in the previous month.

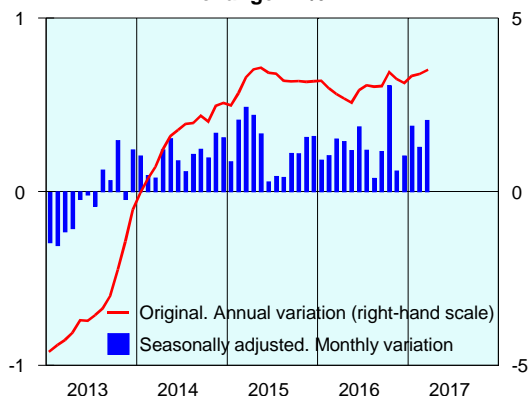
In the first quarter of 2017 as a whole, Social Security covered workers rose by 3.4% y-o-y, a rate one tenth higher than the one registered in the previous period.

The registered unemployment falls in March by 9.6% y-o-y

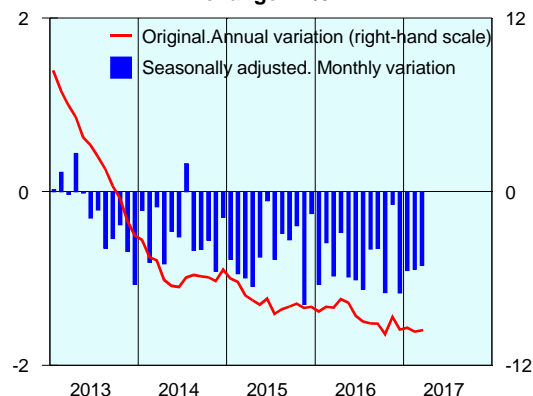
Registered unemployment fell by 48,559 people in March compared to the previous month, versus the 58,216 people fall registered in the same period of last year. As a result, the total number of registered unemployed reached 3,702,317. By branches, and with unadjusted data, registered unemployment fell in services (39,933 people), in construction (8,830) and in industry (5,659), while it increased in agriculture (1,381 people). In the group without a previous employment, unemployment rose by 4,482 people. With seasonally adjusted data, registered unemployment fell by 30,819 people in March, equivalent to a m-o-m rate of -0.8%, one tenth higher in comparison to the figure registered in February.

In y-o-y terms, unemployment dropped by 392,453 people in March, 9.6%, which represents a fall one tenth lower compared to the previous month. By branches, construction stood out, as registered unemployment fell by 19.7% y-o-y (-18.2% in February), followed by industry, for which the y-o-y fall rate intensified by seven tenths, down to 13%.

It should be noted that youth unemployment (people below 25 years old) fell by 47,712 people in the last year, which represents a y-o-y rate of -13.7% (-14% in February).

**G 10. SOCIAL SECURITY-COVERED WORKERS
change in %**

Source: MESS.

**G 11. REGISTERED UNEMPLOYMENT
change in %**

Source: MESS.

In the first quarter of 2017 as a whole, registered unemployment fell by 9.6%, a drop two tenths higher than in the previous quarter.

The wage cost per worker and month ends 2016 with an annual average fall of 0.3%

According to the Quarterly Labour Cost Survey, in the fourth quarter of 2016 the average labour cost per worker and month stood at € 2,650, 0.8% less in comparison to the same quarter of 2015, versus the 0.5% fall registered in the previous quarter.

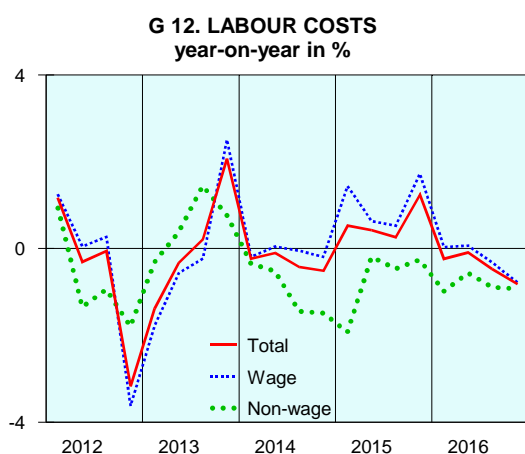
The larger drop was due to the evolution of wage costs, which reached € 2,011 (75.9% of total labour cost), also 0.8% lower than the figure recorded in the same quarter of 2015, which represents a fall half a point more intense than in the previous quarter.

Thus, 2016 ended with an average annual fall in labour cost per worker of 0.4%, compared to the 0.6% increase recorded in 2015, and with a decrease in the wage cost of 0.3%, compared to the 1.1% increase in the previous year.

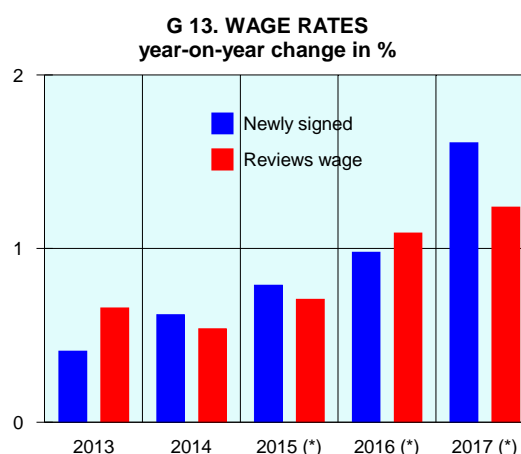
In turn, the intensification of the y-o-y wage cost fall rate in the fourth quarter of 2016 is explained by the evolution of both ordinary wages (81.4% of total wage costs), which fell by 0.3% y-o-y, two tenths more than in the previous quarter, and the payment of arrears, whose y-o-y rate fell by almost seventeen points, down to 1.1% (17.7% in the previous quarter). On the other hand, extraordinary wage cost moderated its fall rate by almost three points, to 3% (-5.9% in the third quarter).

In q-o-q terms and with calendar and seasonally adjusted data, the pace of decline of total labour cost (-0.2%), wage costs (-0.2%) and others costs (-0.3%) remained stable.

From a sector point of view, labour costs rose by 0.6% y-o-y in the industry sector, following the stabilisation registered in the previous quarter, while they decreased by 1.4% in construction (-1.9% in the third quarter) and by 1% in services (-0.4% in the previous quarter). With regards to the wage cost, it rose by 0.5% in industry (-0.2% in the third quarter), while it fell by 1.6% in construction (-1.7% in the previous quarter) and by 0.9% in services (-0.2% in the third quarter).



Source: INE (ETCL: Quarterly labour cost survey).



(*) Provisional data.
2017 data refers to march.
Source: MESS.

On the other hand, the labour cost per effective worked hour decreased by 0.1% q-o-q, with seasonally and calendar adjusted data, two tenths less than in the previous quarter, and wage cost kept the rate of decline unchanged at 0.1%.

The average agreed wage increase in collective bargaining agreements stands at 1.3% up to March

According to the Collective Bargaining Agreements Statistics published by the Ministry of Employment and Social Security, the average agreed wage rise in the first quarter of 2017 stood at 1.3% (with the information available up to the end of March 2017), two tenths above the wage increase agreed in the financial year 2016. Among the agreements coming into force in 2017, the agreed wage variation was 1.6% in those signed this year, compared to the 1.2% for those signed before 2017.

The salary increase of last year, after including the revisions by wage guarantee clauses, reached 1.1%, the same as the one initially agreed. These figures are provisional, as long as the statistics continue to include agreements with effects in 2016.

External sector

The Spanish economy continues generating net lending to the rest of the world

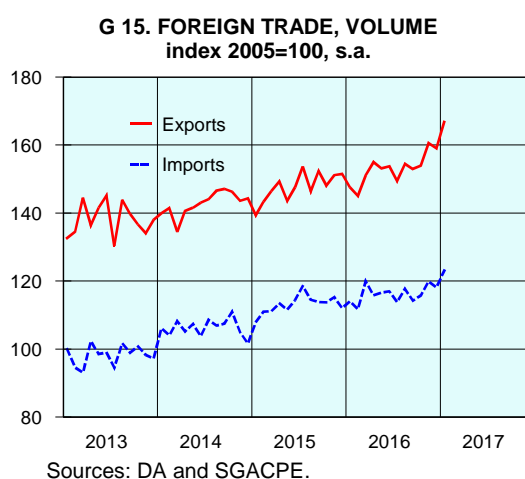
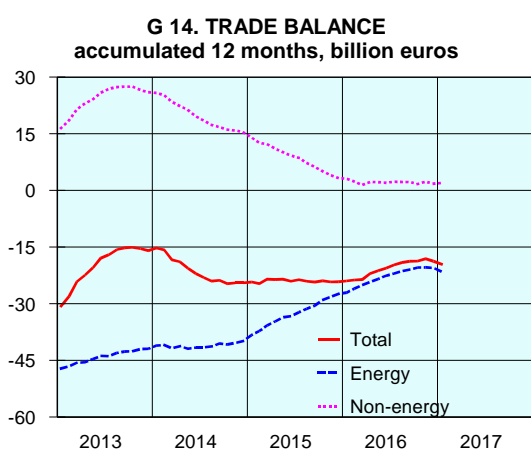
According to the Balance of Payments data, in January 2017, the Spanish economy generated net lending to the rest of the world for the eleventh consecutive month (€ 545 million), compared to the net borrowing registered a year earlier (€ 960 million). This evolution is due to an improvement of the balance for both the current account and the capital account.

The current account balance recorded a € 409 million surplus in January, versus the deficit of € 403 million registered in the same month of 2016, as a result of a 68.1% y-o-y decrease of the deficit of primary and secondary income, which more than offset the 9% reduction of the goods and services surplus. Meanwhile, the surplus in the capital account ended at € 136 million, following the deficit of € 558 million of January last year.

The trade deficit reduction rises slightly in January

According to Customs data, the trade balance recorded a deficit of € 3.1 billion in January this year, compared to a deficit of € 2.4 billion registered a year earlier. The trade deficit rise was due to the energy component, which registered a deficit increase of 56%, while the non-energy deficit fell by 32.7%.

In cumulative terms for the last twelve months up to January 2017, the trade balance recorded a deficit of € 19.5 billion, compared with the € 24 billion deficit accumulated in the twelve months up to January 2016. The 18.6% improvement in the external balance is exclusively due to the energy balance, which recorded a cumulative deficit of € 21.5 billion, € 5.6 billion less that registered a year earlier (€ 27.1 billion). The energy balance decrease more than offset the fall of the non-energy balance, which registered a surplus of € 2 billion, € 1.1 billion lower compared to the one recorded the previous year (€ 3.1 billion).



Real exports and imports of goods rebound in January

Goods exports increased in January by 17.4% y-o-y, and their prices, approximated by unit value indices, increased by 0.8% (0.3% in December), resulting in a 16.5% rise in real terms, after the 2.5% growth registered in December. The analysis by product groups in real terms and in y-o-y terms, shows a generalised acceleration in January in comparison to the previous month. Exports of food consumer goods accelerated by 3.3 points, up to 5%; exports of non-food consumer goods rose by 10.3%, following the 1.6% decline recorded in December; capital goods and non-energy intermediate goods exports accelerated 12 and 16.6 points, up to 15.2% and 20.2%, respectively. Finally, energy intermediate goods exports rebounded up to 78.5%, following the 16.4% increase observed in the previous month.

By geographical areas, exports in volume to the European Union increased by 14.1% in January, in comparison to the 4.3% increase registered in December last year, while exports outside the Union went from a decrease of 0.6% in December to a rise of 21.9% in January.

Goods imports increased by 19% y-o-y in nominal terms in January, and their prices rose by 7% (2.8% in December). These price changes have been affected by the 35.4% rise in energy goods prices. As a result, imports in real terms, experienced a y-o-y increase of 11.2%, following the 2.8% rise registered in the previous month. The analysis by products of imports in real terms

and in y-o-y rates also reflects a generalised acceleration in all groups. Imports of food consumer goods increased by 8.1% (4% in December); of non-food consumption by 10% (5.4% in the previous month); those of capital goods by 8% (4% in December); of non-energy intermediate goods by 8.8% (0.8% in December) and of energy intermediate goods by 28.1% (3.6% in the previous month).

By geographical areas and in real terms, imports from the European Union rose 10.6% y-o-y in January, following the 0.4% increase recorded in December. Real imports from the rest of the world recorded an increase of 11.9% versus the 6.1% rise registered in December.

The "momentum" of exports remains positive

The "momentum" (change during the last three months in comparison to the previous three months) of exports, in real terms, registered a positive rate in January (5.4%) for the fourth consecutive month, due to the positive contribution of EU countries and, to a lesser extent, of non-OECD countries and non-EU members of the OECD. By products, the positive contribution of non-energy intermediate goods stands out, and to a lesser extent, of consumer, capital and energy intermediate goods. The "momentum" of imports was positive in January (3.9%), for the fourth consecutive month, due to the positive contribution of non-OECD countries, EU countries and non-EU members of the OECD. By products, the positive contribution of intermediate, energy and non-energy goods and, to a lesser extent, of non-food consumer goods stands out.

The financial balance generates net capital outflows in January

According to the Balance of Payments, in January the financial balance, excluding the Bank of Spain assets, recorded net capital outflows of € 26.2 billion, versus the net inflows of € 14.7 billion recorded a year earlier. This result is explained by the net outflows registered by portfolio investment (€ 30.4 billion), while direct investment (€ 1.1 billion), other investment (€ 2.4 billion) and financial derivatives (€ 610 million) recorded net inflows.

The assets net variation recorded net capital outflows (investments) of € 10.1 billion in January, versus the net inflows of € 3.9 billion registered in the same month of 2016. On the other hand, the liabilities net variation generated net outflows (disinvestments) of € 16.1 billion, versus the net inflows of € 10.7 billion recorded a year earlier.

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

The net debtor position of the Bank of Spain vis-à-vis the rest of the world increased by € 20.8 billion in January, due to the rise of € 206 billion registered in the net debtor position vis-à-vis the Eurosystem and to an increase of € 255 million in the remaining net liabilities. On the other hand, reserves increased de € 96 million.

The Net International Investment Position decreases its debtor balance

On the other hand, the Bank of Spain published the Net International Investment Position figures for the fourth quarter of 2016. This quarter ended with a debtor balance standing at € 954.1 billion (85.7% of GDP), compared with the €982.1 billion (91.3% of GDP) registered in the same period of 2015.

This decrease is due to the fact that the expansion of the net debtor position of the Bank of Spain against the rest of the world, of € 50.4 billion, was more than offset by the reduction of the

net debtor position of the other groups, of € 78.4 billion. In turn, this evolution is due to the decrease of the net debtor position of the direct investment, portfolio investment and other investment, which more than offset the expansion of the financial derivatives net debtor position.

Furthermore, the gross external debt rose in the fourth quarter of 2016 by 2.5% y-o-y, reaching € 1.9 trillion, while the ratio of gross external debt to GDP fell 1.6 points in comparison to the fourth quarter of 2015, down to 167.5%.

Public sector

On 30th March, the Ministry of Finance and Civil Service published the data of non-financial transactions of the General Government and its subsectors, in terms of National Accounts, for 2016 and the non-financial transactions of the Central Government, the Regional Governments and the Social Security Funds, with consolidated data and in terms of National Accounts, for January 2017. Likewise, the Ministry published the State monthly budget execution data for February 2017, both in terms of National Accounts and Cash.

On the other hand, the Ministry of Employment and Social Security published the monthly budget execution data of the Social Security, in terms of Cash, corresponding to February.

Likewise, on 31st March, the Bank of Spain published the Debt data for the General Government and its subsectors, corresponding to the fourth quarter of 2016, according to the Excessive Deficit Procedure (EDP) methodology.

The General Government deficit in 2016 falls down to 4.54% of GDP, below the target set

In 2016, the General Government recorded a deficit, in terms of National Accounts, of 4.54% of GDP (€ 50.6 billion), a figure 0.59 p.p. lower compared to the deficit registered in 2015 (5.13%). Excluding the financial assistance (€ 2.4 billion, equal to 0.21% of GDP), the General Government deficit in 2016 stands at 4.33% of GDP (€ 48.2 billion), 0.75 p.p. below the 5.08% recorded in 2015. Thus, the EU Council Recommendation is met, consisting in reducing the deficit down to 4.6% in 2016.

Excluding the effect of accrued interest expenditure (€ 31.4 billion), a primary deficit of € 16.8 billion is obtained for the total General Government, excluding the financial assistance, representing a ratio of 1.5% of GDP, 0.5 p.p. lower when compared to the figure recorded in the previous year.

The decrease of 0.59 percentage points in the government deficit in 2016 is explained by the 0.92 p.p. reduction of the Regional Governments' deficit and, to a lesser extent, by the increase in the surplus of Local Corporations (0.17 p.p.), while the Central Government and Social Security Funds increased their deficit in comparison to last year (0.09 p.p. and 0.40 p.p., respectively).

The total non-financial revenues of the General Government recorded a 1.5% increase in 2016. Tax revenues contributed to this growth, which rose by 1.7% in comparison to the previous year, due to the increase of indirect (1.5%) and direct taxes (2%). On the other hand, social contributions rose by 3.1%, contributing to a greater extent to the increase in total non-financial resources. Likewise, the lower adjustment performed for amounts unlikely to be collected in 2016 (-22.1%) compared to the previous year should also be mentioned.

On the other hand, uses of the General Government rose by 0.3% last year, but if the resources transferred to the financial system are excluded, uses fall by 0.1%. The rise experienced by social contributions other than social transfers in kind (2.1%), compensation of employees (1.9%), social transfers in kind of market producers (1.9%), capital transfers (116.6%, affected by financial assistance) and the increase in net acquisitions of non-produced non-financial assets stand out. On the other hand, accrued interests (-5.6%), gross fixed capital formation (-20.1%), intermediate consumption (-2.1%) and subsidies (-8.0%) fell in 2016.

The Central Government sub-sector ended 2016 with a deficit of 2.73% of GDP (€ 30.4 billion), 0.53 p.p. above the target set (-2.2% of GDP) and 0.09 p.p. higher than the deficit registered in 2015. Excluding the assistance to the financial sector, the Central Government deficit fell down to 2.52% of GDP, 0.07 p.p. below the deficit recorded in 2015 and 0.32 p.p. above the target.

This result is directly affected by the higher resources provided to the Regional Government and Local Corporations in the framework of the financing system, both for advanced payments and for the final settlement.

Non-financial resources fell by 1.4%, mainly due to the lower transfers received from the territorial administrations as settlement of the financing system for the year 2014, which has been favourable to them, while that of 2013 was favourable to the State. The Central Government tax revenues in 2016, virtually stabilised compared to 2015 (-0.1%).

The Central Government expenditure decreased by 0.3% in 2016, mainly as a result of the fall in interests (-5.7%), subsidies (-20.1%), investment (-10.5%) and transfers made to other General Government sub-sectors (-2.0%). Among the expenditure items that increased, social benefits (6.5%) and other uses (35.7%) stand out, the latter including the financial assistance, which is accounted for as capital transfers.

On the other hand, in 2016, the Regional Governments' deficit, in National Accounts terms, stood at 0.82% of GDP (€ 9.2 billion), a figure 0.12 percentage points above the target (-0.7% of GDP) and 0.92 p.p. below the deficit of 2015 (1.74% of GDP).

This deficit decrease is mainly due to two factors: (i) the result of the final settlement of the financing system for the year 2014, whose balance was favourable to the Regional Government and (ii) the higher net advanced payments received. Thus, Regional Governments' non-financial resources rose by 4.0% mainly due to the increase in tax revenues (7.0%) and the rise in transfers received from other public administrations (4.6%), mostly from the Central Administration and that have increased due to the final settlement for 2014, in favour of the Regional Government.

Uses fell by 2.0%, mainly due to the decline in gross fixed capital formation (-26.3%), transfers to other General Government sub-sectors (-9.0%) and other uses (-15.9%). The gross fixed capital formation reduction is due to the reclassification of Public-Private Partnership contracts and financial leasing in 2015, without correspondence in 2016. The decrease in the transfers made to other General Government sub-sectors is explained by the final settlement for 2014, which is favourable to the Regional Government, whereas in the previous year it was favourable to the Central Administration. With regards to other uses, the drop in investment grants (-31.0%) stands out.

As regards the Local Government sub-sector, its surplus increased by 0.17 p.p. in 2016, up to 0.64% of GDP (€ 7.1 billion), widely meeting the budget balance target set. This behaviour is explained by an increase of non-financial resources (1.5%, mainly due to the final settlement effect for 2014, which has been favourable to local entities) and a decrease of uses (-1.5%, mainly due to the investment drop in 2016 and to the fact that the final settlement of the financing system for 2013, which took place in 2015, was favourable to the State and therefore impacted the expenditure of Local Government in that year).

Finally, Social Security Funds recorded a deficit of 1.62% of GDP in 2016 (€ 18.1 billion), higher by 0.40 percentage points than the one recorded in 2015 and 0.08 p.p. lower than the target set (-1.7% of GDP).

Social Security Funds revenues decreased by 1.6% mainly due to the fall in transfers from other General Government sub-sectors (that fell by 26.7%, affected by the decline in the State transfers to the State Public Employment Service), despite the increase in social security contributions (3.4%).

On the other hand, expenditure rose by 1.6% mainly due to the 1.5% rise of social benefits other than transfers in kind. Most of this expenditure corresponds to contributory pensions, the amount of which has increased as both the number of beneficiaries (1.2%) and the monthly average pension rose, since in net terms the new pensioners join the system with higher pensions.

The General Government consolidated deficit, excluding Local Government, falls down to 0.49% of GDP in January 2017

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded in January 2017 a deficit of € 5.6 billion (0.49% of GDP), 15.2% lower in comparison to the same period of 2016 (0.60% of GDP). This deficit reduction is explained by a y-o-y increase of non-financial resources (4.7%) higher than the one recorded by non-financial uses (0.5%).

The budget execution of the Central Government ended January 2017 with a deficit of € 5.8 billion (0.50% of GDP), below the one recorded in the same month of 2016 (€ 6.7 billion, 0.60% of GDP). This deficit reduction is due to a rise in non-financial resources (€ 10.8 billion, 7.2% more compared to the same period of 2016) together with a decrease in non-financial uses (€ 16.6 billion, 1.2% less than in 2016).

With regard to Regional Governments, these accumulated a deficit of € 1.1 billion (equivalent to 0.10% of GDP) in January this year, higher by € 38 million than that recorded in the same period of 2016. This higher deficit is explained by a y-o-y increase of non-financial resources (1.3%) lower than the rise recorded by non-financial uses (1.5%).

As for Social Security Funds, these ended January with a surplus of € 1.3 billion (0.11% of GDP), 11% higher than the figure registered in the same period of 2016 (€ 1.1 billion, 0.10% of GDP). This higher surplus is due to an increase in non-financial resources (2.4%) higher than the rise registered by non-financial uses (1.6%).

The State's deficit in terms of National Accounts falls by 18.6% y-o-y up to February

Up to February 2017, the budget execution of the State ended with a deficit, in terms of National Accounts, of € 10.8 billion (0.93% of GDP) 18.6% lower than the deficit accumulated in the same period of 2016. This lower deficit was due to a y-o-y increase in non-financial resources (0.7%) and a decrease registered by non-financial uses (-6.9%).

In terms of Cash, the State recorded a deficit of €4.6 billion up to February 2017, lower by 43.3% to the figure recorded in the same period of 2016 (€ 8.1 billion). Non-financial revenues increased by 5.7% y-o-y, reaching € 21.7 billion, while non-financial expenditure decreased by 8.2%, down to € 26.3 billion.

Tax revenue up to February increases by 6.8% in homogeneous terms

Total tax revenue (including the Regional and Local Governments' share) recorded a y-o-y increase of 6.6% up to February, due to the increase of the labour withholdings, VAT and some Excise duties and, on the other hand, to some exceptional revenues (capital withholdings and tax settlements in the Corporate Income Tax) and to additional revenues derived from the changes included in RDL 3/2016 concerning deferrals. In homogeneous terms, that is, correcting the effect of tax refunds in both years, the IVMDH (tax on retail sales on certain hydrocarbons) refunds and the deferrals of public entities, tax revenues rose by 6.8%. Without including the Regional and Local Governments, and in non-homogeneous terms, tax revenue increased by 7.9%. The remaining non-financial revenue decreased by 5.2%.

Within total taxes, revenue from personal income tax, including the Regional and Local Governments' share, increased by 4% up to February, mainly due to labour income withholdings, which recorded a 3.0% increase. In homogeneous terms, the increase stands at 5.5%.

Revenue from corporate income tax recorded a negative figure of € 3.9 billion up to February, due to the fact that most of the refunds from the previous campaign are made in the first two months of the year. In homogenous terms, the tax collection increased by 88%, with revenue standing at € 159 million, compared to the € 85 million registered in the same period last year.

VAT revenue, including the Regional and Local Governments' share, increased by 7.9% y-o-y up to February. In homogeneous terms, correcting the effect of tax refunds, the increase stands at 9.7%.

Excise duties collection, including the Regional and Local Governments' share, was 1.5% higher compared to the figure registered in the same period of 2016, mainly due to the increase in the Tax on Hydrocarbons (5.8%, which in homogeneous terms, corrected for the tax on retail sales on certain hydrocarbons, stood at 3.1%), despite the reduction in Excise on Tobacco Products (-8.5%)

Non-financial expenditure decreases by 8.2% up to February

With regard to expenditure, total non-financial payments decreased by 8.2% up to February in comparison to the amount accumulated in the same period of 2016, due to the fall of all its components: staff expenses (-1.2%), current expenses on goods and services (-38.7%), interest expenditure (-8.9%), current transfers (-4.8%), real investments (-50.9%) and capital transfers (-19.6%).

The borrowing requirement of the State fell by 49% up to February, compared to the same period of last year, reaching € 4.3 billion, versus the € 8.4 billion recorded in the same period of 2016. This decrease is mainly due to the lower cash deficit (€ 4.6 billion, compared to the € 8.1 billion recorded a year earlier). The borrowing requirement was mainly financed through mid and long term domestic debt (€ 6.4 billion).

The Social Security records surplus up to February

On the other hand, up to February 2017, the Social Security System (Managing Entities, General Treasury and Mutual Insurers) recorded a surplus of € 2.7 billion in terms of Cash, 9.9% below the figure recorded in the same period of 2016 (€ 3.0 billion). Revenues increased by 1.7% mainly due to the rise of social contributions (3.9%), despite the fall registered by current transfers (-2.2%, out of which the State's current transfers fell by 3.2%), property income (-53.1%) and other revenues (-4.1%). On the other hand, payments rose by 3.6%, mainly due to the increase recorded by pension benefits (3.2%), temporary disability (1.2%), maternity expenses (1.6%), current expenses on goods and services (4%) and interests, real investments and other current and capital transfers, which together increased by 18.1%. Finally, with regard to staff expenses, they fell by 0.8% compared to the same period of the previous year.

The General Government Debt decreases in 2016 down to 99.4% of GDP

The General Government Debt, following the EDP methodology, reached 99.4% of GDP in the fourth quarter of 2016, a percentage four tenths lower compared to that of the same quarter last year (99.8% of GDP).

By subsectors, the Central Government Debt stood at 87% of GDP in 2016, four tenths below that of 2015 (87.4%). On the other hand, the Regional Government EDP Debt reached 24.9% of GDP in 2016, versus the 24.5% registered in 2015. Local Government registered in 2016 an EDP Debt equivalent to 2.9% of GDP, four tenths lower compared to the figure recorded in the same period of 2015. Finally, the EDP Debt of the Social Security Administrations stood at 1.5% in 2016, compared to the 1.6% registered in 2015. On the other hand, at the end of February, the State debt, according to the EDP methodology, stood at € 956.9 billion, compared to the € 925.2 billion registered a year earlier.

April 2017