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SPANISH ECONOMY REPORT

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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

Financial markets

The financial markets evolution in April was conditioned by the presidential elections in France, the monetary policy meeting of the European Central Bank (ECB) and the uncertainties regarding the economic policy decisions in the United States, in a context of favourable business results and macroeconomic figures. As a result, the stock indices rebounded, European public debt yields decreased and the euro appreciated against the dollar.

The ECB maintains the interest rates and the monetary stimulus

The Governing Council of the ECB, on its meeting held on 27th April, 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, which will probably exceed the horizon of the asset purchases.

With regard to the non-conventional monetary policy measures, the Governing Council confirmed that net purchases will continue at a monthly pace of 60 billion euros until the end of December 2017, or until a later date if necessary, and, in any case, until the Governing Council observes a sustained adjustment of the inflation path compatible with its inflation target. On the other hand, the net purchases will be carried out in parallel with the reinvestment of the capital of the securities acquired within the asset purchase programme framework as they expire. 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 has reiterated that it is prepared to expand the volume and/or duration of this programme.

In the press conference that followed the meeting, the ECB president stated that the economic recovery is becoming increasingly solid and that the downside risks have further diminished, although inflation has not shown a convincing upward trend yet.

The BoJ maintains the interest rates and the monetary stimulus plans

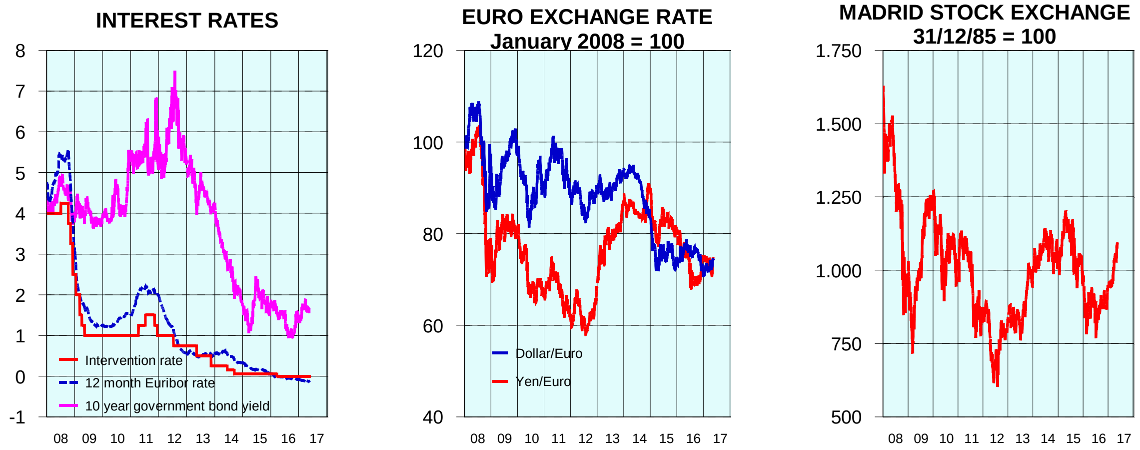
In the meeting held on 26th and 27th April, the Bank of Japan (BoJ) decided to keep the negative interest to current accounts that financial institutions hold at the Bank (-0.1%). Similarly, the BoJ decided to keep its asset purchase programme unchanged, expanding the monetary base at an annual pace 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 BoJ revised upwards its growth forecasts for 2017 and 2018 and published its growth and inflation forecasts for 2019.

The Central Bank of Sweden maintains the interest rates and increases the monetary stimulus

The Executive Board of the Central Bank of Sweden (Riksbank), in the meeting held on 28th April, decided to maintain its Repo rate at -0.50%, in force since 11th February 2016, and to increase by SEK 15 billion (€ 1.6 billion) the purchase programme of government bonds, as established in October 2015. The entity foresees a strengthening of the economic activity during the coming years, but inflation forecasts have been revised slightly downward, in a context of persistent economic and political uncertainty.

G1. MONETARY AND FINANCIAL INDICATORS (1)



(1) Daily data.
Source: ECB, Banco de España and Bolsa de Madrid.

The 12 month Euribor continues registering negative rates

In the interbank market of the Eurozone, interest rates remained negative in April, in a context where the ECB maintained an accommodative monetary policy. On 28th April, the one, six and twelve-month Euribor stood at -0.374%, -0.249% and -0.121%, respectively, versus the -0.373%, -0.241% and -0.109% recorded at the end of March. The slight decrease of the 12 month Euribor in this period is due to the fact that the Overnight Index Swap (OIS), which indicates the rates expectations, decreased by 1 b.p., while the Euribor-OIS differential remained stable.

T 1. Public debt yields and differentials
(in % and basis points)

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-30-16	Mar-31-17	Apr-28-17	Variation in spreads		Dec-30-16	Mar-31-17	Apr-28-17	Variation in spreads	
				Period	Annual				Period	Annual
	(1)	(2)	(3)	(3)-(2)	(3)-(1)	(4)	(5)	(6)	(6)-(5)	(6)-(4)
Germany	0.21	0.33	0.32	-1	11					
Holland	0.35	0.42	0.39	-3	4	14	9	7	-2	-7
Finland	0.35	0.45	0.42	-3	7	14	12	10	-2	-4
Austria	0.42	0.54	0.61	7	19	21	21	29	8	8
France	0.68	0.98	0.77	-21	9	47	65	45	-20	-2
Belgium	0.55	0.85	0.79	-6	24	34	52	47	-5	13
Ireland	0.77	0.99	0.86	-13	9	56	66	54	-12	-2
Spain	1.40	1.67	1.65	-2	25	119	134	133	-1	14
Italy	1.82	2.32	2.31	-1	49	161	199	199	0	38
Portugal	3.78	3.97	3.57	-40	-21	357	364	325	-39	-32
Greece	7.11	6.99	6.34	-65	-77	690	666	602	-64	-88

Source: Financial Times.

European public debt yields decrease

In the secondary public debt market, yields decreased slightly, in a context of volatility, initially affected by the uncertainties associated with the presidential elections in France and, subsequently, by the result of the first ballot, as well as by the maintenance of the ECB monetary stimulus programme, with yields falling, especially in France and the peripheral area. Thus, the 10-year Spanish bond yield stood at 1.65% on 28th April, 2 b.p. below the figure recorded on 31st March. On the other hand, the German bond yield fell by 1 b.p. in the same period, down to 0.32%, the Spain-Germany differential standing at 133 b.p., 1 b.p. below the level recorded in late March. Meanwhile, the Spain-Italy differential stood at -66 b.p., rising by 1 b.p. in comparison to 31st March.

Stock indices rebound in April

In the stock markets, the main indices on both sides of the Atlantic registered mixed results during the first weeks of April, in a context of volatility resulting from the geopolitical uncertainty. However, during the last week of the month, the indices increased strongly, driven by the result of the first ballot in the French elections, in a context of maintenance of the stimulus policy by the ECB. In Europe, the Eurostoxx 50 index rose by 1.7% during the period between 31st March and 28th April this year. In Spain, the IBEX 35 registered a growth of 2.4% in that period, above that of most European indices and exceeding 10,700 points. However, the FTSE 100 declined in the same period, affected by the announcement of early general elections in the United Kingdom and the uncertainty associated to the Brexit. In the US market, the S&P 500 index rose by 0.9%, in a context of volatility due to the uncertainty surrounding the future economic policy decisions.

T 2. International stock exchange

Countries	Index	Level Apr-28-17	% Variation Mar-31-17	% Variation Dec-30-16
Germany	DAX	12,438.01	1.0	8.3
France	CAC 40	5,267.33	2.8	8.3
Italy	FTSE MIB	20,609.16	0.6	7.1
Spain	IBEX 35	10,715.80	2.4	14.6
Eurozone	EUROSTOXX 50	3,559.59	1.7	8.2
United Kingdom	FTSE 100	7,203.94	-1.6	0.9
United States	S&P 500	2,384.20	0.9	6.5
Japan	NIKKEI 225	19,196.74	1.5	0.4
China	SHANGHAI COMP	3,154.66	-2.1	1.6
Mexico	IPC	49,261.33	1.5	7.9
Brazil	BOVESPA	65,403.25	0.6	8.6
Argentina	MERVAL	21,019.91	3.7	24.2

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

The euro appreciates against the dollar

With respect to the currency market, the result of the first ballot in the French elections and the uncertainty surrounding the future economic policy decisions in the United States have favoured the euro exchange rate against the dollar in April. Thus, in the period between late March and late April, the euro appreciated by 2.2% against the dollar and by 1.8% against the yen and depreciated by 1.3% against the pound, trading at the end of the 28th April session at 1.093

dollars, 121.76 yen and 0.8447 pounds. In the same period, the euro appreciated by 1.3% in nominal effective exchange rate terms vis-à-vis the group of industrialised countries.

The M3 broad monetary aggregate accelerates in March...

The M3 broad aggregate rose by 5.3% y-o-y in March, six tenths more than in the previous month, due to the acceleration of overnight deposits (10.1%, in comparison to the 9.2% registered in February), and marketable instruments (8.5%, compared to the 3.7% recorded in the previous month) partially offset by the slowdown of currency in circulation (two tenths, down to 3.7%) and the larger decline in other short-term deposits (-2.5%, compared to the -2.1% recorded in the previous month).

T 3. Eurozone monetary aggregates

Monetary aggregates	March 2017 Balance (Billion €)	% Year-on-year variation		
		January 2017	February 2017	March 2017
1. Currency in circulation	1,089	3.6	3.9	3.7
2. Overnight deposits	6,301	9.3	9.2	10.1
M1 (= 1 + 2)	**7,390**	**8.4**	**8.4**	**9.1**
3. Other short-term deposits (= 3.1. + 3.2.)	3,486	-2.2	-2.1	-2.5
3.1. Term deposits up to two years	1,307	-6.7	-6.2	-7.4
3.2. Deposits redeemable at notice up to three months	2,180	0.8	0.7	0.8
M2 (= M1 + 3)	**10,876**	**4.7**	**4.8**	**5.1**
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	705	7.0	3.7	8.5
4.1. Repurchase agreements	74	-7.3	-24.3	-14.2
4.2. Money market funds shares/units	529	8.4	8.1	13.5
4.3. Securities other than shares up to two years	103	12.4	7.9	4.4
M3 (= M2 + 4)	**11,581**	**4.8**	**4.7**	**5.3**

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, accelerated six tenths in March, up to 3.2%. This evolution is due to the acceleration of loans (four tenths, up to 2.4%, rising in almost all its categories), securities other than shares (8.6%, compared to the 6.8% registered in the previous month) and shares and other equity (eight tenths, up to 4.4%).

The stock of financing to the private sector in Spain rises in March…

The stock of financing to the private non-financial sector in Spain rose by 0.6% y-o-y in March, versus the 0.1% fall registered in the previous month. Financing received by firms rose by 2.1%, 1.2 points more than in February, due to the acceleration of bank loans and securities other than shares (1.4 and 6 points, up to 0.4% and 17.6%, respectively), while foreign loans slowed down six tenths, down to 0.8%. On the other hand, financing received by households recorded a y-o-y rate of -1.2%, one tenth higher in comparison to the figure registered in the previous month, due to the lower drop in loans for housing, partially offset by the slowdown of other bank loans.

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

	March 2017 Balance (Billion €)	% Year-on-year variation		
		January 2017	February 2017	March 2017
Credit to the private sector	**12,981**	**2.7**	**2.6**	**3.2**
Loans	**10,759**	**2.2**	**2.0**	**2.4**
Households	**5,461**	**2.4**	**2.4**	**2.6**
House purchases	*4,086*	*2.7*	*2.8*	*3.0*
Consumer credit	*629*	*4.6*	*4.2*	*4.7*
Other lending	*746*	*-0.9*	*-1.0*	*-1.2*
Non-financial corporations	**4,332**	**1.7**	**1.4**	**1.6**
Insurance companies & pension funds	**113**	**-8.6**	**-11.4**	**3.8**
Other financial intermediaries	**852**	**5.1**	**4.4**	**5.2**
Securities other than shares	**1,430**	**7.1**	**6.8**	**8.6**
Shares and other equities	**792**	**2.6**	**3.6**	**4.4**

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

...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 6.5% y-o-y in March 2017, half a point more in comparison to the figure registered in the previous month. This acceleration is due to the increase of loans for consumption (26.7%, versus the 26.6% registered in the previous month) and to the lower fall recorded by credits for other purposes (-11.1%, in comparison to the -12.3% registered in the previous month), while the rate of increase of loans for housing stabilised at 4.6%. 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 March this year, by 3.9% y-o-y, one point more than in the previous month. On the other hand, the amount of new loan and credit operations exceeding one million euros declined by 29.8% y-o-y, a drop 5.8 points lower than in February.

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

	March 2017 Balance (Billion €)	% Year-on-year variation		
		January 2017	February 2017	March 2017
Non-financial corporations and Households	**1.622**	**-0,3**	**-0,1**	**0,6**
Non-financial corporations	**914**	**0,5**	**0,9**	**2,1**
Bank loans	*528*	*-1,0*	*-1,0*	*0,4*
Securities(1)	*94*	*8,1*	*11,6*	*17,6*
External loans	*292*	*1,2*	*1,4*	*0,8*
Households	**708**	**-1,4**	**-1,3**	**-1,2**
Bank loans. Housing	*540*	*-3,1*	*-3,0*	*-2,7*
Bank loans. Other	*168*	*4,6*	*4,7*	*4,2*
General Government	-	**3,9**	**3,2**	-
Total financing	-	**1,3**	**1,2**	-

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

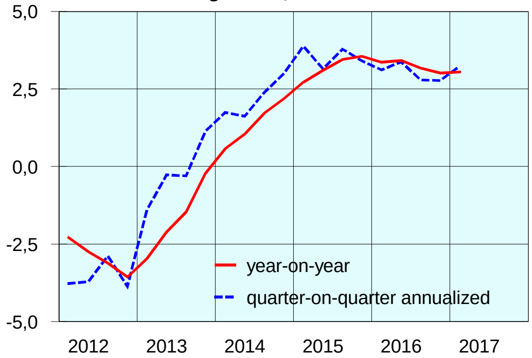
Spanish economy

Domestic Demand and production

According to the INE's flash estimate, GDP accelerates in the first quarter of 2017 up to 0.8% q-o-q

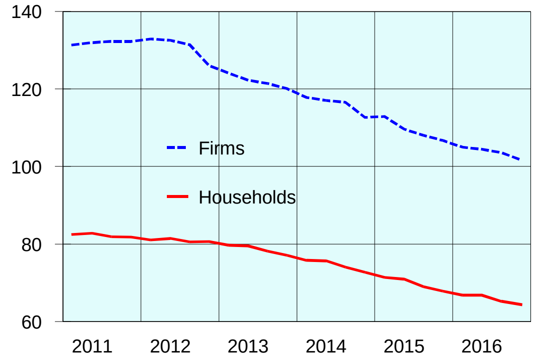
According to the Quarterly National Accounts (QNA) flash estimate, published by the National Statistics Institute (INE, by its Spanish abbreviation), GDP, in volume and with calendar and seasonally adjusted data, recorded a q-o-q growth of 0.8% in the first quarter of 2017, one tenth higher than the figure registered in the previous quarter, accumulating fourteen consecutive quarters of positive rates. In y-o-y terms, GDP increased by 3%, as in the fourth quarter of last year. These rates stand above those estimated for the EU average (0.4% q-o-q and 1.9% y-o-y) and for the Eurozone (0.5% q-o-q and 1.7% y-o-y).

G 2. GROSS DOMESTIC PRODUCT, volume change in %, sac data



Source: INE.

G 3. HOUSEHOLDS AND FIRMS DEBT % GDP



Sources: BE and INE.

The IMF and the European Commission revise their growth forecasts for Spain in 2017 upwards

The International Monetary Fund (IMF) revised upwards by three tenths the real GDP growth forecast of the Spanish economy for 2017, reaching 2.6% compared to the figure published in the January report, and it maintains the growth at 2.1% for 2018.

By demand components, the IMF expects an increase in private consumption of 2.6% in 2017 (two tenths more compared to the January’s forecast) and 2.1% in 2018. The public consumption growth rate moderates this year, reaching 0.7%, a rate that will be maintained in 2018. Gross fixed capital formation is expected to increase by 3.1% in 2017 and by 2.7% in 2018. On the other hand, the external balance would contribute by three percentage tenths to GDP growth this year and one tenth the coming one.

On the other hand, the European Commission, in its Spring Forecast, revised upwards the real GDP growth forecast of the Spanish economy for 2017, by half a point and three tenths for 2018, up to 2.8% and 2.4% respectively. By components, the European Commission foresees a private consumption growth of 2.5% this year and 2% the next, as well as an acceleration of up to 3.4% in the gross fixed capital formation for 2017 and 3.9% for 2018. Likewise, the net external demand will contribute by four percentage tenths to GDP growth this year and by three tenths the next one.

Leading indicators point to a greater dynamism in activity

Short-term indicators point to an extension of the activity dynamism. Among the qualitative indicators, the Economic Sentiment Indicator, published by the European Commission, rose one point in April in comparison to the previous month, up to 107.9 (average 1990-2016 = 100). The breakdown by components reflects a sharp rise in construction confidence (14.4 points) and, to a lesser extent, in services (4.5 points) and consumer confidence (3.5 points), while industry and retail confidence edged slightly downwards, by 0.4 and 0.1 points, respectively. In the same vein, the Global Activity Composite PMI for Spain registered a level of 57.3 in April, half a point higher in comparison to the figure recorded in March and the highest level in the last 20 months. This result, which is also half a point higher than that registered in the Eurozone, points to an acceleration in the global activity compared to the previous month. On the other hand, the Business Confidence Indicator, published by the INE, increased by 1.8% q-o-q in the second quarter of 2017, one point and a half more than in the first quarter. Likewise, the OECD Composite Leading Indicator for Spain, designed to anticipate the turning points in the economic activity with regards to its trend, moderated slightly in March compared to February, standing at 99.9, a figure almost identical to its long-term average (100).

Among quantitative indicators, the Business Turnover Index favourable evolution stands out, as it intensified the growth rate in February, with calendar adjusted data, registering an 8.2% y-o-y increase, two points more compared to the previous month. This acceleration is explained by the higher dynamism of the turnover in the extractive and manufacturing industries, trade and market non-financial services sectors, partially offset by the slower pace of increase of the turnover in the sector of electricity and water supply, sanitation and waste management utilities. In the same vein, total large firm sales, with fixed-sample, deflated and calendar adjusted data, registered a 4.6% y-o-y increase in March, one tenth higher when compared to February, ending the quarter with an average annual growth of 4.2% (3% in the fourth quarter of 2016). Among its components, exports accelerated by three tenths in March, up to 10.9%, while domestic sales grew by 2.7%, one tenth less than in February. On the other hand, imports accentuated the rate of y-o-y growth by 2.8 points, up to 7.2%.

Private consumption dynamism persists

Private consumption short-term indicators point to the continuation of its expansionary trend. Thus, the consumer goods and services component of domestic sales in large companies, with deflated, fixed-sample and calendar adjusted data, grew by 5.5% y-o-y in March, 1.7 points more than in February, ending the first quarter with an annual average increase of 4.3% y-o-y, similar to the figure registered in the previous quarter (4.5% y-o-y)

Among the qualitative indicators, the Consumer Confidence Indicator published by the CIS increased 7 points in April compared to the previous month, reaching 106.7, above the 100 threshold (indicative of a positive perception of consumers) and the second highest in the current time series, following the maximum values recorded in December 2015. This rebound was due to the evolution of its two components, current situation and expectations, which increased by 9 and 5.2 points, respectively, up to 100.4 and 113.1. Likewise, the Consumer Confidence Indicator published by the European Commission rose 3.5 points in April in comparison to the previous month, registering a balance of 1.3 points, positive for the first time since December 2015, as a result of the improvement of all its partial components.

The deleveraging of the Spanish households continues

Households have continued the deleveraging process that started in mid-2010. Households and Non-Profit Institutions Serving Households debt fell from 67.8% of GDP in the fourth quarter of 2015 down to 64.4% in the same period of 2016. On the other hand, net financial wealth of households increased by 3.1% y-o-y in the fourth quarter of 2016, due to an increase in financial assets (1.4%) and to a decrease in liabilities (-1.5% y-o-y).

Equipment investment indicators show a more expansionary trend

With regards to the indicators of investment in equipment goods, the available information shows, in general, a more expansionary trend. Thus, the availabilities indicator of equipment goods, with calendar and seasonally adjusted data, registered a q-o-q growth of 1.5% in the first quarter of 2017 (with information up to February), two tenths higher than in the previous quarter. On the other hand, domestic sales of equipment and software in large companies rose by 1.9% y-o-y in March, an evolution very similar to that registered in the previous month (2%), and truck registrations intensified their growth rate in that month, with a 28.6% increase according to the figures provided by the DGT, an increase well above that registered in previous months (0.8% in February).

Likewise, the use of the production capacity of the Spanish industry, according to the Ministry of Energy, Tourism and the Digital Agenda data, stood at 78.3% in the second quarter of 2017 (April data), seven tenths above the previous quarter and one tenth higher when compared to the figure recorded a year earlier.

…while construction investment indicators registered mixed results

The most recent indicators related to residential investment registered mixed results. According to the INE Statistics based on the properties recorded in the Property Registers, housing sales rebounded by 26.9% y-o-y in March, over 25 points higher than the figure recorded in February. This higher growth was due to the 21.2% increase of new housing purchases, following the fall recorded in the previous month (-16.3%) and to the 22.2 points rise of used housing purchases, up to 28.3%. In the first quarter of 2017, housing purchases rose by 15% y-o-y, almost five points more than in the fourth quarter of 2016.

On the other hand, the number of mortgages on housing recorded a y-o-y rate of -2.7% in February, versus the rise close to 17% registered in January. The average amount of mortgages on housing rose by 7.1% y-o-y, seven tenths higher in comparison to the figure recorded in the previous month, so the capital borrowed for mortgages on housing rose by 4.2% y-o-y, 20.3 points less than in January.

Non-financial corporations’ debt continues to decrease

The non-consolidated debt of the non-financial corporations continues the downward trend started in mid-2010, reaching 101.7% of GDP in the fourth quarter of 2016, five points lower when compared to a year earlier, thus reaching levels similar to those registered at the beginning of 2006.

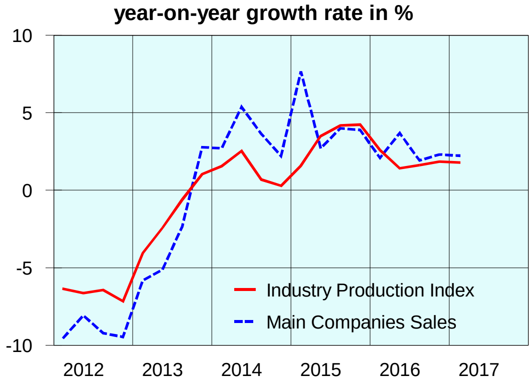
On the other hand, non-financial corporations increased the net financial transactions in the fourth quarter of 2016, up to € 7.7 billion, which represents a figure 16.8% higher than in the same quarter of 2015. This increase is explained by a rise in the net acquisition of financial assets

(€ 18.5 billion in the fourth quarter of 2016, compared to the € 1.8 billion registered in the same period of the previous year), higher than that experienced by the net incurrence of liabilities (€ 10.8 billion, compared to the -€ 4.8 billion recorded a year earlier).

The industrial sector activity remains sound in the first quarter of 2017

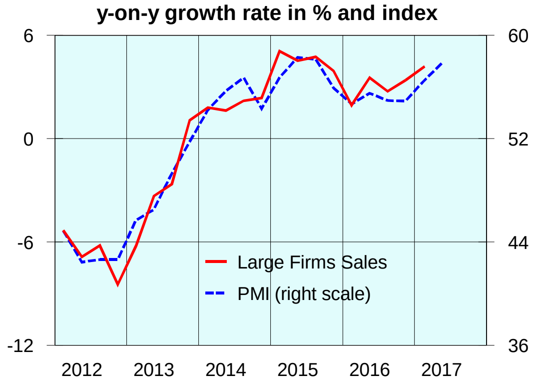
From the supply point of view, amongst the industrial activity indicators, the Industrial Production Index (IPI), with calendar adjusted data, slowed down 2.1 points in March, to record a y-o-y rate of 0.3%, ending the first quarter of the year with an average annual growth of 1.8%, similar to the rate registered in the fourth quarter of 2016. According to the economic use of goods, the IPI lower strength in March was due to the 6.6% drop registered in energy, following the 3.3% rise recorded in February, as well as to a more moderate increase in equipment and intermediate goods (1.2% and 2.8%, respectively, compared to the 2.7% and 4.4% recorded in February), partially offset by the 1.2% increase registered by consumer goods, versus the 0.3% posted in the previous month.

G 4. PRODUCTION AND SALES IN THE INDUSTRY
year-on-year growth rate in %



Sources: INE and AEAT.

G 5. SERVICES: SALES AND PMI
y-on-y growth rate in % and index



Sources: AEAT and Markit Group.

On the other hand, the rebound registered in February by the Industry Turnover Index (ITI) and the Industry New Orders Index (INOI) stands out. Specifically, the ITI, with calendar adjusted data, recorded an 8.8% y-o-y increase, 1.4 points higher in comparison to the figure recorded in the previous month. This result is explained by the acceleration of equipment and consumer goods (4 and 3.3 points, respectively, up to 6.7% and 5% y-o-y), partially offset by the slowdown registered by energy (55.8%, compared to the 61.8% recorded in the previous month) and intermediate goods (5.6%, a rate one tenth lower than in January). Likewise, the INOI, with calendar adjusted data, accelerated 1.4 points in February, up to 8% y-o-y, as a result of the higher boost in intermediate and consumer goods, which increased from 3.5% and 2.2% in January, respectively, up to 8.1% and 5.1% in February, partially offset by the slowdown of energy (56.2%, compared to the 62.2% recorded in the previous month) and equipment goods (0.8% compared to 3.2% registered in the previous month).

On the other hand, the qualitative indicators of activity in the industry also showed signs of the soundness in the sector. Thus, the manufacturing industry PMI for Spain stood at 54.5 in April, 0.6 points higher than the one of the previous month, due to the acceleration of both production and new orders, in a context of moderation of the cost inflation rate.

The construction sector activity indicators rebound

Among the indicators relating to the construction activity, the Production Index in the Construction Industry (PICI) in Spain, published by Eurostat, experienced a 5.4% increase in February, compared to the same month of 2016, in comparison to the 10.8% decrease registered January. This PICI evolution is explained by the strong increase in the civil works component (52.8%, 43 points higher than the previous month), and the moderation of the fall pace in the building component, by eleven points, to -1.9% y-o-y.

With regards to construction activity leading indicators, according to construction new permits of the Ministry of Public Works, floorage approvals in new construction intensified the y-o-y growth rate by 3.2 points in February, recording a rate of 11.5%. This evolution was due to the 12.8% rise registered by the non-residential component, after the fall observed in the previous month (-33.9%), partially offset by the decrease of almost 18 points of the residential component, down to 11.2%. In the same vein, cement apparent consumption (domestic sales plus imports minus exports in volume) accelerated in March by 17.3 points in y-o-y terms, up to 21.5%, ending the first quarter of the year with a 14.1% increase, following the 3.5% fall registered in the last quarter of 2016.

Activity in the services sector gains momentum

The Services Sector Turnover Index (SSTI), with work calendar adjusted data, accelerated by 2.6 points in February in comparison to the previous month, up to 7.9% y-o-y. The SSTI more expansionary trend is explained by the acceleration of its two main components: trade, which grew by 6.2% y-o-y, versus the 5.4% registered in January, and other services, which rose by 6.5%, one and a half points more than in the previous month. In the first two month period of 2017, the calendar adjusted SSTI grew by 6.6% y-o-y, one point more than in the fourth quarter of last year.

The qualitative indicators related to the services sector also confirmed the continuation of the sector expansionary trend. Thus, the Services PMI reached 57.8 in April, four tenths higher in comparison to the figure registered in the previous month and 1.4 points above the figure reached by the Eurozone (56.4). According to this index, the services activity has grown continuously since November 2013, and this latest increase was supported by the economic conditions improvement, registering increases in the six sectors analysed, particularly in the Transport and Storage sector.

The tourism sector indicators moderate the dynamism

Regarding the tourism sector indicators, it must be highlighted that 4.9 million international tourists visited Spain in March 2017, a figure 6.1% higher than the one recorded a year earlier, which represents a slowdown of 5.8 points with respect to the previous month. The cumulative figures recorded up to March show that the number of tourists that visited Spain increased at an average annual rate of 9.3%, compared to the 11.1% registered in the previous quarter. In the same vein, the expenditure by tourists who visited Spain in March amounted to € 5.1 billion, a figure 10.3% higher than that of the same month of 2016 (16.2% in February). The expenditure growth has been greater than that of tourist arrivals (6.1%), which resulted into a y-o-y increase in the average expenditure per tourist of 4%.

Overnight stays in hotels registered a y-o-y rate of -7.4% in March 2017, 5.4 points lower in comparison to the previous month, partly as a result of the calendar effect of the Easter

Holidays, which this year took place entirely in April and last year in March. This evolution is mainly due to the higher fall rate of domestic overnight stays (-16.6% y-o-y, in comparison to the -8.4% registered in the previous month), which fell for the fourth consecutive month, and, to a lesser extent, to the fall in foreign overnight stays (-0.5%, following the 2.1% rise registered in February). In the first quarter of 2017 as a whole, hotel overnight stays decreased by 2.8% y-o-y, mainly due to the decline of domestic overnight stays (-11.4%, compared to the 3.2% increase recorded in the previous quarter).

Prices

The CPI y-o-y rate falls down to 2.3% in March 2017

The Consumer Price Index (CPI) rose by 2.3% in March, a rate seven tenths lower than in the previous month and matching the flash estimate issued by the INE at the end of March. This performance was mainly due to the lower growth of energy products prices, and, to a lesser extent, to the slowdown of non-processed food and services prices.

Energy products prices slow down by more than five points, down to 11.7% y-o-y

Energy products prices grew by 11.7% y-o-y in March, 5.1 points less than in February. This evolution is explained by the slower pace of growth in fuels and lubricants prices, which fell from 18.5% y-o-y in February down to 12.8% in March, as well as by the electricity prices slowdown (6.4 points), down to 12.5%.

Non-processed food inflation stood at 4.3%, 1.1 points lower than the one registered in the previous month, largely due to the slowdown of legumes and fresh vegetables prices (15.4 points, down to 6.8%), partially offset by the higher growth of fresh fruits prices (which went from 7.6% in February up to 10.3% in March).

Core inflation decreases by one tenth, down to 0.9%

Core inflation (which excludes non-processed food and energy, the most volatile elements of the CPI) fell by one tenth in March, down to 0.9%, mainly due to the slowdown of services prices.

Services prices y-o-y rate fell by two tenths, from 1.3% in February down to 1.1% in March. Among its components, the 5.8 points slowdown of the tourist packages prices is worth mentioning, as they virtually stabilised at 0.1%.

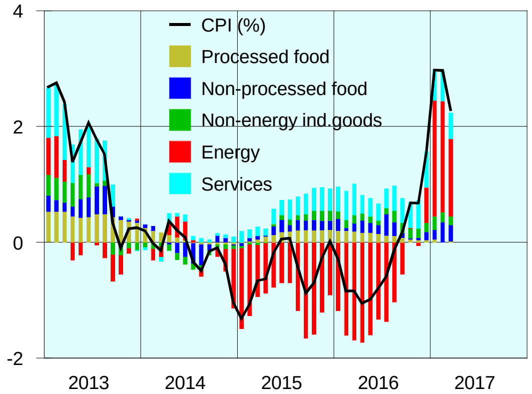
Processed food, beverages and tobacco prices rose slightly in March, by 0.1%, after the stabilisation registered in February, with the performance of oils and fats standing out, as they moderated their drop rate by nine tenths, to 0.7%. In food as a whole, prices grew by 1.4% y-o-y, three tenths less than in the previous month.

On the other hand, non-energy industrial goods prices maintained their y-o-y growth rate at 0.6%, without any significant changes among its components.

According to the CPI flash estimate, inflation rises by three tenths in April, up to 2.6%

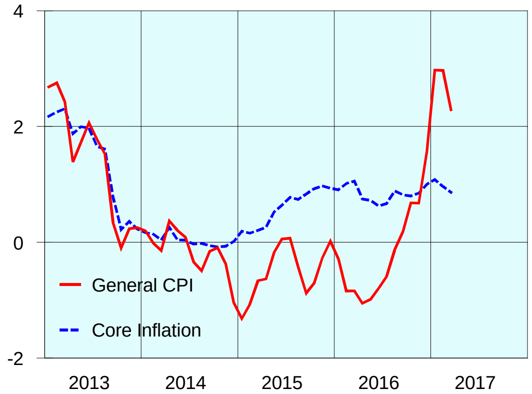
According to the flash estimate published by the INE, the y-o-y rate of the national CPI stood at 2.6% in April 2017, three tenths higher in comparison to March. According to the INE, the rise in tourism services prices, due to the Easter Holidays, as well as the stability in electricity prices -compared to the drop experienced in the same month of the previous year- stand out in this behaviour. In m-o-m terms, the CPI grew by 1% in April, versus the 0.7% rise registered in the same month of last year.

G 6. CPI GROWTH CONTRIBUTION BY SECTORS
in percentage points



Sources: INE and SGACPE.

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



Source: INE.

Harmonised inflation, given by the Spanish harmonised CPI flash estimate, also stood at 2.6% y-o-y in April, a rate half a point higher in comparison to the figure registered in March. In the Eurozone as a whole, the Harmonised Index of Consumer Prices (HICP), published by Eurostat, registered a y-o-y variation rate of 1.9%, four tenths higher compared to March, resulting in an inflation differential for Spain with respect to the Eurozone of seven tenths, one tenth higher than in last March.

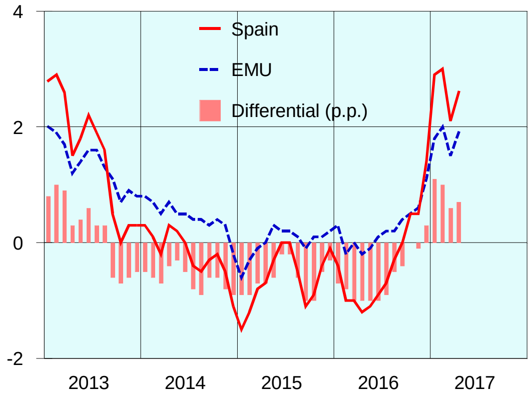
The PPI moderates the growth rate in March

The Producer Price Index (PPI) registered a 0.8% decrease in March 2017 compared to the previous month, after the 0.6% rise registered in March 2016. In y-o-y terms, the PPI variation rate stood at 6%, 1.4 points lower than that registered in February. This is explained by the lower growth of energy prices, partially offset by the slight acceleration of intermediate goods, consumer goods and equipment goods prices.

Energy production prices rose by 15.6% y-o-y in March, eight points less than in February. In m-o-m terms they fell by 4.2%, versus the 2.5% increase recorded in March of last year. According to the NACE classification, coke and oil refining (whose prices slowed down by 24.5 points, falling from 57.9% in February down to 33.4% in March) and, to a lesser extent, electricity, gas, steam and air-conditioning supply (whose prices rose by 10.2% y-o-y, 3.5 points less than in the previous month) stood out in the y-o-y evolution of the energy component.

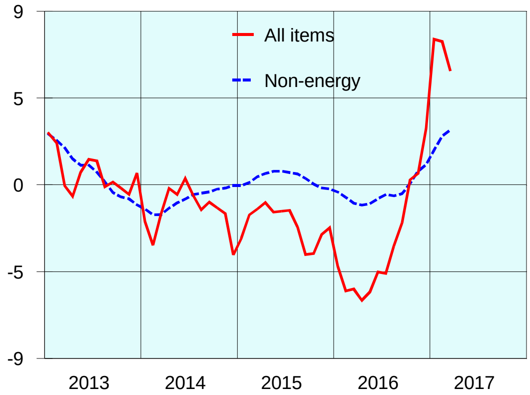
Non-energy goods production prices increased their y-o-y growth rate by three tenths in March, up to 2.8%, the highest rate since November 2011 (2.9%). This acceleration was mainly due to the evolution of intermediate goods prices, which grew by 4.4%, four tenths more than in the previous month. In turn, this evolution was influenced both by the chemical industry prices, which grew by 6%, a rate eight tenths higher than in February (5.2%), and by metallurgy prices, which increased by 22.5% in March, one point more than in February.

G 8. HARMONISED CPI
y-o-y change %



Sources: INE and Eurostat. Apr. 2017 data are prov.

G 9. INDUSTRIAL PRODUCER PRICES (PPI)
y-o-y change in %



Source: INE.

Production prices of consumer goods increased by 2.1% in March, two tenths more than in February. By components, this increase in the growth rate is mainly explained by the evolution of non-durable consumer goods prices, which accelerated by two tenths, up to 2.2% and, to a lesser extent, of durable consumer goods prices, which grew by 0.3%, one tenth more than in the previous month. Among non-durable consumer goods, olive oil stood out again, as in February, its production prices accelerating by almost five points, up to 18.6%, reaching levels close to record highs. The performance of meat processing and preservation prices also stood out, since it grew by 8.5%, a rate 1.3 points higher than in February. Consumer prices of food, beverages and tobacco, as a whole, increased by 2.8% (2.5% in February). On the other hand, equipment goods intensified the growth rate by three tenths, up to 1.2% y-o-y.

Labour Market

According to figures from the Labour Force Survey (LFS) for the first quarter of 2017 and the Social Security covered workers for April, the labour market continues to evolve favourably in the first months of the year.

Employment rises by 2.3% y-o-y in the first quarter of 2017

According to the LFS data for the first quarter of 2017, published by the INE, the number of employed people decreased, as it is usual in the first quarter of each year, by 69,800 people, a drop similar to the one registered in the same quarter of 2016 (64,600). The employed population amounted to 18,438,300 people, a figure lower by 0.4% than the one recorded in the previous quarter. With seasonally adjusted data, the q-o-q variation rate stood at 0.7%, a rate two tenths above that of the previous quarter.

In comparison to the same quarter of 2016, employment increased by 408,700 people, 2.3%, a rate equal to the one recorded in the previous quarter. As a result of this behaviour, the employment rate fell two tenths in the quarter, reaching 47.8%, a figure one point higher than a year earlier.

The rise in employment last year affected all major branches…

By main activity branches, employment fell in services and industry (94,700 and 8,200 people, respectively), and rose in agriculture -which registered 31,000 employed people more-and in construction, with the creation of 2,100 jobs. Compared to the first quarter of 2016, the rise in employment affected all main sectors, particularly the services one, where it increased by 199,000 employed people (1.4% y-o-y), followed by industry, with 89,500 (3.6%), agriculture with 70,300 (9%) and construction with 49,700 employed people more (4.8%).

In terms of the professional status of workers, the quarterly decrease in employment corresponded, to a greater extent, to employees, with 44,600 employed people fewer, while the number of self-employed workers fell by 23,800. In comparison to a year earlier, employees rose by 405,700, registering a y-o-y variation rate of 2.7%, one tenth higher than in the previous quarter, and the number of self-employed workers increased by 1,100 people, 0%, versus the 0.5% of the fourth quarter of 2016.

By type of contract, the reduction of wage employees in the first quarter of 2017 was fully integrated by jobs of a temporary nature, as it is usual in the first quarter of each year, while the number of employees with permanent contracts increased. Thus, the number of employees with temporary contracts fell by 122,600 in this period, and those with permanent ones increased by 78,000. When compared to the previous year, the increase of wage employees was of 195,600 workers with a permanent contract (1.7% y-o-y, 48% of the net wage employment creation) and 210,100 workers with a temporary one (5.6%, 52% of the wage employment creation). As a result of this evolution, the temporary rate stood at 25.8%, seven tenths above in comparison to the figure registered a year earlier.

…and focused on the private sector

The employment decrease in the first quarter of 2017 concentrated mainly in the private sector, with 57,600 employed less, while employment in the public sector fell by 12,300 people. In the last twelve months, private employment increased by 453,100 people (3% y-o-y, a rate two tenths higher than the one registered in the previous quarter) and public employment fell for the second consecutive quarter, by 44,500 people (-1.5% y-o-y, a rate one point lower than the one registered in the previous quarter).

The partiality rate falls one tenth in the last year, standing at 15.6%

Regarding working hours, all the employment destroyed in the first quarter of this year was full-time. Full-time workers fell by 111,100, while part-time employees rose by 41,300. Compared to the same quarter of 2016, full-time employees grew by 2.4%, four tenths less than in the previous quarter, while part-time ones fell by 1.5%, after the 0.4% decrease registered in the previous quarter. Following these results, the weight of part-time workers on the total increased by three tenths during the quarter and fell by one tenth compared to a year earlier, standing the partiality rate at 15.6%. The proportion of those who work part-time because they could not find a full-time job stood at 9.1% of the total employed people, two tenths lower than in the previous quarter, and six tenths lower than in the same quarter of 2016.

Considering the workers nationality, the employment reduction in the first quarter of 2017 only affected domestic workers (69,800), while the employment of foreign workers remained at the same level as in the previous quarter.

Unemployment falls by 536,400 people in the last year

Unemployment rose by 17,200 people in the first quarter of 2017, compared to the rise of 11,900 people in the same period of 2016. Thus, the total number of unemployed people reached 4,255,000. During the last year, unemployment has decreased by 536,400 people, which translates into a y-o-y decline rate of 11.2%, one tenth lower than the one of the previous quarter.

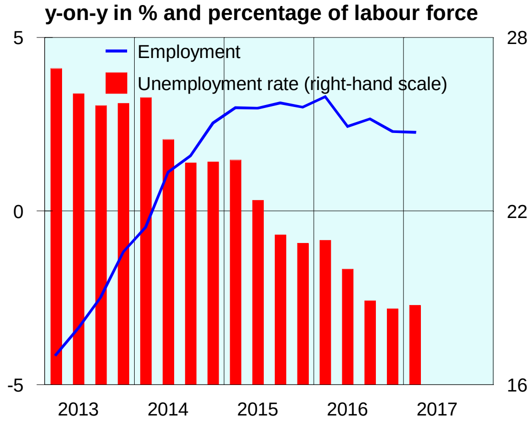
The unemployment rate rose by one tenth during the quarter and fell by 2.2 points compared to a year earlier, down to 18.8% of the labour force. With seasonally adjusted series (by the INE), the q-o-q variation in the number of unemployed people stands at -3%, versus the -3.6% for the fourth quarter of 2016; seasonally adjusted unemployment is linking sixteen consecutive quarters of decline.

The quarterly rise in unemployment affected only women, with 21,700 unemployed more, while unemployment among men registered a decrease of 4,500 people.

By activity branches, compared to the previous quarter, unemployment increased in all sectors, especially in services, with 104,800 unemployed more. In industry, there were 9,400 unemployed more, 3,700 in construction and 300 in agriculture. Unemployment decreased by 25,200 people in the group not previously employed and fell by 75,800 among the people who lost their jobs over a year ago.

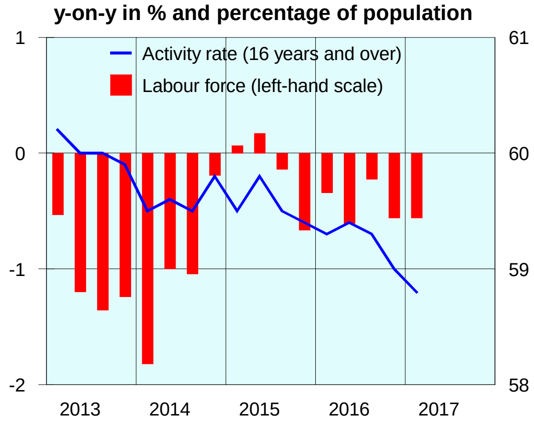
By gender, the unemployment rate increased two by tenths amongst women, up to 20.5%, and remained at 17.2% amongst men. By age groups, the quarterly increase of unemployment focused on the people between 25 and 54 years old, with 53,300 unemployed more (55,700 unemployed less in the previous quarter for the same age group). Amongst those aged between 20 and 24, there were 19,100 fewer unemployed, and the group of people aged 55 and over registered a reduction of 13,900 unemployed individuals.

G 10. EMPLOYMENT AND UNEMPLOYMENT RATE
y-on-y in % and percentage of labour force



Source: INE (LFS).

G 11. LABOUR FORCE AND ACTIVITY RATE
y-on-y in % and percentage of population



Source: INE (LFS).

Labour force fell by 52,600 people in the first quarter of 2017 in comparison to the fourth quarter of 2016, and by 127,700 versus a year earlier, reaching 22,693,300 people. In y-o-y terms, it decreased by 0.6%, a fall identical to that registered in the previous period. On the other hand, the activity rate fell by two tenths in the first quarter, standing at 58.8% (half a point less versus a year earlier) and the working-age population (16-64 years old) reduced by 4,700 people during the quarter and by 54,100 during the last year.

Social Security covered workers rose by 3.8% y-o-y in April

The average number of Social Security covered workers rose by 212,216 people in April 2017 compared to the previous month, reaching 18,122,222, which represents the largest increase in a month of April of the time series (158,038 in April 2016). By branches of activity, the number of Social Security covered workers rose in April in all sectors, registering 182,348 covered workers more in services, 15,411 in agriculture, 7,243 in industry and 7,214 in construction. By NACE activity sections, with gross data and for all the regimes as a whole (excluding Agrarian and Domestic Workers Special Systems and Sea and Coal Special Regimes), all of them registered increases in Social Security covered workers. Amongst the services activities, the following m-o-m rises stood out: hotel business (101,315 Social Security covered workers more), trade, motor vehicles and motorcycles repair (23,223 more) and administrative activities and auxiliary services (17,943 more). With seasonally adjusted data, Social Security covered workers increased by 101,007 people in April, 0.6% m-o-m (73,941 in March, 0.4%), linking more than three years of positive m-o-m rates (since December 2013).

In y-o-y terms, 658,387 Social Security covered workers more were registered in April, 3.8%, a rate three tenths higher than that recorded in March and the highest since mid-2006, mainly due to the acceleration of employment in the services sector and, to a lesser extent, in agriculture. This behaviour was influenced by the different timing of the Easter Holidays, which in 2017 was held in April, while it was celebrated in March in 2016.

By branches of activity, the number of Social Security covered workers accelerated four tenths in services (up to 3.8% y-o-y) and three tenths in agriculture (up to 2.4%), while it slowed down by two tenths in industry (down to 3% y-o-y) and three tenths in construction (down to 5.9%). The Social Security covered workers excluding agriculture increased its growth pace by 3.9%, three tenths more than in March. By NACE activity divisions, food and beverage services (whose y-o-y rate rose 1.6 points, up to 5.9%), accommodation services (which accelerated six points, up to 10.7%) and retail (that rose from 1.6% in March up to 2.1% in April) stood out. Conversely, the slowdown of covered workers in postal and courier (4.8 points, down to 12.8%) and in education (three tenths, down to 4.8%) should be pointed out.

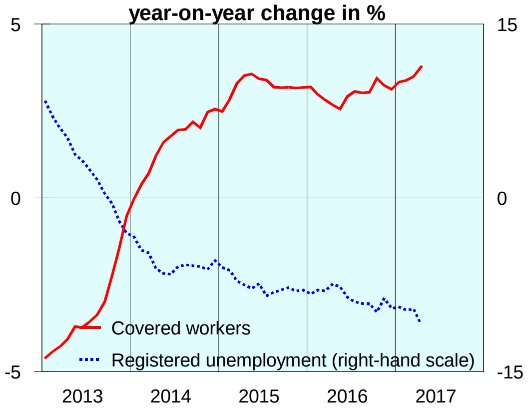
Registered unemployment falls by 10.9% y-o-y in April, the largest drop of the time series

Registered unemployment fell by 129,281 people in April compared to the previous month (-83,599 in the same period of last year), which is the largest drop of the time series. As a result, the total number of registered unemployed reached 3,573,036. By branches, and with unadjusted data, registered unemployment fell in all of them in comparison to the previous month: services (96,672 people), agriculture (11,330), construction (8,944) and industry (8,264). In the group without a previous employment, unemployment fell by 4,071 people in April. With seasonally adjusted data, registered unemployment fell by 70,777 people in April, the largest drop of the time series, equivalent to a m-o-m rate of -2%, following the -0.8% recorded in March.

In y-o-y terms, unemployment dropped by 438,135 people in April, also the largest drop of the time series and equivalent to a 10.9% fall, 1.3 points higher than in March. By branches, construction stood out, since registered unemployment fell by 19.1% y-o-y (-19.7% in March), followed by agriculture (-13.5%, after the -12.4% registered in the previous month) and industry (-13% for the second consecutive month).

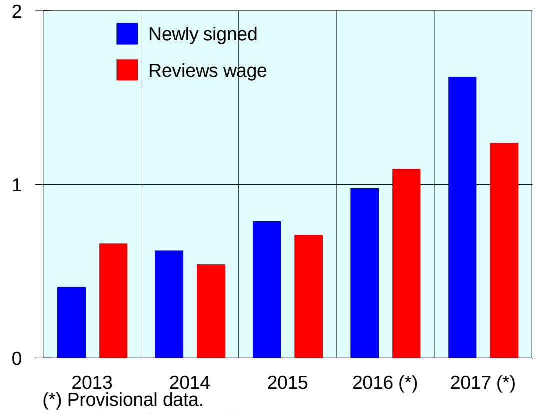
It should be noted that youth unemployment (people below 25 years old) fell by 60,944 people in the last year, representing a 17.9% y-o-y drop (4.2 points more intense than in March).

G12. SOCIAL SECURITY-COVERED WORKERS AND REGISTERED UNEMPLOYMENT
year-on-year change in %



Source: MESS.

G 13. WAGE RATES
year-on-year change in %



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

The average agreed wage increase in collective bargaining agreements remains at 1.3% up to April

According to the Collective Bargaining Agreement Statistics published by the Ministry of Employment and Social Security, and with the information available up to the end of April 2017, the average agreed wage increase stood at 1.3%, two tenths above the wage increase agreed in 2016.

The salary increase of last year, after including the guaranteed wage by clause revision, reached 1.1%, the same figure as the one initially agreed. These figures are provisional, as long as the statistics continues to include agreements with effects in 2016.

External sector

The net borrowing of the Spanish economy vis a vis to the rest of the world falls

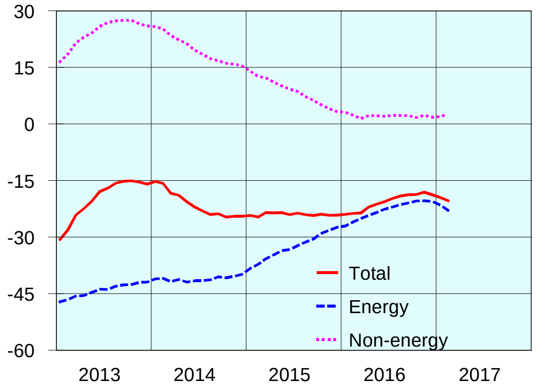
According to the Balance of Payments data, in February 2017, the Spanish economy generated net borrowing to the rest of the world reaching € 193 million, lower than the figure recorded in the same month of 2016 (€ 798 million). The improvement of the external balance compared to the previous year was due to the reduction of the current account balance deficit, partially offset by the decrease in the capital account surplus.

The current account balance recorded a € 223 million deficit in February, lower than the deficit of € 1.1 billion registered a year earlier, as a result of a decrease of the deficit of primary and secondary income, which more than offset the reduction of the goods and services surplus. Meanwhile, the surplus in the capital account ended at € 30 million, versus the surplus of € 319 million of February last year.

The trade deficit rises in February

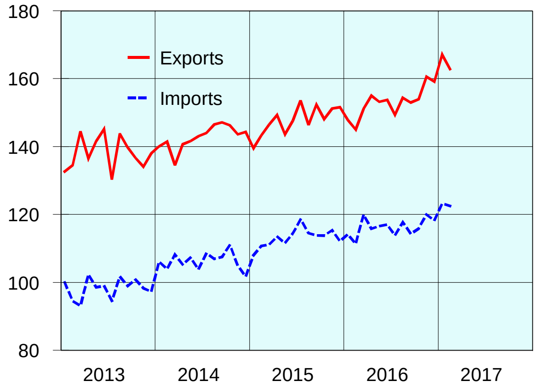
According to Customs data, the trade balance recorded a deficit of € 2.6 billion in February this year, compared to a deficit of € 1.8 billion registered a year earlier. The trade deficit rise (48%) was due to the energy component, which registered a deficit increase of 91.4%, while the non-energy component went from registering a deficit of € 271 million to a surplus of € 246 million.

G 14. TRADE BALANCE
accumulated 12 months, billion euros



Sources: DA and SGACPE.

G 15. FOREIGN TRADE, VOLUME
index 2005=100, s.a.



Sources: DA and SGACPE.

In cumulative terms for the last twelve months up to February 2017, the trade balance recorded a deficit of € 20.3 billion, compared with the € 23.7 billion deficit registered in the previous year. The 14.1% improvement in the external balance is due to both the evolution of the energy component, whose deficit fell by 12.1%, and to the non-energy component, whose surplus rose by 7.8%.

The dynamism of real exports and imports of goods continues in February

According to Customs figures, goods exports increased in February by 8.3% y-o-y, and their prices, approximated by unit value indices, decreased by 0.1% (versus the 0.8% rise registered in January), resulting in an 8.4% rise in real terms, after the 16.5% growth registered in January. The analysis by product groups in real terms and in y-o-y terms, shows an uneven evolution in February in comparison to the previous month. Exports of food and non-food consumer goods slowed down by 4.7 and 2.2 points, down to 0.3% and 8.1% respectively and capital goods and non-energy intermediate goods exports moderated their growth rate by 14.9 and 10.9 points, to 0.3% and 9.3% respectively. On the other hand, energy intermediate goods exports rebounded by 106.6%, following the 78.5% increase observed in the previous month.

By geographical areas, exports in volume to the European Union increased by 8.5% in February, in comparison to the 14.1% increase registered in January and exports outside the Union slowed down by 13.9 points, to 8%.

Goods imports increased by 11.4% y-o-y in nominal terms in February, and their prices rose by 5% (7% in January). These price changes have been affected by the 35% rise in energy goods prices. As a result, imports in real terms, experienced a y-o-y increase of 6.1%, following the 11.2% rise registered in the previous month. The analysis by products of imports in real terms and in y-o-y rates also reflects an uneven evolution compared to the previous month. Imports of food and non-food consumer goods decreased by 1.2% and 5.3%, following the rises of 8.1% and 10% registered in the previous month, respectively; those of non-energy intermediate goods slowed down 3.7 points, to 5.1%. On the other hand, imports of capital goods accelerated two points, up to 10% and those of intermediate goods 10.8 points, up to 38.9%.

By geographical areas and in real terms, imports from the European Union rose by 8.3% y-o-y in February, following the 10.6% increase recorded in January. Real imports from the rest of the world recorded an increase of 3.2% versus the 11.9% rise registered in January.

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 February (4.6%) for the fifth consecutive month, due to the positive contribution of EU countries and, to a lesser extent, of non-OECD countries. By products, the positive contribution of non-energy intermediate goods stands out, and to a lesser extent, of capital and of food and non-food consumer goods. The "momentum" of imports was also positive in February (4%), for the fifth consecutive month, due to the positive contribution of EU countries, non-EU members of the OECD and, to a lesser extent, of non-OECD countries. By products, the positive contribution of intermediate, energy and non-energy goods stands out.

The financial balance generates net capital outflows in February

According to the Balance of Payments, the financial balance, excluding the Bank of Spain assets, recorded net capital outflows of € 5.5 billion in February, versus the net outflows of € 9.6 billion recorded a year earlier. This result is explained by the net outflows registered by direct investment (€ 1.5 billion), portfolio investment (€ 505 million) and other investment (€ 4.1 billion) while financial derivatives (€ 567 million) recorded net inflows.

The assets net variation recorded net capital outflows (investments) of € 15.6 billion in February, versus the net outflows of € 5.2 billion registered in the same month of 2016. On the other hand, the liabilities net variation generated net inflows (investments) of € 10.2 billion, versus the net outflows of € 4.3 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 € 10.5 billion in February, due to the rise of € 10.5 billion registered in the net debtor position vis-à-vis the Eurosystem. On the other hand, reserves increased by € 1 million and the remaining net assets rose by € 13 million.

Public sector

On 27th April, the Ministry of Finance and Civil Service published the data of 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 February 2017. Likewise, the Ministry published the State monthly budget execution data for March 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 March.

Likewise, on 31st March, the Bank of Spain published the Debt data for the State, corresponding to March, according to the Excessive Deficit Procedure (EDP) methodology.

The General Government consolidated deficit, excluding Local Government, falls down to 0.95% of GDP in the first two month period of the year

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded up to February 2017 a deficit of € 11 billion (0.95% of GDP), 8.6% lower in comparison to the same period of 2016 (1.08% of GDP). This deficit reduction is explained by a y-o-y increase of non-financial resources (1.0%) and by the decrease registered by non-financial uses (-0.7%).

The increase in revenues was mainly due to the rise in social contributions (5%), partially offset by the drop in taxes on production and imports (-2.3%). Regarding non-financial uses, these mainly decreased due to the fall in interests (-6.9%).

The budget execution of the Central Government ended the first two month period of 2017 with a deficit of € 11.5 billion, equal to 0.99% of GDP, 0.14 points below the one recorded in the same period of 2016 (€ 12.6 billion, 1.13% of GDP). This deficit reduction is due to the fact that non-financial uses fell by 6% (down to € 33.6 billion) in comparison to the first two month period of 2016, more than offsetting the fall of non-financial resources (-4.5%, to € 22.1 billion). The decrease of non-financial resources is due to the fall of tax revenues (-5.1%), mainly VAT and personal income tax (the latter due to higher advanced payments to Local Governments). On the other hand, the decrease in uses is explained by the fall in interests (-7.6%) and the lower transfers to other administrations (-5.0%), in particular to Social Security Funds. The expenditure of the Central Government eligible to be included in the calculation of the expenditure benchmark decreased by 7.1% y-o-y, with an amount of € 15.7 billion in comparison to the € 16.9 billion registered in the two month period of 2016.

The Regional Governments accumulated a deficit of € 836 million (equivalent to 0.07% of GDP) up to February this year, two hundredths lower than in the same period of 2016 (€ 951 million, equivalent to 0.09% of GDP). This lower deficit is explained by a y-o-y increase of non-financial resources (2.8%) higher than the one registered by non-financial uses (2.2%). The increase in resources is explained by the y-o-y growth of taxes on production and imports (15%) and current taxes on income and wealth (6.1%), the latter affected by the higher advanced payments made by the State as personal income tax. The uses growth is mainly due to an increase in the compensation of employees (0.9%), which includes in several Communities the pending amounts corresponding to the release of the bonus pay of 2012, the largest social transfers in kind acquired in the market (4.6%) and the higher expenditure on transfers made to other administrations (5.6%). The expenditure of the Regional Governments eligible to be included in the calculation of the expenditure benchmark in the analysed period increased by 2.6% y-o-y, with an amount of € 21.4 billion.

As for Social Security Funds, these ended the first two month period of 2017 with a surplus of € 1.3 billion, equal to 0.11% of GDP, two hundredths lower than in the same period of 2016 (€ 1.5 billion, equivalent to 0.13% of GDP). This lower surplus is due to an increase of non-financial uses (1.5%) higher than the rise registered by non-financial resources (0.7%). The increase in uses is mainly explained by the rise in social benefits (1.1%). On the other hand, non-financial resources rose due to the increase in social contributions (5.5%), partially offset by the fall of the transfers received from the State (-18.8%). To date, only the Social Security System has received transfers from the State and no payments have been made to the State Public Employment Service (known in Spanish as SEPE) or to the Wage Guarantee Fund (known in Spanish as FOGASA).

The State's deficit in terms of National Accounts falls by 43.8% y-o-y up to March

Up to March 2017, the budget execution of the State ended with a deficit, in terms of National Accounts, of € 5.7 billion (0.49% of GDP), 43.8% 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 (1.6%) and a decrease registered by non-financial uses (-7.4%). The increase in resources is mainly due to the evolution of tax revenues (3.2%, driven by the VAT), while the decrease in uses is due to the fewer current transfers between Public Administrations (-6.3%), and to a lesser extent, to the reduction of the contribution to the budget of the EU based on VAT and GNI resources (-35.2%) and the interests fall (-10.2%).

In terms of Cash, the State recorded a deficit of € 8.7 billion up to March 2017, lower by 22.5% to the figure recorded in the same period of 2016 (€ 11.1 billion). Non-financial revenues decreased by 1% y-o-y, reaching € 27.1 billion, while non-financial expenditure decreased by 7.2%, down to € 35.7 billion.

Tax revenues up to March increase by 5.4% in homogeneous terms

Total tax revenue (including the Regional and Local Governments' share) recorded a y-o-y increase of 5.5% up to March, mainly due to the increase of the labour withholdings and VAT. In homogeneous terms, that is, adjusted by the different tax refunds in both years, the IVMDH refunds (health cent) and the deferrals of public entities, tax revenues rose by 5.4%. Without including the Regional and Local Governments, and in non-homogeneous terms, the rise stands at 6%.

Within total taxes, revenue from personal income tax, including the Regional and Local Governments' share, increased by 2.2% up to March, mainly due to the labour income withholdings rise (2.4%), partially offset by the fall of capital withholdings (1.3%). In homogeneous terms, after correcting the effect of tax refunds in both years and the deferrals of public entities, the increase of revenues from personal income tax stands at 3.4%.

Revenue from corporate income tax recorded a negative figure of € 3.9 billion up to March, due to the strong increase in tax refunds, 1.9% higher compared to the previous year.

VAT revenue, including the Regional and Local Governments' share, increased by 8.3% y-o-y up to March. In homogeneous terms, adjusted by the different tax refunds, the increase stands at 9.4%. If the effect of the deferrals is also excluded, the increase stands at 6.8%.

Excise duties collection, including the Regional and Local Governments' share, was 0.7% higher compared to the figure registered in the same period of 2016, mainly due to the increase in the Tax on Hydrocarbons (4%, which in homogeneous terms, corrected for the health cent refunds, stood at 1.5%), despite the reduction in Excise on Tobacco Products (-8.8%)

Non-financial expenditure decreases by 7.2% up to March

With regard to expenditure, total non-financial payments decreased by 7.2% up to March in comparison to the amount accumulated in the same period of 2016, due to the fall of all its components. In particular, it is worth mentioning the falls in interest expenditure (-8.7%), current transfers (-3.3%, affected by the lower transfers to the SEPE and the EU budget), real investments

(-43.8%) and capital transfers (-35%, a fall affected by the lower transfers to the CNMC: electricity sector).

With regards to the borrowing requirement of the State, it fell by 37.7% up to March, compared to the same period of last year, reaching € 16.7 billion, versus the € 26.8 billion recorded in the same period of 2016. This decrease is due to the lower cash deficit (€ 8.6 billion, compared to the € 11.1 billion recorded a year earlier), partially offset by a lower net variation of financial assets (€ 8.0 billion, compared to the € 15.6 billion registered in the same period of 2016). The borrowing requirement was mainly financed through mid and long term domestic debt (€ 20.6 billion).

The Social Security records a surplus up to March

On the other hand, up to March 2017, the Social Security System (Managing Entities, General Treasury and Mutual Insurers) recorded a surplus of € 2.7 billion in terms of Cash, 20.3% below the figure recorded in the same period of 2016 (€ 3.4 billion). Revenues increased by 0.8% mainly due to the rise of social contributions (4%), despite the fall registered by current transfers (-8.8%, out of which the State's current transfers fell by 11.1%), property income (-53.3%) and other revenues (-1%). On the other hand, payments rose by 3.3%, mainly due to the increase recorded by pension (3.1%), temporary disability (8.1%), maternity expenses (4.5%), current expenses on goods and services (8.9%) and interests, real investments and other current and capital transfers, which together increased by 6.6%. Finally, with regard to staff expenses, they fell by 0.6% compared to the same period of the previous year.

Eurostat confirms the deficit and debt figures reported by Spain in the EDP Notification of April

On 24th April, Eurostat published the official deficit and debt figures of EU countries in the framework of the first EDP Notification of 2017. Eurostat confirmed the figures reported by Spain, which for 2016 correspond to 4.54% for the deficit to GDP ratio (including the assistance to financial institutions) and 99.4% for the Debt to GDP ratio.

The State EDP Debt slows down in March

At the end of March, the State Debt, according to the EDP methodology, stood at € 968.8 billion, compared to the € 938.2 billion registered a year earlier, which represents an increase of 3.3%, one tenth lower in comparison to the figure registered in the previous month.

May 2017