June 2017

SPANISH ECONOMY REPORT

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Y COMPETITIVIDAD

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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

Financial markets

The financial markets evolution in June was conditioned by the monetary policy meetings of the major central banks, especially by the interest rate rise by the Federal Reserve (Fed) and the election results in some European countries, the rescue of the Italian banking sector as well as by the fall in oil prices. In this context, the stock indices presented mixed results, the non-peripheral public debt yields rose and the euro appreciated against the dollar.

The ECB maintains the interest rates and the monetary stimulus

The Governing Council of the European Central Bank (ECB), in its meeting held on 8th June 2017, 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.

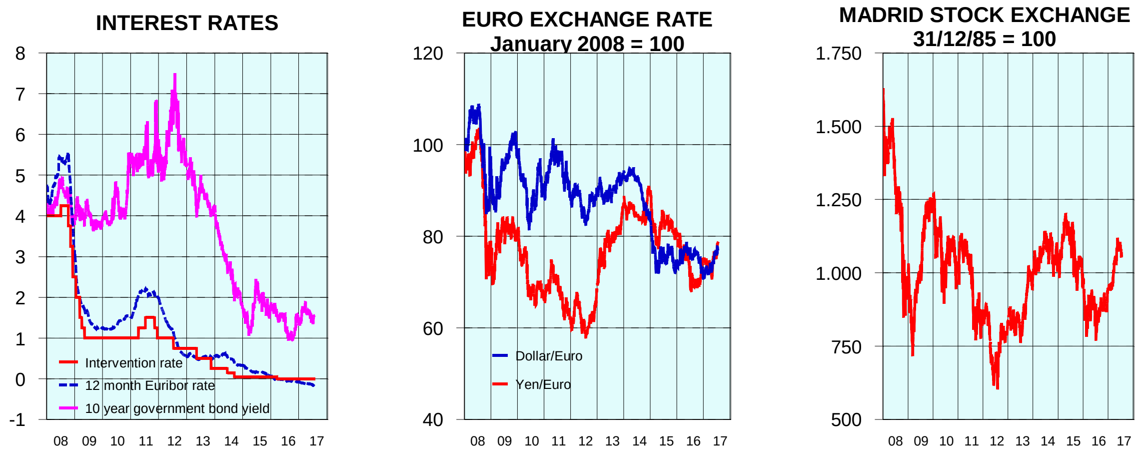
The Fed increases the interest rates

The Federal Open Market Committee (FOMC) of the Federal Reserve (Fed), in its two day meeting held on 13th and 14th June, decided to increase the target range for the Federal Funds by one quarter of a percentage point, up to 1.00%-1.25%, from the range of 0.75%-1.00% in force since the last rise, which took place on 15th March. In the statement that followed the meeting, the Fed noted the continued strengthening of the economy and the soundness of the employment increase, and considered the recent inflation decrease as transitory. Likewise, the FOMC also announced the decision to implement a balance normalization programme, if the economy evolves in line with expectations.

The BoE maintains the interest rates and the asset purchase programme

The Monetary Policy Committee of the Bank of England (BoE), in its meeting held on 14th June, 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, in a context of an inflation rise in May and a slowdown of GDP. The different opinions within the Committee should be noted, with 5 members supporting a continuity strategy and 3 voting in favour of tightening the monetary policy.

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 June, 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 Central Bank of Sweden maintains the interest rates and the monetary stimulus

The Executive Board of the Central Bank of Sweden (Riksbank), in the meeting held on 3rd July, decided to maintain its Repo rate at -0.50%, in force since 11th February 2016, and to maintain the current purchase programme of bonds, which according to its forecast would reach € 30 billion in 2017 (SEK 290 billion). The entity considers that the current monetary policy is adequate in order to achieve the inflation target of 2%.

The 12 month Euribor remains negative and registers record lows

In the interbank market of the Eurozone, interest rates extended the downward path between late May and early July, in a context where the ECB maintained an accommodative monetary policy, and remained negative, until reaching their record low in the last weeks of June, although they rebounded slightly at the end of the month as a result of the monetary policy tightening expectations. Thus, on 5th July, the one, six and twelve-month Euribor stood at -0.373%, -0.274% and -0.160%, respectively, versus the -0.374%, -0.254% and -0.131% recorded at the end of May. The 12-month Euribor evolution in this period is due to the fall of risk premiums required in the market (the Euribor-OIS differential fell four b.p.), partially offset by the expectations of an increase in interest rates (the twelve-month OIS rose by one b.p. in the period).

Non-peripheral European public debt yields increase

In the secondary public debt market, yields decreased in the first part of June, in a context of volatility, due to the electoral uncertainty in Europe and the maintenance of the accommodative monetary policy by the ECB. However, since the end of the month, the expectations regarding a possible normalization of the monetary policy have led to a yield increase in most of the non-peripheral European countries. The 10-year Spanish bond yield stood at 1.57% on 5th July, 3 b.p. above the figure recorded on 31st May. On the other hand, the German bond yield rose by 17 b.p. in the same period, up to 0.47%, the Spain-Germany differential standing at 110 b.p., 14 b.p. below the level recorded in late May. Meanwhile, the Spain-Italy differential stood at -57 b.p., falling by 8 b.p. in comparison to 31st May. On the other hand, yields fell in Italy, Portugal and Greece, in the latter, affected by the Eurogroup agreement to unblock a new tranche of the rescue and a rating upgrade by Moody's.

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

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-30-16	May-31-17	Jul-05-17	Variation in spreads		Dec-30-16	May-31-17	Jul-05-17	Variation in spreads	
				Period	Annual				Period	Annual
	(1)	(2)	(3)	(3)-(2)	(3)-(1)	(4)	(5)	(6)	(6)-(5)	(6)-(4)
Germany	0.21	0.30	0.47	17	26					
Holland	0.35	0.52	0.66	14	31	14	22	19	-3	5
Finland	0.35	0.36	0.52	16	17	14	6	5	-1	-9
Austria	0.42	0.60	0.71	11	29	21	30	24	-6	3
France	0.68	0.73	0.81	8	13	47	43	34	-9	-13
Belgium	0.55	0.65	0.81	16	26	34	35	34	-1	0
Ireland	0.77	0.77	0.87	10	10	56	47	40	-7	-16
Spain	1.40	1.54	1.57	3	17	119	124	110	-14	-9
Italy	1.82	2.19	2.14	-5	32	161	189	167	-22	6
Portugal	3.78	3.07	2.96	-11	-82	357	277	249	-28	-108
Greece	7.11	6.09	5.35	-74	-176	690	579	488	-91	-202

Source: Financial Times.

The stock indices show mixed results

In the stock markets, the main indices on both sides of the Atlantic recorded mixed results during the first weeks of June, in a context of volatility resulting from the geopolitical uncertainty, the continuation of an accommodative monetary policy by the ECB and the uncertainty regarding the situation of the banking sector in Italy. However, during the second half of the month, indices

T 2. International stock exchange

Countries	Index	Level Jul-05-17	% Variation May-31-17	% Variation Dec-30-16
Germany	DAX	12,453.68	-1.3	8.5
France	CAC 40	5,180.10	-2.0	6.5
Italy	FTSE MIB	20,939.39	1.0	8.9
Spain	IBEX 35	10,523.60	-3.3	12.5
Eurozone	EUROSTOXX 50	3,478.41	-2.1	5.7
United Kingdom	FTSE 100	7,367.60	-2.0	3.1
United States	S&P 500	2,432.54	0.9	8.7
Japan	NIKKEI 225	20,081.63	2.2	5.1
China	SHANGHAI COMP	3,207.13	2.9	3.3
Mexico	IPC	50,300.81	3.1	10.2
Brazil	BOVESPA	63,154.17	0.7	4.9
Argentina	MERVAL	22,415.77	0.3	32.5

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

fell sharply, affected by the expectations of a normalization of the monetary policy and the fall in oil prices. In Europe, the Eurostoxx 50 index decreased by 2.1% in the period between 31st May and 5th July. In Spain, the IBEX 35 fell by 3.3% during that period, reaching 10,523.60 points. On the other hand, in Italy, the FTSE MIB rose by 1% during the period, driven by the banking sector. In the US market, the S&P 500 index increased by 0.9% in a context of volatility due to uncertainty surrounding future economic policy and monetary normalization decisions.

The euro appreciates against the dollar

With respect to the currency market, the expectations of the monetary policy tightening by the ECB boosted the euro exchange rate against the dollar in June. Thus, in the period between late May and early July, the euro appreciated by 1% against the dollar, 3.4% against the yen and 0.4% against the pound, trading at the end of the 5th July session at 1.1329 dollars, 128.64 yen and 0.8774 pounds. In the same period, the euro appreciated by 0.8% in nominal effective exchange rate terms vis-à-vis the group of industrialised countries.

The M3 broad monetary aggregate accelerates slightly in May...

The y-o-y growth rate of the M3 broad aggregate reached 5% in May, versus the 4.9% recorded in April. This evolution was due to the acceleration of marketable instruments (3.1%, compared to the 1.7% recorded in the previous month), and overnight deposits (one tenth, to 10.3%), which more than offset the higher fall registered by other short-term deposits (-2.9%, compared to the -2.8% recorded in April) and the slowdown of currency in circulation (three tenths, down to 3.9%).

T 3. Eurozone monetary aggregates

Monetary aggregates	May 2017 Balance (Billion €)	% Year-on-year variation		
		March 2017	April 2017	May 2017
1. Currency in circulation	1,092	3.7	4.2	3.9
2. Overnight deposits	6,384	10.1	10.2	10.3
M1 (= 1 + 2)	**7,476**	**9.1**	**9.3**	**9.3**
3. Other short-term deposits (= 3.1. + 3.2.)	3,456	-2.5	-2.8	-2.9
3.1. Term deposits up to two years	1,268	-7.4	-8.6	-8.7
3.2. Deposits redeemable at notice up to three months	2,188	0.8	0.9	0.8
M2 (= M1 + 3)	**10,932**	**5.1**	**5.1**	**5.1**
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	676	9.0	1.7	3.1
4.1. Repurchase agreements	73	-14.4	-16.9	-16.3
4.2. Money market funds shares/units	511	13.9	8.6	7.7
4.3. Securities other than shares up to two years	91	6.0	-15.3	-1.8
M3 (= M2 + 4)	**11,608**	**5.3**	**4.9**	**5.0**

Source: European Central Bank.

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

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, accelerated one tenth in May, up to 3% y-o-y. This evolution is due to the acceleration of securities other than shares (8.1%, in comparison to the 7.8% recorded in the previous month) while the loans growth remained unchanged in comparison to the previous month (2.2%) and shares and other equity slowed down one tenth, down to 4.3% .Within loans, those received by households increased by 2.7%, one tenth more in comparison to the previous month, and those received by non-financial corporations maintained their growth at 1.6%.

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

	May 2017 Balance (Billion €)	% Year-on-year variation		
		March 2017	April 2017	May 2017
Credit to the private sector	**12,981**	**3.2**	**2.9**	**3.0**
Loans	**10,747**	**2.4**	**2.2**	**2.2**
Households	**5,475**	**2.5**	**2.6**	**2.7**
House purchases	*4,097*	*2.9*	*3.0*	*2.9*
Consumer credit	*637*	*4.4*	*4.7*	*6.2*
Other lending	*741*	*-1.1*	*-1.1*	*-1.0*
Non-financial corporations	**4,341**	**1.7**	**1.6**	**1.6**
Insurance companies & pension funds	**111**	**3.6**	**1.5**	**0.3**
Other financial intermediaries	**821**	**5.2**	**2.8**	**2.4**
Securities other than shares	**1,439**	**8.4**	**7.8**	**8.1**
Shares and other equities	**794**	**4.4**	**4.4**	**4.3**

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

The stock of financing to the private sector in Spain moderates the growth rate in May

The stock of financing to the private non-financial sector rose by 0.6% y-o-y in May, one tenth less in comparison to the figure registered in the previous month. Financing received by firms rose by 2%, one tenth less than in April, due to the slowdown of securities other than shares (14.3%, versus the 17.7% registered in the previous month), while bank loans accelerated three tenths, up to 0.6% and foreign loans maintained the growth rate at 1.1%. On the other hand, financing received by households recorded a y-o-y rate of -1.2%, identical to the figure registered in the previous month, since both loans for housing and other bank loans recorded the same rate as in April (-2.8% and 4.3%, respectively).

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

	May 2017 Balance (Billion €)	% Year-on-year variation		
		March 2017	April 2017	May 2017
Non-financial corporations and Households	**1,622**	**0.8**	**0.7**	**0.6**
Non-financial corporations	**914**	**2.2**	**2.1**	**2.0**
Bank loans	*526*	*0.5*	*0.3*	*0.6*
Securities(1)	*96*	*19.9*	*17.7*	*14.3*
External loans	*292*	*0.6*	*1.1*	*1.1*
Households	**707**	**-1.1**	**-1.2**	**-1.2**
Bank loans. Housing	*537*	*-2.7*	*-2.8*	*-2.8*
Bank loans. Other	*170*	*4.5*	*4.3*	*4.3*
General Government	**-**	**2.9**	**3.4**	**-**
Total financing	**-**	**1.6**	**1.7**	**-**

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

New loan and credit operations to households decline and those to SMEs rise

The amount of new loan and credit operations to households, in cumulative terms for the last twelve months, decreased by 1.6% y-o-y in May 2017, in comparison to the 0.1% fall registered in the previous month. This evolution is due to the larger decrease of loans for housing (-10.3%, in comparison to the -7.8% registered in the previous month) and the slowdown in loans for consumption (20.1%, versus the 21.9% registered in the previous month), partially offset by the lower decrease in credits for other purposes (-8.6%, in comparison to the -8.9% 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 May this year, by 3.3% y-o-y, 0.7 points more than in the previous month. On the other hand, the amount of new loan and credit operations exceeding one million euros declined by 24.9% y-o-y, a drop 2.3 points lower than in April.

Spanish economy

Domestic Demand and Production

The Bank of Spain forecasts an acceleration of the Spanish economy in the second quarter, up to 0.9% q-o-q

The Bank of Spain (BoS) published the Macroeconomic projections for the Spanish economy for the period 2017-2019, a half-yearly contribution of the institution to the joint Eurosystem macroeconomic projection exercise that allows obtaining the projections for the Eurozone. Thus, the BoS revised upwards its real GDP growth forecast for 2017, compared to the figure published in April, three tenths, up to 3.1%, confirming the soundness on which the current expansionary phase is based on. For 2018 and 2019, the BoS foresees a slowdown, with rates standing at 2.5% and 2.2%, respectively, two and one tenth higher in comparison to those of previous forecasts.

Moreover, in its June Economic Bulletin, the BoS foresees a q-o-q real GDP growth rate of 0.9% in the second quarter of 2017 for the Spanish economy, one tenth higher in comparison to the first quarter, with a domestic demand contribution of eight tenths (two tenths more than in the previous quarter) and a net external demand contribution of one tenth (0.2 points in the first quarter). On the domestic demand side, the outlook improvement for the second quarter is based on a further intensification of private consumption dynamism, supported by the continuity of the job creation process and the favourable evolution of financial conditions, as well as the greater momentum of the investment in construction, whereas the investment in equipment goods experienced a less expansionary trend. In line with the expansion of activity in this period, employment showed a y-o-y increase of 2.8%, three tenths higher than the first quarter.

Qualitative indicators of global activity point towards an extension of the dynamism in the second quarter of the year

Available qualitative indicators point to a greater pace of progress of the activity in the months elapsed in the second quarter. Amongst them, the behaviour of the *Economic Sentiment Indicator* (ISE, by its Spanish abbreviation) of the European Commission stands out, as it rose half a point in June versus the previous month, reaching 108.9 (average 1990-2016 = 100). The ISE was driven by the growth in retail trade confidence (3.7 points), construction confidence (2.8 points) and industry confidence (1.7 points) in comparison to the confidence decline in services (by 1.7 points) and consumer confidence (0.5 points). The second quarter of the year ended with an average ISE value of 108.4 points, seven tenths higher when compared to the previous quarter. Likewise, the *Global Activity Composite PMI* for Spain registered a level of 57.7 in June, half a point higher in comparison to the figure recorded in May and 1.4 points higher in comparison to the figure registered in the Eurozone (56.3). The second quarter of the year ended with an average level of 57.4 (56.6 in the Eurozone), 1.2 points higher versus the first quarter.

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, fell one tenth in May 2017 in comparison to the previous month, reaching 99.8, slightly below its long term average (100 = long term average). This indicator is slightly below the one corresponding to the OECD countries as a whole (100) and the Eurozone (100.4).

The Spanish economy records net lending vis a vis the rest of the world in the first quarter of the year

According to the Quarterly Non-Financial Accounts for the Institutional Sectors (QNFAIS) for the first quarter of 2017 published on 30th June by the INE, the Spanish economy showed net lending vis a vis the rest of the world, amounting to € 1.5 billion (0.5% of quarterly GDP), compared to the net borrowing of € 422 million registered in the same period of 2016 (0.2% of GDP). This improvement of the external balance is explained by the lower deficit of the income and current transfers balance (€ 2.2 billion, compared to the deficit of € 4.6 billion recorded a year earlier), as well as by the improvement in the balance of the capital transfers (€ 443 million in the first quarter, compared to the € -45 million registered in the same period of 2016), partially offset by the decrease in the surplus of the foreign trade balance in goods and services (€ 3.3 billion, compared to the € 4.2 billion recorded a year earlier).

By institutional sectors, the net lending of the Spanish economy in the first quarter of 2017, versus the net borrowing recorded in the same period of the previous year, was due to the y-o-y increase of the net lending of non-financial corporations (from 4.4% of quarterly GDP in the first quarter of 2016 up to 5.7% in the same period of 2017) and financial institutions (from 1.4% of GDP, up to 2% of GDP), as well as to the reduction of the General Government deficit, from 3% of quarterly GDP in the first quarter of 2016 down to 1.6% in the same period of 2017, partially offset by the higher net borrowing of households and non-profit institutions serving households (5.5% of GDP, compared to 3.1% registered in the first quarter of 2016).

Private consumption indicators intensify the expansionary trend

Amongst the GDP components on the demand side and, in particular, with regard to private consumption, the signals from available indicators point to an intensification of the expansionary trend in the second quarter of 2017.

Among the qualitative indicators, the *Consumer Confidence Indicator* (CCI) published by the CIS increased almost half a point in June compared to the previous month, reaching 105.8, above the 100 threshold (indicative of a positive perception of consumers) for the third consecutive month. The CCI improvement was due to a more favourable assessment of the current situation component, which recorded a 2-point advance, up to 100.6, partially offset by the 1.1-point drop recorded in the expectation component, to 111. However, the *Consumer Confidence Indicator* published by the European Commission fell half a point in June, down to 1.4. In the second quarter of 2017, both the Commission's and CIS's consumer confidence indicators increased, recording average values of 1.5 and 106, respectively, versus the -2.8 and 97.7 recorded in the first quarter.

The favourable evolution of private consumption was also reflected in the quantitative indicators, such as *retail sales* which, with work calendar and price adjusted data, accelerated by 1.2 points in May, recording a y-o-y rate of 2.9%, as a result of the higher increase rate of the food component (3.1% y-o-y, two points higher when compared to the previous month) and the non-food component, which increased from 2.4% y-o-y in April up to 3.2% in May. In the same vein, *domestic availability of consumer goods* recorded a y-o-y growth of 0.7% in the second quarter of 2017 (with data observed up to April), following the 2% decline recorded in the previous quarter, mainly due to the slowdown in exports (0.1%, compared to the 5.3% recorded in the previous quarter), partially offset by a 1.4% drop in domestic production after the null variation observed in the first quarter of 2017, and the slower pace of increase of imports (1.2%, compared to the 5% registered in the previous quarter).

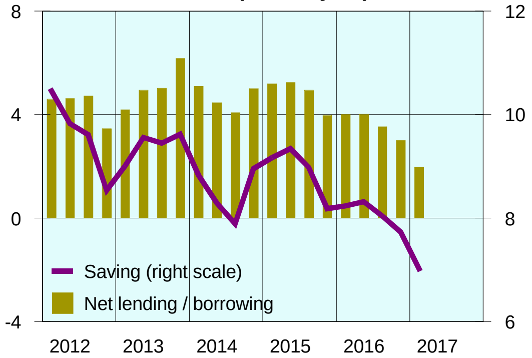
On the other hand, *domestic sales of consumer goods and services*, with deflated, fixed-sample and calendar adjusted data, grew by 3% in May, compared to the 4.1% recorded in the previous month, and according to the figures provided by ANFAC (Spanish Association of Vehicles Manufacturers), *passenger car registrations*, ended the second quarter with a y-o-y increase of 6.5%, 1.4 points lower versus the first quarter (7.9%). However, the downward bias of April data should be pointed out, due to the different timing of the Easter Holidays, which in 2016 was held in March, and in 2017 in April.

The savings rate of households falls in the first quarter of 2017

The private consumption dynamism is based on the favourable employment evolution, considering the figures of Social Security covered workers, which accelerated in the second quarter, as well as on the confidence improvement and the favourable financial conditions. According to the QNFAIS, in the first quarter, the *Gross Disposable Income* (GDI) of Households and Non-profit Institutions Serving Households (NPISHs) registered a 1.9% y-o-y variation. This GDI evolution was due to the wage income growth (3%), the non-wage income growth (2%) and to the rise in net current transfers received (1.9%), which more than offset the increase in current taxes on income and wealth (4.6%) and current transfers paid (3.7%)

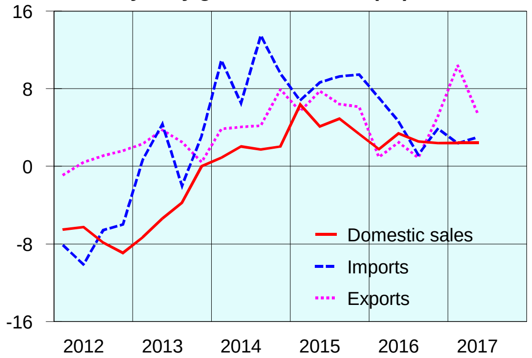
As a result of a more moderate GDI increase in household consumption than in final consumption expenditure (4.9% y-o-y), the sector's gross negative savings rose from € 826 million in the first quarter of 2016 up to € 5.6 billion in the same quarter of 2017. The gross saving rate of households and NPISHs stood at -3.4% of GDI, almost three points below the one recorded in the same quarter of 2016 (-0.5%). The savings rate of the sector, calculated as the moving average for four quarters, reached 7% of the GDI, seven tenths lower than in the previous quarter.

G 2. HOUSEHOLD SECTOR
% GDI (mobile year)



Source: INE.

G 3. LARGE FIRMS: SALES AND FOREIGN TRADE
y-on-y growth rate in % (ca)



Source: AEAT.

The sector negative savings, together with investment (€ 10 billion), partially offset by other net capital income (€ 291 million), explain a net borrowing of the households equivalent to 5.5% of quarterly GDP.

Equipment investment indicators show mixed signals

The available short-term information on equipment investment shows mixed results in the second quarter. Thus, according to figures provided by the DGT, *truck registrations* rose in May, 10.5% y-o-y, versus the 8.2% fall, accumulating a growth of 9.3% in the period from January to May 2017 (5.8% in the same period of 2016). On the other hand, *domestic sales of equipment and software in large companies*, with deflated, fixed-sample and calendar adjusted data recorded a 3.8% growth in May, following the 1.9% drop registered in April.

On the other hand, according to the Business Tendency Survey, the *Industry Climate Indicator* for investment goods moderated its balance 1.2 points in June, to 2.4 points. This evolution is attributed to the orders portfolio and production expectations. Thus, the second quarter ended with a balance of 1.4 points, 0.6 points lower than in the previous quarter. Likewise, the *domestic availability of equipment goods* indicator slowed down four tenths in the second quarter of 2017, down to 1%, as a result of the 0.4% decline in imports, following the 3.1% increase registered in the previous quarter, partially offset by the 1.1 points acceleration of domestic production, up to 2.7% y-o-y, and by the slower pace of increase of exports (5.5%, compared to the 8.2% recorded in the previous quarter).

Non-financial corporations increase their net lending in the first quarter of 2017...

According to the QNFAIS data, non-financial corporations showed a net lending position equal to 5.7% of quarterly GDP, 1.3 points higher than that registered a year earlier. This increase is due to a rise in business investment (4% y-o-y) lower than that in the GDI of the sector (11%). In turn, the increase in the latter item was due to the rise of the gross operating surplus (6.7%) and to the fall in net property income paid (18.5%), partially offset by the rise in net current transfers paid (15.6%) and the increase of the corporate tax (4.8%). The rise of the gross value added of companies (5%) contributed to the gross operating surplus increase, while the net taxes of subsidies on production and compensation of employees rose (7.8% and 3.8%, respectively). 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 € 15.7 billion in the first quarter of 2017, € 4 billion higher than in the same period of 2016.

…and the Central Balance Sheet results show a moderation in the pace of progress of their productive activity

According to the Quarterly Central Balance Sheet data published by the BoS, non-financial corporations included in the sample recorded a more moderate growth in their productive activity in the first quarter of 2017, the y-o-y variation of its nominal gross value added (GVA) reaching 1.1%, 5.3 points lower than in the previous quarter (6.4%). However, it should be taken into account that this result has been significantly influenced by the negative behaviour of the high number of large companies in the sample, most of them in the energy sector. Excluding these companies, the GVA registered a higher increase, of 4.6%. The activity slowdown, coupled with the more expansionary trend of staff expenses (1.7% y-o-y, compared to the 0.2% registered in the previous quarter), led to a more moderate increase in the gross operating profit (GOP), of 0.5% y-o-y, compared to the 13.5% recorded in the fourth quarter of 2016.

The lower GOP growth, together with the slightly more pronounced drop in financial expenses (-11.6%, compared to the -11% registered in the fourth quarter of 2016), explains the net ordinary result slowdown, which grew by 10.9%, almost 40 points less than in the previous quarter. The ordinary return on net assets for all the companies in the sample reached 3.2%, almost three points lower than the figure recorded in the previous quarter (6.1%). On the other hand, the ratio that measures the financial cost (financial expenses over liabilities) moderated half a point in comparison to the figure registered in the last quarter of 2016, to 2.3%, so the differential between them (which is an indicator of companies' economic incentives to invest) fell 2.4 points, reaching 0.9 percentage points.

Construction investment continues its recovery

With regard to residential investment, the available indicators point to an extension of its recovery. According to the INE Statistics based on the properties recorded in the Property Registers, *housing sales* fell by 8.6% y-o-y in April, following the strong rise registered in the previous quarter (26.9%). This result was mainly due to the decrease of new housing purchases (-21.5%, compared to the 21.2% rise registered in the previous month) and, to a lesser extent, to the 5.3% fall of used housing purchases, after the 28.3% increase recorded in March. However, it should be taken into account that this drop in housing purchases is affected by the different timing of the Easter Holidays, which in 2016 was held in March, while in 2017 it was celebrated in April. Thus, in the two month period from March to April, the total number of housing purchases increased by 8.3% y-o-y.

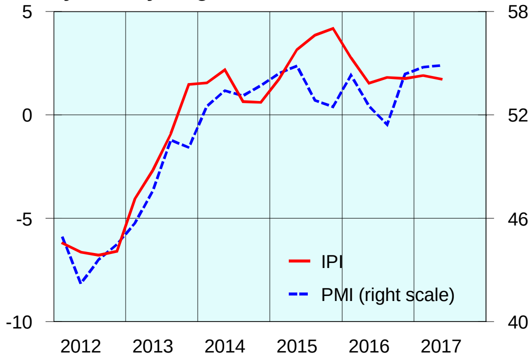
On the other hand, the *number of mortgages on housing* registered a 11.4% y-o-y decrease in April, following the 20.2% increase recorded in the previous month. The average amount per mortgaged house rose by 5.4%, which represents a moderation of one point in the rate of advance in comparison to the figure recorded in the previous month, so the capital borrowed fell by 6.6%, following the 27.9% rise registered in the previous month. With data adjusted for calendar and seasonal variations, the number of mortgages on housing rose by 2.5% m-o-m in April, five points less than in March.

Finally, in real terms, the *price of private housing*, according to the statistics of the Ministry of Public Works (according to appraisal values), registered a 0.5% y-o-y decrease in the first quarter of 2017, following the 0.5% rise recorded in the previous quarter, due to the rebound registered by the CPI during that period. On the other hand, according to the INE statistics (based on sale scripts), it grew by 2.5%, one point less than in the previous quarter, with a 2.7% increase corresponding to new housing and 2.5% to used housing (3.3% and 3.5%, respectively, in the fourth quarter of 2016).

The industrial activity continues the expansionary trend

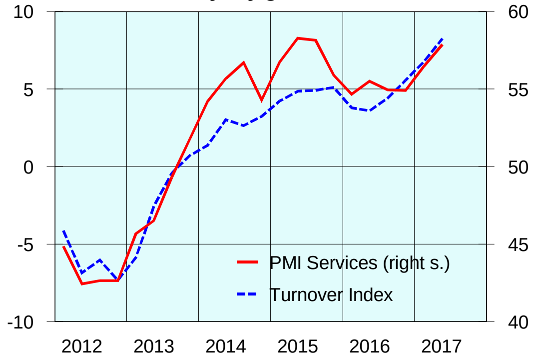
From the supply point of view, amongst the industrial activity indicators, the *Industrial Production Index* (IPI), with calendar adjusted data, accelerated by almost three points in May, reaching a y-o-y rate of 3.1%, almost three points higher when compared to the previous month (0.2%). This result was due to the 2.7% increase in equipment goods, following the 4.9% decline recorded in the previous month and, to a lesser extent, to the favourable evolution of consumer goods, which grew by 4.5%, compared to the stability observed in the previous month, as well as the lower drop rate of energy (1.9 percentage points, to 0.1% y-o-y), which more than offset the more moderate growth of intermediate goods (3.9%, compared to the 5% registered in April).

G 4. PRODUCTION AND PMI IN THE INDUSTRY
year-on-year growth rate in % and index



Sources: INE and Markit group.

G 5. SERVICES: PMI AND TURNOVER INDEX
index and y-o-y growfh rate in %



Sources: INE and Markit group.

Likewise, the *Industry Turnover Index* (ITI) adjusted for calendar effects, showed a stronger dynamism in April, as it registered a 7.6% y-o-y increase, a rate six tenths higher than that of March. This acceleration is explained by the higher growth rate of energy, which registered a 34.6% increase, more than four points higher than the previous month (30.5%), as well as by the acceleration of intermediate and consumer goods, which recorded rates of 10% and 7.2%, respectively, compared to the 7.4% and 5.6% registered in the previous month. On the other hand, equipment goods fell by 1.1%, following the 3% increase registered in March. Furthermore, the *Industry New Orders Index* (INOI), adjusted for calendar effects, extended the expansionary path in April, although its y-o-y growth (9.6%) was 1.2 points below the one registered in the previous month. This evolution was due to the slowdown of equipment goods, whose growth reached 7.2%, almost six points lower than the figure registered in March, partially offset by the more expansionary trend of energy, which rebounded until registering a rate of 34.4%, 4.2 points higher than in March, and the acceleration of intermediate and consumer goods, 2.5 and 0.7 points, respectively, to 10.9% and 6.9% y-o-y.

The most recent qualitative indicators of the industry activity have generally shown positive signs. Thus, the *Industrial Climate Indicator* (ICI), published by the Ministry of Energy, Tourism and Digital Agenda, stood in June at 2.1 points, after the 0.5 balance registered in May, due to the rise of the order portfolio of almost two points, up to 7.1, and the drop of the stocks level (6.5 points, compared to the 9.7 registered in the previous month), partially offset by the slight moderation in production expectations, by 0.3 points, to 5.8. Thus, the ICI ended the second quarter of 2017 with a balance of 0.9 points, after recording a negative balance of 0.1 points in the previous quarter. On the other hand, the *manufacturing industry PMI* for Spain reached 54.9 in the second quarter of 2017, slightly higher versus the previous month (54.8). On the other hand, the *Industrial Confidence Index* published by the European Commission fell 0.8 points in the period between April and June, mainly due to a less favourable valuation of the production forecasts, which fell by 6 points, in comparison to the previous month, down to 4.5 points.

The recovery of activity continues in the construction sector

The activity in the construction sector continues the recovery path. Thus, the *Production Index in the Construction Industry* (PICI), published by Eurostat, moderated the y-o-y decline rate by 2.8 points in April, to -1.3%, as a result of the building component evolution, whose y-o-y rate reached -1.5% compared to the -8.5% registered in March, while the civil works component slowed down by almost 19 points, reaching a y-o-y increase of 0.9%. In the first four months of

2017 as a whole, the PICI ended with an annual average variation of -3%, compared to the 2.6% increase registered in the last quarter of 2016.

With regards to the construction activity leading indicators, according to construction new permits of the Ministry of Public Works, *floorage approvals in new construction* moderated the y-o-y growth rate by 19 points in April, to 2.2%, influenced by the different timing of the Easter Holidays. This slowdown was due both to the residential component smaller increase (10.6% versus 13% in March) and to the 26.1% fall of the non-residential component, following the 63.3% rise registered in March. On the other hand, *cement apparent consumption* (domestic sales plus imports minus exports in volume) registered a 15.3% increase in May in y-o-y terms, versus the 2.3% decrease registered in the previous month. This result was due to the increase in domestic sales (15.7% y-o-y, versus the 1.4% decline registered in April) and imports (9.8%, following the 24.7% drop recorded in the previous month), as well as to the fall in exports (-5%, compared to the -1.2% recorded in the previous month).

The service sector activity continues to show a solid growth

With regards to the services sector, the *Services Sector Turnover Index* (SSTI), with work calendar adjusted data, accelerated 1.3 points in April, up to 8.2% y-o-y, which is the highest rate since June 2006. The SSTI higher dynamism is explained by the performance of its two components: trade, which grew by 8.9%, 1.5 points more than in March, and other services, which increased 7%, compared to the 5.7% recorded in the previous month.

On the other hand, amongst the qualitative indicators, the *Services PMI* reached 58.3 in June, one point higher in comparison to the figure registered in the previous month, and the highest level in almost two years. This result was almost three points above the figure reached by the Eurozone (55.4). The strong activity growth in the sector was due to the increase of consumer demand, in line with the strengthening of the economic conditions, which resulted in a greater rate of expansion of the new orders. The second quarter of 2017 ended with an average *Services PMI* value of 57.8, 1.4 points higher than in the first quarter.

The tourism sector indicators maintain a high dynamism

The tourism sector continues to show a high dynamism. Thus, among the indicators published, the arrival of 7.9 million international *tourists* to Spain in May 2017 stands out, a figure 11.7% higher than the one recorded a year earlier. According to the Survey of Tourist Movements on Border, this figure represents a slowdown of 4.3 points in comparison to that registered in the previous. On the other hand, the *total expenditure by tourists* who visited Spain in May was 13.3% higher than in the same month of 2016 (19.7% y-o-y in April). The expenditure growth has been greater than that of tourist arrivals (11.7%), which resulted in a y-o-y increase in the average expenditure per tourist of 1.5%, 1.7 points less versus the previous month. In this case, the possible upward bias of the data of April due to the different timing of the Easter Holidays should be noted.

Similarly, *overnight stays in hotels* registered a y-o-y variation of 3.8% y-o-y in May, following the 19.3% increase recorded in the previous month. The slower pace of increase was mainly due to domestic overnight stays, which grew by 0.6% y-o-y, following the 33.7% recorded in April and, to a lesser extent, foreign overnight stays, which went from recording a 11.7% in April to falling down to 5.1% in May. This trend is also observed in *air passenger traffic*, which registered a y-o-y growth of 7.5% in May, which represents a slowdown of 9.5 points compared to the previous month (17% in April), due both to the evolution in domestic traffic, which increased by 5.8%, 7.2 points less than in April, and international traffic, which increased by 8.1%, compared to the 18.7% recorded in the previous month.

Prices

Inflation fell by seven tenths in May, down to 1.9%

The Consumer Price Index (CPI) rose by 1.9% in May 2017, a rate seven tenths lower than in the previous month and matching the flash estimate issued by the INE. The lower inflation in May is mainly due to the moderation of the growth rate for fuels and lubricants prices, as well as to the slowdown of tourist packages prices, after the rebound experienced in April because the calendar effect associated with the Easter Holidays, which this year were held in April, unlike last year, when they were fully celebrated in March.

Energy products prices increase by 8.3% y-o-y

Energy products prices rose by 8.3% y-o-y in May, 3.7 points less than in April. This evolution is due to the slowdown of fuels and lubricants prices (which fell from 11.5% y-o-y in April down to 4.9% in May). On the other hand, gas prices accelerated 1.7 points, up to 8.3%, and the y-o-y rate of electricity prices remained unchanged at 16.2%.

Non-processed food inflation stood at 2.8%, six tenths below the figure recorded in the previous month, with the evolution of fresh vegetables and legumes prices standing out, as they slowed down 3.8 points, down to 3.3% and, to a lesser extent, of fresh fruits prices, which fell from 5% in April down to 3.2% in May.

Core inflation falls by two tenths, down to 1%

Core inflation, which excludes the most volatile elements from the CPI (non-processed food and energy), fell by two tenths in May, down to 1%, due to the slowdown in services prices and, to a lesser extent, in non-energy industrial goods prices, partially offset by the higher growth rate of processed food prices.

Services slowed down by four tenths, down to 1.7%, as a result of the evolution of tourist packages, whose prices went from growing by 20.9% in April to 7.9% in May. This behaviour has been influenced by the calendar effect of the Easter Holidays.

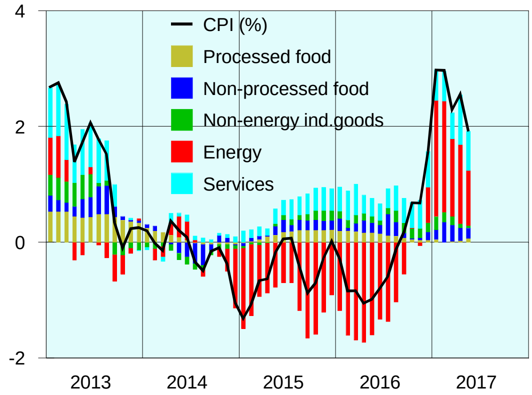
On the other hand, non-energy industrial goods prices slowed down by two tenths, to 0.1%, with the performance of clothing and footwear prices standing out, as they went from 0.3% in April down to 0.1% in May.

Lastly, prices of processed food, beverages and tobacco rose by 0.4% in May, two tenths more than in April. The behaviour of oils and fats should be mentioned, as they went from growing by 0.5% in April to 2.3% in May. In food as a whole, prices grew by 1.2% y-o-y, as in the previous month, due to the fact that the two tenths acceleration of processed food offset the six tenths slowdown of non-processed food.

According to the CPI flash estimate, inflation falls by four tenths in June, down to 1.5%

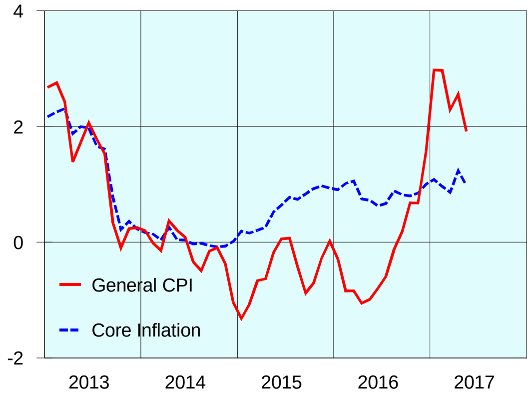
According to the flash estimate published by the INE, the y-o-y rate of the national CPI stood at 1.5% in June 2017, four tenths lower in comparison to May. According to the INE, it is worth noting the fall in fuel prices (diesel and petrol), compared to the rise they experienced in the same month of last year, and also the performance of electricity prices, which rose less this month than in June 2016.

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.

The harmonised inflation, estimated by the Spanish HICP flash estimate, stood at 1.6% y-o-y in June, a rate four tenths lower than the one registered in May. On the other hand, the advance of the Eurozone's HICP flash estimate, published by the Eurostat, recorded a y-o-y variation of 1.3%, one tenth lower compared to May, resulting in an inflation differential for Spain with respect to the Eurozone of three tenths, half that of last May.

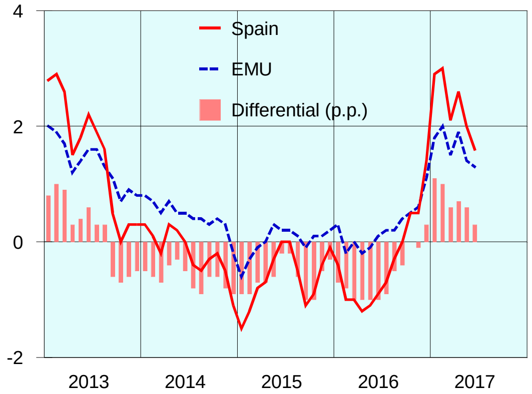
The PPI slows down by seven tenths in May, down to 5.3% y-o-y

The Producer Price Index (PPI) registered a 0.1% variation in May 2017 compared to the previous month, versus the 0.8% registered in the same month of 2016. In y-o-y terms, the PPI variation rate stood at 5.3%, seven tenths lower than that registered in April. This slowdown was due to the lower growth in energy prices and, to a lesser extent, in production prices of intermediate and durable consumer goods, partially offset by the acceleration of prices of non-durable consumer goods. On the other hand, equipment goods prices maintained their growth rate unchanged.

Energy production prices rose by 13.2% y-o-y in May, 2.8 points less than in April. According to the NACE classification, within the energy component, coke and oil refining stand out, as their prices slowed down by 12 points, falling from 26.1% y-o-y in April down to 14.1% in May.

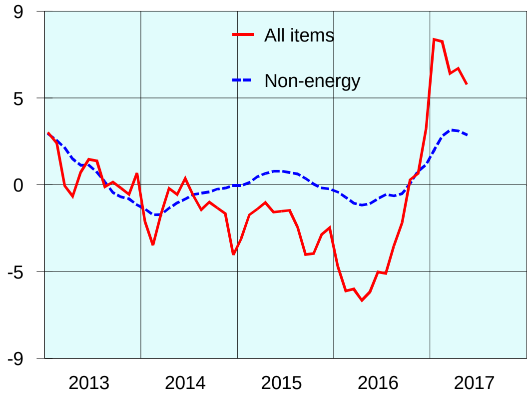
The non-energy PPI moderated its y-o-y growth rate in May by two tenths, to 2.6%, with different behaviours among its components. Intermediate goods prices grew by 3.4%, seven tenths less than in the previous month. In turn, this evolution was influenced by metallurgy prices, which grew by 14.9%, 4.5 points less than in April and, to a lesser extent, by the chemical industry prices, which increased by 3.9%, a rate 1.6 points lower than in the previous month.

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



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

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



Source: INE.

Consumer goods rose by 2.6% in May, two tenths more than in April. By components, this increase in the pace of growth is explained by the evolution of non-durable consumer goods prices, which accelerated by four tenths, up to 2.9%. Durable consumer goods rose by 0.1%, three tenths less than in the previous month. Among non-durable consumer goods, olive oil production prices stood out, as they rose by 29.9% y-o-y, 8.7 points more than in the previous month. Consumer prices of food, beverages and tobacco, as a whole, increased by 3.6% (3.2% in April). Finally, equipment goods prices maintained their growth rate at 1% y-o-y.

Labour Market

The labour market dynamism continued in June this year, considering the evolution of the Social Security covered workers, which increased by 3.8% y-o-y, a rate slightly lower in comparison to the previous month. By activity branches, this evolution is mainly explained by the slowdown of employment in agriculture, with the Social Security covered workers growth, excluding agriculture, remaining at 3.9% for the third consecutive month. On the other hand, registered unemployment decreased by 10.7% y-o-y, the number of unemployed reaching similar levels to those registered in January 2009.

With regard to costs, the wage cost per worker and month fell by 0.2% y-o-y in the first quarter of 2017, in comparison to the null variation registered in the same period of the previous year, according to the Labour Costs Quarterly Survey.

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

The average number of Social Security covered workers rose by 87,692 people in June 2017 compared to the previous month, reaching 18,433,107.

By branches of activity, the number of Social Security covered workers rose in June versus May in all non-agricultural sectors, with 86,517 covered workers more in services, 17,520 in industry and 11,725 in construction, whilst agriculture registered 28,070 less covered workers. By NACE activity sections, with gross data and for the General (excluding Agrarian and Domestic Workers Special Systems) and Self-employed Regimes, it is worth noting the m-o-m increase in hotel business, with 38,812 Social Security covered workers more, and in wholesale and retail trade, motor vehicles and motorcycles repair, with 32,431 more. On the other hand, it should be highlighted the reduction of 52,766 Social Security covered workers in education, very similar to the one registered a year earlier (52,713 in the same month of 2016).

With seasonally adjusted data, Social Security covered workers increased by 53,690 people in June, 0.3% m-o-m (60,815 in May, also 0.3%), linking more than three years and a half of positive m-o-m rates (since December 2013).

In y-o-y terms, 672,835 Social Security covered workers more were registered in June, 3.8%, a rate one tenth lower than that recorded in May. By activity branches, the growth rate remained at 3.8% in services for the third consecutive month, while Social Security covered workers slowed down in the other branches: by one tenth in industry, to 3.1%; by three tenths in construction, to 6%; and by 1.3 points in agriculture, down to 2.3%. Social Security covered workers excluding agriculture increased by 3.9% for the third consecutive month.

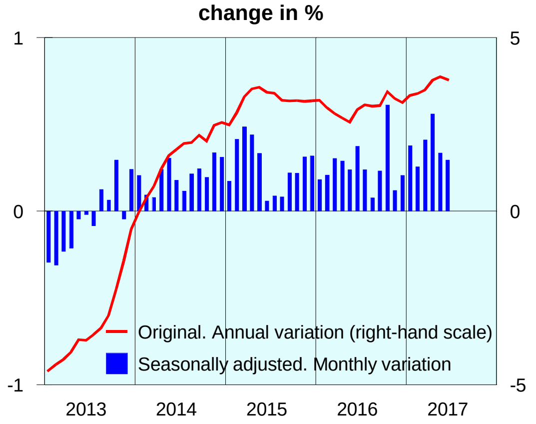
By NACE activity sections, with gross data and for the General (excluding Agrarian and Domestic Workers Special Systems) and Self-employed Regimes it is worth highlighting, within the non-agricultural sections, the hotel business, whose variation rate decreased by three tenths, down to 5.8% y-o-y, and construction, which went from rising by 6.3% in May to 6% in June. On the other hand, Social Security covered workers in administrative and auxiliary services activities accelerated by one tenth, up to 5.5%, and it rose by 3.5% in health and social services activities, a rate also one tenth higher than in May.

According to the professional situation, both the wage-earner and self-employed y-o-y growth rates fell by one tenth, down to 4.4% and 0.9%, respectively.

In the General Regime and for the total of 12.9 million covered workers whose type of contract is specified in the statistics, 50.9% of the y-o-y job creation in June was permanent and 49.1% temporary, with a y-o-y increase of 3.8% for the former, one tenth less in comparison to the figure recorded in May, and of 7.4% for the latter, the same figure as in the previous month.

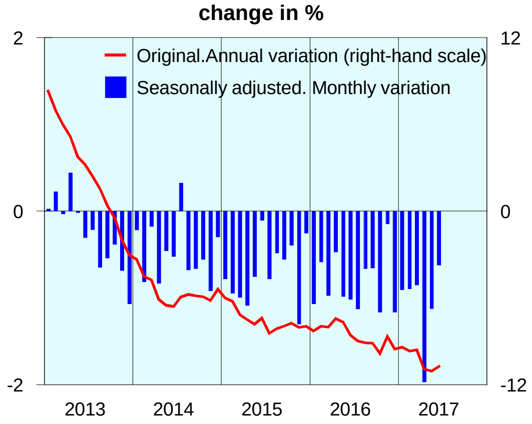
In the second quarter of 2017 as a whole, the annual variation rate of Social Security covered workers was of 3.8%, four tenths higher than the one registered in the first quarter.

G 10. SOCIAL SECURITY-COVERED WORKERS
change in %



Source: MESS.

G 11. REGISTERED UNEMPLOYMENT
change in %



Source: MESS.

Registered unemployment falls in June by 10.7% y-o-y

Registered unemployment fell by 98,317 people in June compared to the previous month (-124,349 in the same period of last year). As a result, the total number of registered unemployed stood at 3,362,811.

By activity branches, and with unadjusted data, registered unemployment fell in all non-agricultural branches in comparison to the previous month: in services (by 75,101 people), in construction (by 10,168) and in industry (by 10,048). Agriculture recorded 7,249 unemployed more. In the group without a previous employment, unemployment fell by 10,249 people in June.

With seasonally adjusted data, registered unemployment fell by 21,668 people in June, a decrease equivalent to a -0.6% m-o-m (-1.1% in May).

In y-o-y terms, unemployment dropped by 404,243 people in June, equal to a 10.7% fall, four tenths lower than in the previous month.

By branches, the registered unemployment y-o-y pace of decline moderated in all of them in June: by 3.7 points in agriculture, up to -10.5%; by one tenth in services, to -9.1%; by half a point in industry, to -13.2%; and by three tenths in construction, up to -19.4%.

It should be noted that youth unemployment (people below 25 years old) fell by 49,481 people in the last year, that represents a 16.5% y-o-y drop (-17.5% in May).

In the second quarter of 2017 as a whole, registered unemployment q-o-q variation rate stood at -10.9%, a sharper pace of decline, by 1.3 points, than in the first quarter.

The wage cost per worker and month fell by 0.2% y-o-y in the first quarter of 2017

According to the Quarterly Labour Cost Survey, in the first quarter of 2017 the average labour cost per worker and month stood at € 2,482, a figure equal to the one registered in the same quarter of 2016.

The labour cost stabilisation in year-on-year terms, following the 0.8% fall in the previous quarter, was due to the evolution of its two components: wage and other costs.

Total wage cost fell by 0.2% y-o-y in the first quarter, down to € 1.829 (73.7% of total labour cost), a fall six tenths lower compared to the previous quarter. In turn, the evolution of total wage cost is explained by the evolution of both ordinary wages (89.4% of total wage cost), which stabilised, after falling by 0.3% in the previous quarter, and extraordinary wage cost, which moderated its fall by 1.7 points, to 1.3%. On the other hand, payment of arrears fell by 4.7%, compared to the 1.1% increase recorded in the previous quarter.

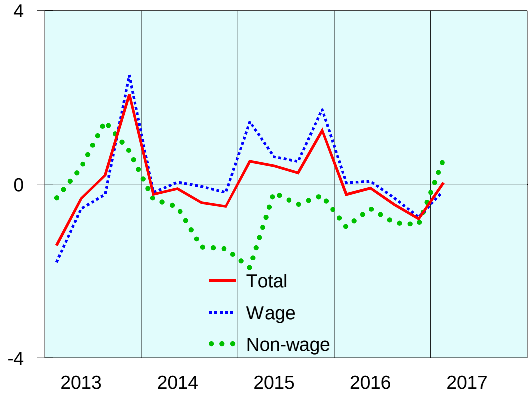
In q-o-q terms and with calendar and seasonally adjusted data, both the labour cost and its two components, wage costs and others costs stabilised, following the slight decrease of the previous quarter.

From a sectorial point of view, labour costs rose by 0.9% y-o-y in industry (0.6% in the previous quarter), while it decreased by 1.3% in construction (-1.4% in the fourth quarter of 2016) and by 0.1% in services (-1% in the previous quarter). With regards to the wage cost, it rose by

0.8% in industry (0.5% in the fourth quarter of 2016), while it fell by 1% in construction (-1.6% in the previous quarter) and by 0.3% in services (-0.9% in the previous quarter).

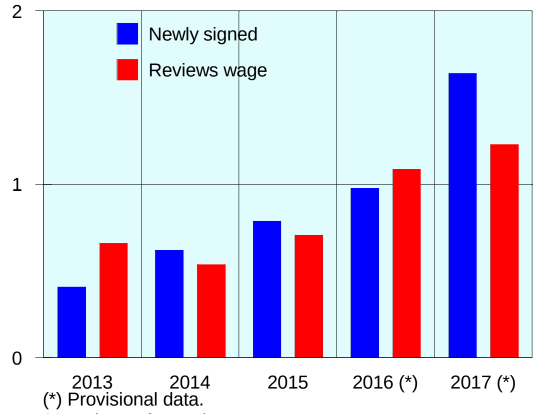
On the other hand, the labour cost per effective worked hour increased by 0.1% q-o-q, with seasonally and calendar adjusted data, in comparison to the 0.1% fall registered in the previous quarter and the wage cost per hour stabilised, following the 0.1% fall registered in the fourth quarter of 2016.

G 12. LABOUR COSTS
year-on-year in %



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

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



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

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

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

The salary increase in 2016, after including the revisions by wage guarantee clauses, reached 1%, the same as the one initially agreed. These figures are provisional, as long as the statistics continue to include agreements which take effect in 2016.

External sector

The Spanish economy generates net lending to the rest of the world

According to the Balance of Payments data, in April 2017, the Spanish economy generated net lending to the rest of the world amounting to € 633 million, a figure lower than the one registered in the same month of 2016 (€ 2.6 billion). This decrease is due to the fall of the current account balance, partially offset by the slight increase in the capital account surplus.

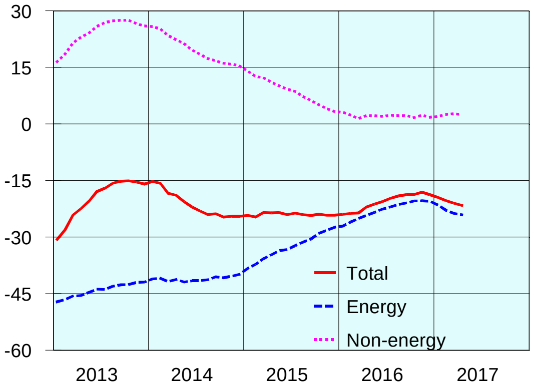
The current account balance recorded a € 448 million surplus in April, versus the surplus of € 2.5 billion registered in the same month of 2016, as a result of a 21.7% y-o-y reduction of the goods and services surplus and to the increase of € 1.3 billion of the deficit of primary and secondary income. On the other hand, the surplus in the capital account ended at € 185 million, versus the surplus of € 154 million of April last year.

The trade deficit rises in April

According to Customs data, the trade balance recorded a deficit of € 1.2 billion in April this year, compared to a deficit of € 637 million registered a year earlier. The trade deficit rise was due to the deficit increase of the energy component, which rose by 23% and, to a lesser extent, to the non-energy component, whose surplus fell by 16.4%.

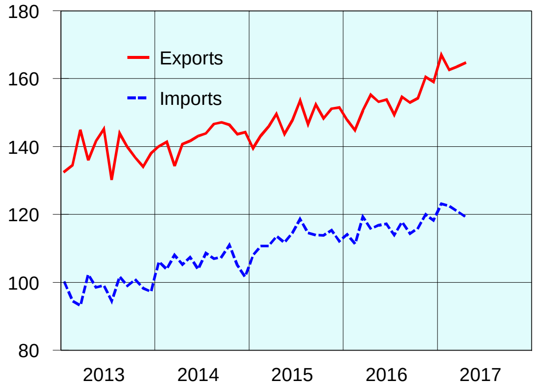
In cumulative terms for the last twelve months up to April 2017, the trade balance recorded a deficit of € 21.6 billion, compared with the € 22 billion deficit registered a year earlier. This 1.8% improvement in the external balance is due to the reduction of the 0.6% energy component deficit and to the increase in the non-energy surplus, of 12%.

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.

Real exports and imports of goods decline in April due to the calendar effect of the Easter Holidays

According to Customs figures, goods exports decreased in April by 2% y-o-y, and their prices, approximated by unit value indices, increased by 0.7% (1.5% in March), resulting in an 2.7% fall in real terms, after the 15.2% growth registered in the previous month, although these rates are affected by the calendar effect of the Easter Holidays, which in 2016 was celebrated in March and in 2017 in April. The analysis by product groups in real terms and in y-o-y terms, shows generalised falls in April, except for exports of intermediate energy goods, which virtually doubled. Exports of food consumer goods fell by 6.5% (they grew by 10% in March), non-food consumer exports declined by 14.4% (they increased by 16.6% in the previous month), capital goods exports fell by 1.6% (they grew by 24.3% in the previous month) and non-energy intermediate goods exports decreased by 0.3% (they increased by 13.7% in March).

By geographical areas, exports in volume to the European Union decreased by 4% in April, in comparison to the 12.2% increase registered in March, and exports outside the Union decreased by 0.3%, following the 21.1% increase recorded in the previous month.

Goods imports increased by 0.5% y-o-y in nominal terms in April, and their prices rose by 5.1% (11.4% in March). These price changes were due to the 17.4% rise in energy goods prices and in other products (3.7%). As a result, imports in real terms, experienced a y-o-y decrease of 4.4%, following the 6.9% rise registered in the previous month. The analysis by products of imports in real terms and in y-o-y rates reflects falls in imports of food and non-food consumer goods, of 6.8% and 9.2% and in imports of non-energy intermediate goods, of 8.9% following the rises of 11.3%, 2.4% and 6.2% of the previous month, respectively. On the other hand, imports of capital goods rose by 1.5% (20.5% in the previous month) and those of energy intermediate goods accelerated by 17.4 points, up to 23.6%.

By geographical areas and in real terms, imports from the European Union fell by 10.1% y-o-y in April, following the 9.8% increase recorded in March. Real imports from the rest of the world recorded an increase of 4.1% versus the 3% rise registered in March.

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 April (0.8%) for the seventh consecutive month, due to the positive contribution of non-OECD countries, which more than offset the negative contribution of EU countries. By products, the positive contribution of capital, non-food consumer and non-energy intermediate goods stands out. The "momentum" of imports was positive in April (0.4%), for the seventh consecutive month, due to the positive contribution of EU countries and non-EU members of the OECD countries. By products, the positive contribution of capital and energy intermediate goods stands out versus the negative contribution of non-energy intermediate goods.

The financial balance generates net capital inflows in April

According to the Balance of Payments, the financial balance, excluding the Bank of Spain assets, recorded net capital inflows of € 6.3 billion in April, versus the net outflows of € 4.3 billion recorded a year earlier. This result is explained by the net inflows registered by portfolio investment (€ 4.6 billion), direct investment (€ 637 million), and other investment (€ 1.1 billion) while financial derivatives recorded net outflows of little importance (€ 11 million).

The assets net variation recorded net capital outflows (investments) of € 3.2 billion in April, versus the net inflows of € 2.6 billion registered in the same month of 2016. On the other hand, the liabilities net variation generated net inflows (investments) of € 9.6 billion, versus the net outflows of € 7 billion recorded a year earlier.

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

The net debtor position of the Bank of Spain vis-à-vis the rest of the world decreased by € 9.1 billion in April, due to the fall of € 9.6 billion registered in the net debtor position vis-à-vis the Eurosystem and to an increase of € 33 million in reserves. On the other hand, the remaining net assets fell by € 507 million.

The Net International Investment Position decreases its debtor balance in the first quarter of 2017

On the other hand, the Bank of Spain published the Net International Investment Position figures for the first quarter of 2017. This quarter ended with a debtor balance standing at € 972.7 billion (86.5% of GDP), compared with the € 1,001.2 billion (92.4% of GDP) registered in the same period of 2016.

The € 115.6 billion y-o-y reduction of the NIIP debtor balance, excluding the Bank of Spain, in the first quarter of 2017, was the result of a decrease in the net debtor position of direct investment, portfolio investment, other investment and financial derivatives.

The ratio of gross external debt to GDP fell from 170.2% (€ 1.84 trillion) in the first quarter of 2016 down to 169.9% in the first quarter of 2017 (€ 1.91 trillion).

Public Sector

On 27th June, 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 the first quarter of 2017, as well as the non-financial transactions of the Central Government, the Regional Governments and the Social Security Funds, with consolidated data, for April. Likewise, the Ministry published the State monthly budget execution data for May, both in terms of National Accounts and Cash.

In addition, the Ministry of Employment and Social Security published the monthly budget execution data of the Social Security, in terms of Cash, corresponding to May.

On the other hand, the Bank of Spain (BoS) published the General Government Debt data, following the Excessive Deficit Procedure (EDP) methodology, for the first quarter of 2017 as well as for April, and the Debt data for the State, corresponding to May.

The General Government deficit in the first quarter of 2017 stands at 0.39% of GDP

In the first quarter of 2017, the General Government recorded a deficit, in terms of National Accounts, of € 4.5 billion (0.39% of GDP), 42.5% lower compared to the figure registered in the same period of 2016 (€ 7.8 billion). This deficit decrease is explained by an increase in non-financial resources (3.6% y-o-y) higher than the one registered by non-financial uses (0.2% y-o-y).

Within the non-financial resources of the General Government, tax revenues rose by 3.9% in the first quarter compared to the same period of the previous year, mainly due to the increase of current taxes on income and wealth (4%) and taxes on production and imports (3.7%). On the other hand, social contributions rose by 5.2%.

Non-financial uses of the General Government sector increased by 0.2% y-o-y in the first quarter, with the rise of intermediate consumption (3.3%), social transfers in kind of purchased market production (2.5%) and social benefits (1.4%) standing out. On the other hand, interest fell by 10%.

The General Government consolidated deficit, excluding Local Governments, stood at 0.82% of GDP up to April

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded up to April 2017 a deficit of € 9.5 billion (0.82% of GDP), 29.4% lower in comparison to the same period of 2016 (1.21% of GDP). This deficit decrease is explained by a y-o-y increase of non-financial resources (3.8%) higher than the one recorded by non-financial uses (0.4%)

The increase in revenues was mainly due to the rise in taxes (5.6%) and social contributions (4.3%). Regarding non-financial uses, all main items rose, except interest, which fell by 8.1%, standing out the rises of intermediate consumption (1.6%), subsidies (11.7%), social contributions (1.2%) and transfers in kind (3.3%).

The budget execution of the Central Government ended the first four-month period of 2017 with a deficit of € 8.0 billion, equal to 0.69% of GDP, 0.48 points below the one recorded in the same period of 2016 (€ 13.0 billion, 1.17% of GDP). This deficit reduction, compared to the first four-month period of 2016, is due to the fall of non-financial uses (which fell by 4.2%, down to € 66.9 billion) and to the rise in non-financial resources (3.6%, up to € 58.8 billon).

The increase of resources is due to the rise of tax revenues (5.3%), and, in particular, to the current taxes on income and wealth (16.7%), due to the fact that the first instalment of the Corporate Income Tax in 2017 includes the regulatory changes of Royal Decree-Law 2/2016 and Royal Decree-Law 3/2016. On the other hand, the decrease in uses is mainly explained by the fall in interest (-9%) and the lower transfers to other administrations (-5.3%), in particular to the State Public Employment Service (known in Spanish as SEPE). The expenditure of the Central Government eligible to be included in the calculation of the expenditure benchmark decreased by 2.3% y-o-y, with an amount of € 31.7 billion in comparison to the € 32.5 billion registered in the first four-month period of 2016.

Up to April, the Regional Governments accumulated a deficit of € 3.3 billion (equivalent to 0.29% of GDP), 57.2% higher than in the same period of 2016 (€ 2.1 billion, 0.19% of GDP). This higher deficit is explained by a y-o-y decrease of non-financial resources (-0.3%) and by an increase of non-financial uses (2.1%). The decrease in resources is explained by the y-o-y drop of transfers from other General Government sub-sectors, of 3.9%. In turn, this decrease is partly explained by the lower advanced payments made by the State. The uses growth is mainly due to an increase in intermediate consumption (2.3%) and compensation of employees (1.8%), which includes in several Communities the pending amounts corresponding to the release of the bonus pay of 2012. The expenditure of the Regional Governments eligible to be included in the calculation of the expenditure benchmark increased by 2.9% y-o-y, with an amount of € 44.0 billion.

As for Social Security Funds, these ended the first four-month period of 2017 with a surplus of € 1.9 billion, equal to 0.16% of GDP, one hundredth higher than in the same period of 2016 (€ 1.7 billion, equivalent to 0.15% of GDP). This higher surplus is due to an increase of non-financial resources (1.5%) higher than the one registered by non-financial uses (1.2%). Social contributions increased by 4.7%, while transfers received from the State decreased by 12.1% and interest generated by the Social Security Reserve Fund, by 51.7%. On the other hand, the rise in uses is mainly due to the evolution of expenditure on social contributions, which increased by 1.2%, despite the fall in both unemployment benefits and in those granted by the Wage Guarantee Fund (known in Spanish as FOGASA).

The State's deficit in terms of National Accounts falls by 31.6% y-o-y up to May

Up to May 2017, the budget execution of the State ended with a deficit, in terms of National Accounts, of € 16.2 billion (1.39% of GDP), 31.6% 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 (6.3%) and a decrease registered by non-financial uses (-4.5%).

The increase in resources is mainly due to the evolution of tax revenues (7.7%), which in turn is mainly explained by the growth of the Corporate Income Tax, by 50.7%, and VAT by 5.3%. The increase in the Corporate Income Tax is due to the increase in revenues from the first instalment which reached € 5.7 billion, compared to the € 2.8 billion registered in 2016, since the one made in 2017 includes the impact of the regulatory changes of Royal Decree-Law 2/2016 and Royal Decree-Law 3/2016.

On the other hand, the decrease in uses is mainly due to the lower current transfers within General Government (-5.6%), the lower contribution to the budget of the EU based on VAT and GNI resources (-17%) and the interest fall (-5.4%), as well as to the lower compensation of employees (-5.6%).

In terms of Cash, the State recorded a deficit of € 5.8 billion up to May 2017 (0.50% of GDP), in comparison to the deficit of € 14.4 billion recorded in the same period of 2016. Non-financial revenues registered a y-o-y increase of 6.9%, reaching € 50.5 billion, while non-financial payments decreased by 8.5%, down to € 56.4 billion.

Tax revenues up to May increase by 9.1% in homogeneous terms

Total tax revenue (including the Regional and Local Governments' share) recorded a y-o-y increase of 9.5% up to May, mainly due to the increase of the first instalment of the Corporate Income Tax (made in April), the labour withholdings and the VAT collection. 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 9.1%. The remaining non-financial revenue decreased by 14.9%. Without including the Regional and Local Governments, and in non-homogeneous terms, tax revenues rose by 13.5%.

Within total taxes, revenue from Personal Income Tax, including the Regional and Local Governments' share, increased by 3.3% up to May, due on the one hand, to the rise of labour income withholdings (3%, which is explained by the rise in employment and pensions), and, on the other hand, to the rise of capital withholdings (2.3%). In homogeneous terms, after correcting the effect of tax refunds in both years and the deferrals of public entities, the increase stands at 4.3%.

Revenue from Corporate Income Tax reached € 2.2 billion up to May, versus a negative figure of € -536 million registered in the same period of the previous year, due to the increase of the first instalment of the Corporate Income Tax (made in April), responsible for the collection of € 2.9 billion more than in 2016. This increase includes the impact of the regulatory changes introduced by RDL 2/2016 and RDL 3/2016, in force since October and December 2016, respectively.

VAT revenue, including the Regional and Local Governments' share, increased by 8.2% y-o-y up to May, due to the increase of the final expenditure subject to VAT and to the change in deferrals regulations, which contributed to an additional income of € 627 million up to the end of May. In homogeneous terms, adjusted by the different tax refunds, the increase stands at 9%. 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 2.1% higher compared to the figure registered in the same period of 2016, mainly due to the increase in the Tax on Hydrocarbons (4.8%, which in homogeneous terms, corrected for the health cent refunds, stood at 2.3%), despite the reduction in Excise on Tobacco Products (-4.5%).

Non-financial expenditure decreases by 8.5% up to May

With regard to expenditure, total non-financial payments decreased by 8.5% up to May in comparison to the amount accumulated in the same period of 2016, due to the fall of its main components. In particular, it is worth mentioning the fall in interest expenditure (-12%), current transfers (-5.4%), real investments (-36.9%) and capital transfers (-16.8%).

With regard to the borrowing requirement of the State, it rose by 34.9% y-o-y up to May, reaching € 18.2 billion, versus the € 13.5 billion recorded in the same period of 2016. The rise in the net variation of financial assets contributed to this increase (€ 12.4 billion, compared to the € -844 million registered in the same period of 2016) and in particular the current account in the Bank of Spain. The borrowing requirement was mainly financed through mid and long term domestic debt (€ 22.7 billion).

The Social Security records a surplus up to May

On the other hand, up to May 2017, the Social Security System (Managing Entities, General Treasury and Mutual Insurers) recorded a surplus of € 2.8 billion in terms of Cash (0.24% of GDP), 3.7% below the figure recorded in the same period of 2016 (€ 2.9 billion). Revenues increased by 2.9% mainly due to the favourable evolution of social contributions (4.6%, up to € 44.8 billion) and of current transfers (0.6%, up to € 8.5 billion), despite the fall in other revenues. On the other hand, payments rose by 3.3%, mainly due to the increase recorded by pensions (3%, up to € 44.6 billion).

The General Government Debt-to-GDP ratio falls in the first quarter of 2017

In the first quarter of 2017, the General Government Debt-to-GDP ratio, according to the EDP methodology reached 100.4%, a percentage eight tenths lower than the one registered in same quarter of the previous year (101.2% of GDP).

By subsectors, the Central Government Debt stood at 87.8% of GDP in the first quarter of 2017, nine tenths below in comparison to the figure registered in the same period last year. On the other hand, the Regional Government EDP Debt reached 24.8% of GDP, versus the 24.5% registered in the first quarter of 2016. Local Government registered an EDP Debt equivalent to 2.8% of GDP, four tenths lower compared to the figure recorded in the same period of the previous year. Finally, the EDP Debt of the Social Security Administrations stood at 1.5% in the first quarter of 2017, compared to the 1.6% registered in the same period of 2016.

The General Government EDP Debt accelerates in April…

According to the BoS, the General Government Debt reached € 1,117.1 billion in April, 3.4% higher than in the same period of the previous year, which implies an increase of five tenths in comparison to the growth registered in March (2.9%).

By subsectors, the State EDP Debt stood at € 956.6 billion, a figure 3.7% higher in comparison to that registered a year earlier. The Debt of Other Bodies belonging to the Central Government reached € 38.4 billion, which implies a 16.0% decrease in comparison to April last year. On the other hand, the Regional Government EDP Debt reached € 281.8 billion, 6.0% higher in comparison to the figure registered in the same month of 2016. The Local Government subsector registered in April an EDP Debt equal to € 32.0 billion, 10.0% lower versus a year earlier. Finally, the EDP Debt of the Social Security subsector reached € 17.17 billion, a figure slightly lower than the one registered in April 2016 (€ 17.18 billion).

…as well as the State's in May

At the end of May, the State Debt, according to the EDP methodology, stood at € 967.8 billion, compared to the € 926.4 billion registered a year earlier, which represents a y-o-y increase of 4.5%, seven tenths higher in comparison to the increase registered in the previous month.

July 2017