QUARTERLY BULLETIN

July-August 2017

SPANISH ECONOMY REPORT

GOBIERNO DE ESPAÑA

MINISTERIO DE ECONOMÍA, INDUSTRIA Y COMPETITIVIDAD

The Spanish Economy: recent developments and prospects: July-August 2017
Elaboración y coordinación, Dirección General de Análisis Macroeconómico y Economía Internacional.
Madrid: Ministerio de Economía, Industria y Competitividad, Centro de Publicaciones, 2017
V; 26 cm.

1. España-Situación económica
I. España. Subdirección General de Análisis Coyuntural y Previsiones Económicas
II. España. Ministerio de Economía, Industria y Competitividad. Centro de Publicaciones
338.2(460)

NIPO: 057-17-059-0
e-NIPO: 057-17-060-3

DEPÓSITO LEGAL: M-8493-2014

Elaboración y coordinación: Secretaría de Estado de Economía y Apoyo a la Empresa
Dirección General de Análisis Macroeconómico y Economía Internacional
Subdirección General de Análisis Coyuntural y Previsiones Económicas
Impresión: Centro de impresión digital y diseño.
Ministerio de Economía, Industria y Competitividad.

RECENT EVOLUTION OF THE ECONOMIC INDICATORS

1. FINANCIAL MARKETS

The financial markets evolution during July and August was conditioned by the expectations regarding the monetary policy decisions of the major central banks, the difficulties to carry out the planned reforms in the United States and the increase of geopolitical tensions with North Korea, in a context of favourable business results and macroeconomic figures. As a result, the stock indices presented mixed results, 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 European Central Bank (ECB), in its meeting held on 7th September 2017, kept 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 expects the interest rates to remain at the current levels over an extended period, which will clearly exceed the horizon of net asset purchases.

In the press conference that followed the meeting and with regard to the non-conventional monetary policy measures, the Governing Council confirmed that net purchases will continue at a current 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. 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 intends to expand the volume and/or duration of this programme. Any decision in this respect will be taken in October or at the meeting to be held in December.

The Fed maintains its monetary policy unchanged

The Federal Open Market Committee (FOMC) of the Federal Reserve (Fed), in its two day meeting held on 25th and 26th July, decided to maintain the Federal Funds interest rates within the target range of 1.00%-1.25%, set in the meeting held in June. In the statement that followed the meeting, the Fed noted that the economy continues to grow moderately with a solid increase in employment, consumption and investment. In terms of inflation, it is below the 2% target, due to the decrease of energy and food prices, which could affect the pace of monetary policy normalisation. Likewise, the FOMC also indicated that the balance sheet reduction would be carried out in a "relatively swift way", but in any case it would be gradual and dependant on the economy evolving in line with the 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 2nd August, 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.

Table 1.1. **Financial and monetary indicators**

			2017					
	2015	2016	Apr.	May	Jun.	Jul.	Aug.	Sep.
A) Interest rates (percentages)[1]								
Official rates (2)								
Eurozone	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	0.50	0.75	1.00	1.00	1.25	1.25	1.25	1.25
Japan	0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euribor rates								
3 months	-0.02	-0.26	-0.33	-0.33	-0.33	-0.33	-0.33	-0.33
12 months	0.17	-0.03	-0.12	-0.13	-0.15	-0.15	-0.16	-0.16
Debt market (3)								
3 years	0.36	0.07	-0.07	-0.10	-0.20	-0.13	-0.13	-0.06
5 years	0.81	0.40	0.41	0.37	0.22	0.31	0.24	0.22
10 years	1.74	1.39	1.62	1.57	1.45	1.60	1.48	1.48
Bank rates (3)								
Loans and credit. Synthetic rate	2.94	2.67	2.70	2.56	2.45	2.57	-	-
Mortgage loans (households)	2.50	2.32	2.19	2.17	2.16	2.18	-	-
Deposits. Synthetic rate	0.29	0.15	0.08	0.08	0.07	0.08	-	-
B) Spreads (basis points)[1]								
Spain-Germany 10 years	120	125	135	119	116	106	106	109
USA-Germany 10 years	159	169	205	194	191	179	181	176
C) Eurozone monetary aggregates[4]								
M1	10.50	8.80	9.30	9.30	9.70	9.10	-	-
M2	5.20	4.80	5.10	5.10	5.30	4.90	-	-
M3	4.60	5.00	4.80	4.90	5.00	4.50	-	-
D) Exchange rates[1]								
Dollar/euro	1.110	1.107	1.072	1.106	1.123	1.151	1.181	1.192
% (4)	-11.8	-3.1	-5.4	-2.2	0.0	4.0	5.3	6.3
Yen/euro	134.3	120.3	118.3	124.1	124.6	129.5	129.7	131.3
% (4)	-10.0	-7.5	-4.8	0.7	5.2	12.3	14.3	14.9
Yen/dollar	121.0	108.8	110.3	112.2	110.9	112.9	109.9	110.1
%(4)	2.0	-4.6	0.6	3.0	5.2	8.0	8.5	8.1
Effective nominal euro rate	91.7	94.4	93.7	95.6	96.3	97.6	99.0	99.2
% (4)	-6.6	2.0	-0.7	1.0	2.0	3.2	4.4	4.4
E) Stock market indexes % (5)								
Madrid General Index	-7.4	-2.2	14.3	15.8	11.5	12.3	10.0	10.2
IBEX 35	-7.2	-2.0	14.6	16.3	11.7	12.3	10.1	10.4
Eurostoxx – 50	3.8	0.7	8.2	8.0	4.6	4.8	4.0	4.7
Dow Jones	-2.2	13.4	6.0	6.3	8.0	10.8	11.1	11.3
Standard & Poors 500	-0.7	9.5	6.5	7.7	8.2	10.3	10.4	10.6
Nikkei 225	9.1	0.4	0.4	2.8	4.8	4.2	2.8	3.0

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

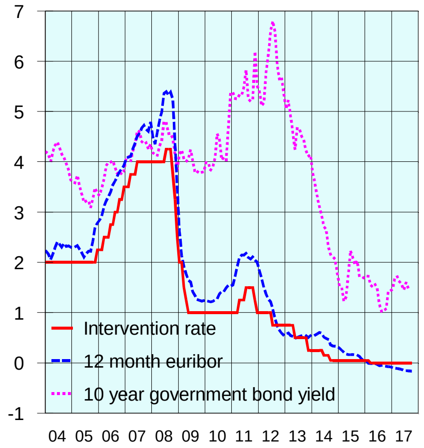
The BoJ maintains the interest rates and the monetary stimulus plans

In the meeting held on 19th and 20th July, 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 Canada increases the official interest rate

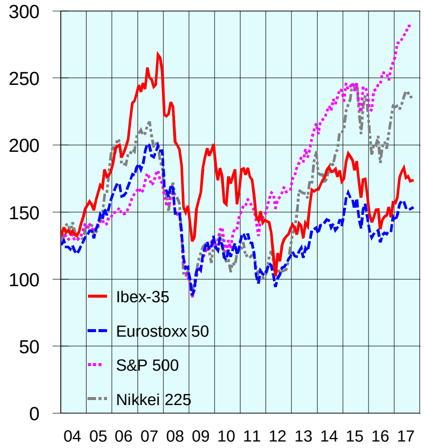
The Central Bank of Canada, in the meeting held on 6th September, decided to increase the official interest rate by 25 b.p., up to 1%, due to the economic data robustness, in a context of an upward revision of the growth forecasts for the world economy.

G 1.1 INTEREST RATES
monthly averages (a)



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

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



Source: Bolsa de Madrid, Nasdaq and Stoxx.

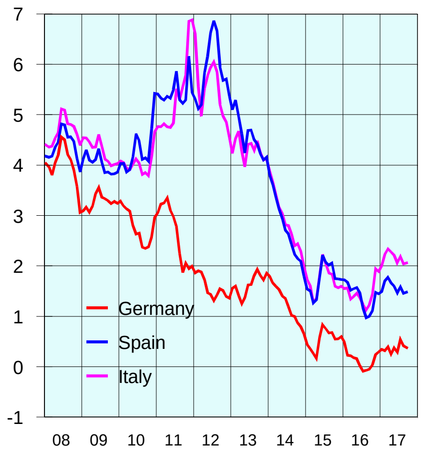
The 12 month Euribor remains negative and registers record lows

In the interbank market of the Eurozone, interest rates reached record lows in the last weeks of June and then rebounded slightly in July, as a result of the monetary policy tightening expectations. They resumed again their downward path in August, due to the cooling of such expectations, following the publication of the minutes of the ECB meeting held in July and the strengthening of the euro. Thus, on 1st September, the one, six and twelve-month Euribor stood at -0.373%, -0.273% and -0.161%, respectively, versus the -0.373%, -0.271% and -0.156% recorded at the end of June. 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, while the Euribor-OIS differential rose.

European public debt yields decrease

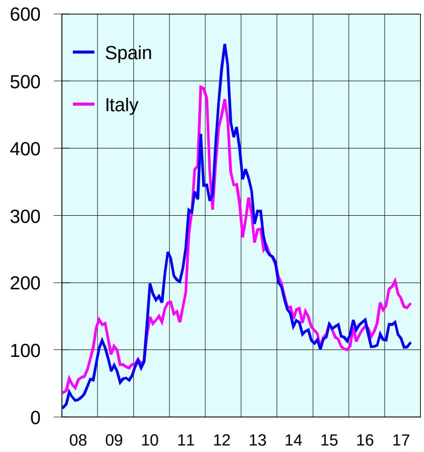
In the secondary public debt market, yields rebounded strongly in early July, due to the expectations of normalisation of the monetary policy by the ECB. Later, due to the cooling of such expectations and the increase of the geopolitical tensions during the summer, the yields resumed the downward trend started in March. Thus, in the period between 30th June and 1st September 2017, yields fell in all European countries except in Greece. The 10-year Spanish bond yield stood at 1.48% on 1st September, 6 b.p. below the figure recorded on 30th June. On the other hand, the German bond yield fell by 9 b.p. in the same period, down to 0.38%, the Spain-Germany differential standing at 110 b.p., 3 b.p. above the level recorded in late June. Meanwhile, the Spain-Italy differential stood at -58 b.p., falling by 4 b.p. in comparison to 30th June.

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



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

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



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

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

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-30-16 (1)	Jun-30-17 (2)	Sep-01-17 (3)	Variation in bp Period (3)-(2)	Variation in bp Annual (3)-(1)	Dec-30-16 (4)	Jun-30-17 (5)	Sep-01-17 (6)	Variation in bp Period (6)-(5)	Variation in bp Annual (6)-(4)
Germany	0.21	0.47	0.38	-9	17					
Finland	0.35	0.50	0.37	-13	2	14	3	-1	-4	-15
Holland	0.35	0.66	0.51	-15	16	14	19	13	-6	-1
Austria	0.42	0.71	0.59	-12	17	21	24	21	-3	0
France	0.68	0.82	0.68	-14	0	47	35	30	-5	-17
Belgium	0.55	0.80	0.69	-11	14	34	33	31	-2	-3
Ireland	0.77	0.89	0.71	-18	-6	56	42	33	-9	-23
Spain	1.40	1.54	1.48	-6	8	119	107	110	3	-9
Italy	1.82	2.16	2.06	-10	24	161	169	168	-1	7
Portugal	3.78	3.03	2.83	-20	-95	357	256	245	-11	-112
Greece	7.11	5.49	5.53	4	-158	690	502	515	13	-175

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 in the period between late June and early September, in a context of high volatility resulting from the expectations of normalisation of the monetary policy and geopolitical uncertainty. Likewise, indices were also affected by fluctuations in the oil prices and the appreciation of the euro.

In Europe, the Eurostoxx 50 index remained almost stable in the period between 30th June and 1st September, rising by 0.1%. In Spain, the IBEX 35 fell by 1.1% during that period, reaching 10,326 points on 1st September. Among the European markets, the evolution of the Italian FTSE MIB index should be noted, as it rose by 6.2% in comparison to late June, driven by the rescue of Italian banks. In the US market, the S&P 500 index increased by 2.2% in a context of expectations of normalisation of the monetary policy by the Fed.

Table 1.3. **International stock exchanges**

Countries	Indexes	Level Sep-01-17	% Variation Jun-30-17	% Variation Dec-30-16
Germany	DAX	12,142.64	-1.5	5.8
France	CAC 40	5,123.26	0.1	5.4
Italy	FTSE MIB	21,858.56	6.2	13.6
Spain	IBEX 35	10,325.50	-1.1	10.4
Eurozone	EUROSTOXX 50	3,443.88	0.1	4.7
United Kingdom	FTSE 100	7,438.50	1.7	4.1
United States	S&P 500	2,476.55	2.2	10.6
Japan	NIKKEI 225	19,691.47	-1.7	3.0
China	SHANGHAI COMP	3,367.12	5.5	8.5
Mexico	IPC	51,077.20	2.4	11.9
Brazil	BOVESPA	71,923.11	14.3	19.4
Argentina	MERVAL	23,695.83	8.1	40.1

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

The euro appreciates against the dollar

With respect to the currency market, the euro exchange rate against the dollar has continued its upward trajectory, boosted by the strength of the major European economies and by the uncertainty regarding the future economic policy decisions in the United States, despite the prospects of monetary normalisation by the Fed. Thus, in the period between late June and early September, the euro appreciated by 4.5% against the dollar, 2.8% against the yen and 4.7% against the pound, trading at the end of the 1st September session at 1.1920 dollars, 131.29 yen and 0.9208 pounds. In the same period, the euro appreciated by 2.1% in nominal effective exchange rate terms vis-à-vis the group of industrialised countries.

The M3 broad monetary aggregate slows down in July...

The y-o-y growth rate of the M3 broad aggregate reached 4.5% in July, versus the 5% recorded in June. This evolution was due to the slowdown of currency in circulation and overnight deposits (3.4% and 10.1%, respectively, compared to the 3.8% and 10.7% recorded in the previous month) and to the greater fall of other short-term deposits (-3.2%, compared to the -3% recorded in June) and marketable instruments (-2.8%, compared to the -0.6% recorded in the previous month).

Table 1.4. **Eurozone monetary aggregates**

Monetary aggregates	July 2017 Balance (Billions €)	% Year-on-year variation May 2017	June 2017	July 2017
1. Currency in circulation	1,094	3.9	3.8	3.4
2. Overnight deposits	6,460	10.3	10.7	10.1
M1 (= 1 + 2)	7,554	9.3	9.7	9.1
3. Other short-term deposits (= 3.1. + 3.2.)	3,446	-2.8	-3.0	-3.2
3.1. Term deposits up to two years	1,245	-8.7	-9.4	-10.0
3.2. Deposits redeemable at notice up to three months	2,201	1.0	1.1	1.2
M2 (= M1 + 3)	10,999	5.1	5.3	4.9
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	655	1.6	-0.6	-2.8
4.1. Repurchase agreements	67	-17.0	-18.6	-18.5
4.2. Money market funds shares units	513	7.1	5.0	3.6
4.3. Securities other than shares up to two years	76	-9.4	-13.9	-21.5
M3 (= M2 + 4)	11,654	4.9	5.0	4.5

Source: European Central Bank.

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

The main counterpart to M3, the financing to the private sector in the Eurozone, slowed down one tenth in July, down to 3% y-o-y. This evolution is due to the slowdown of loans (2.2%, compared to the 2.4% registered in June) and shares and other equity (one point, to 5.5%), partially offset by the higher increase in securities other than shares (7.4%, versus the 7.2% recorded in June). Within loans, those received by households increased by 2.9%, one tenth less in comparison to the previous month, and those received by non-financial corporations maintained their growth rate unchanged at 1.2%.

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

	July 2017 Balance (Billions €)	%Year-on-year variation May 2017	June 2017	July 2017
Financing to the private sector	**12,989**	**2.9**	**3.1**	**3.0**
Loans	**10,735**	**2.2**	**2.4**	**2.2**
Households	**5,485**	**2.8**	**3.0**	**2.9**
House purchases	*4,112*	*2.9*	*3.3*	*3.1*
Consumer credit	*639*	*6.3*	*5.9*	*6.6*
Other lending	*734*	*-1.0*	*-1.2*	*-1.3*
Non-financial corporations	**4,305**	**1.6**	**1.2**	**1.2**
Insurance companies & pension funds	**114**	**0.2**	**8.3**	**3.8**
Other financial intermediaries	**832**	**2.1**	**3.6**	**3.3**
Securities other than shares	**1,457**	**8.1**	**7.2**	**7.4**
Shares and other equities	**797**	**3.9**	**6.5**	**5.5**

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

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

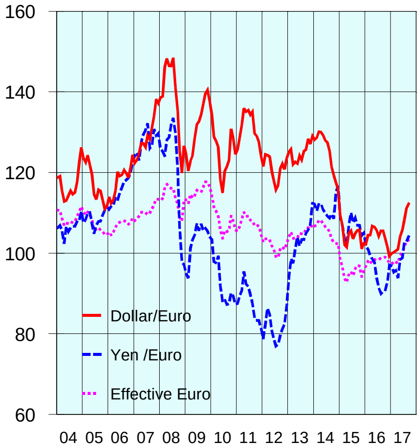
	July 2017 Balance (Billions €)	% Year-on-year variation May 2017	June 2017	July 2017
Non-financial corporations and households	**1,612**	**0.7**	**0.0**	**-0.3**
Non-financial corporations	**905**	**2.1**	**0.9**	**0.6**
Bank loans	*520*	*0.7*	*-0.9*	*-0.8*
Securities (1)	*95*	*13.9*	*14.2*	*13.1*
External loans	*291*	*1.5*	*0.5*	*-0.5*
Households	**707**	**-1.1**	**-1.1**	**-1.4**
Bank loans. Housing	*535*	*-2.8*	*-2.8*	*-3.1*
Bank loans. Other	*172*	*4.6*	*4.4*	*4.2*
General Government	**-**	**3.3**	**2.9**	**-**
Total financing	**-**	**1.8**	**1.2**	**-**

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

The stock of financing to the private sector in Spain moderates the y-o-y growth rate

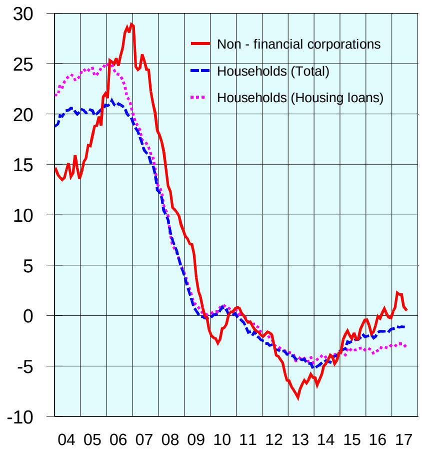
The stock of financing to the private non-financial sector fell by 0.3% y-o-y in July in comparison to the null variation registered in the previous month. Financing received by firms slowed down by three tenths, down to 0.6%, due to the slowdown of foreign loans (-0.5%, versus the 0.5% rise registered in the previous month), and of securities other than shares (13.1%, versus the 14.3% registered in the previous month), partially offset by the lower fall of bank loans. On the other hand, financing received by households recorded a y-o-y fall of 1.4%, three tenths higher in comparison to the figure registered in the previous month, due to the higher fall of loans for housing (-3.1% versus -2.8% in the previous month) and the slowdown of other bank loans (two tenths, down to 4.2%).

G 1.5 EXCHANGE RATES
monthly averages. January 2003 = 100



Source: European Central Bank (ECB).

G 1.6 CREDIT IN SPAIN
year on year percentage change



Source: Banco de España (BE).

New loan and credit operations to households and SMEs increase

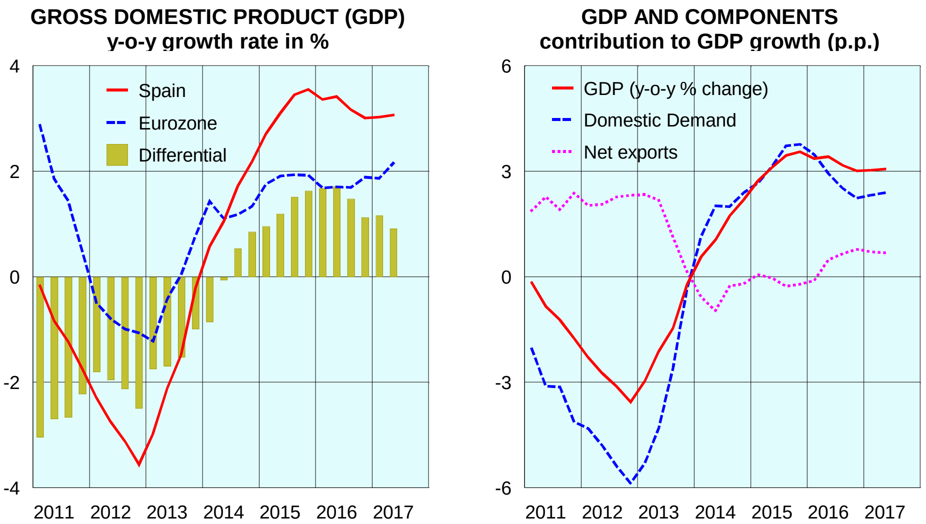
The amount of new loan and credit operations to households, in cumulative terms for the last twelve months, increased by 0.6% y-o-y in July, in comparison to the 2% fall registered in the previous month. This evolution is due to the smaller reduction of loans for housing (-6.8%, in comparison to the -10.7% registered in the previous month) and for other purposes (-5.9%, in comparison to the -8.3% registered in the previous month), partially offset by the slight slowdown in loans for consumption (two tenths, down to 18.7%). 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 July this year, by 5.5% y-o-y, 1.7 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 15.3% y-o-y, a drop 6.3 points lower than in June.

2. - DEMAND AND PRODUCTION

The IMF revises half a point upwards its 2017 growth forecast for the Spanish economy, up to 3.1%

In its July update of the World Economic Outlook, the IMF has revised half a point upwards the 2017 real GDP growth forecast for the Spanish economy compared to the figure published in April, up to 3.1%, due to a greater than expected dynamism in domestic demand in the second quarter of the year. For 2018, the IMF foresees a 2.4% growth for the Spanish economy, three tenths higher than the figure estimated in previous forecasts. According to the IMF, Spain will record the highest growth rate among the main advanced economies in 2017 and 2018 (1.9% and 1.7%, respectively, in the Eurozone).

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



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

The expansionary trend of the Spanish economy continues in the second quarter of 2017

In the second quarter of 2017, the Spanish economy showed a stronger dynamism after almost four years of continuous positive growth rates, recovering pre-crisis income levels in real terms, from the peak reached in the second quarter of 2008. Among the factors that boosted this growth we can underline, at domestic level, the improvement of the labour market and the favourable financing conditions, as well as the progress in correcting macroeconomic imbalances. On the external side, the positive trend of activity in the Eurozone and the improvement in expectations, despite the uncertainty of a possible tightening of monetary policies on both sides of the Atlantic, have also contributed to boost growth.

According to the Quarterly National Accounts (QNA) results, published by the National Statistics Institute (INE, by its Spanish abbreviation), GDP, in *volume* and with data adjusted for calendar and seasonal effects, rose by 0.9% q-o-q and by 3.1% y-o-y, both rates being one tenth higher in comparison to the previous quarter and above the corresponding growth rates in the Eurozone (0.6% q-o-q and 2.2% y-o-y). The first half of 2017 ended with an average annual increase of 3%, two tenths lower than that of last year as a whole.

Table 2.1. **Quarterly National Accounts**

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

				year-on-year change				q-o-q change	
	2015	**2016**	**2017(4)**	**III-16**	**IV-16**	**I-17**	**II-17**	**I-17**	**II-17**
DEMAND									
Domestic consumption	2.6	2.6	2.1	2.4	2.2	2.0	2.2	0.5	0.6
- Private consumption	2.9	3.2	2.5	3.0	3.0	2.5	2.4	0.4	0.7
- Public consumption	2.0	0.8	0.9	0.8	0.0	0.5	1.3	0.8	0.2
Gross fixed capital investment	6.0	3.1	3.6	2.6	2.2	3.9	3.4	2.1	0.8
- Equipment (1)	8.8	5.0	4.7	4.2	2.6	5.4	4.1	3.5	0.5
- Construction	4.9	1.9	2.9	1.6	1.9	2.9	3.0	1.1	1.1
- Intelectual Property Products	3.6	2.9	3.4	2.0	2.4	3.8	2.9	2.0	0.5
Change in inventories (2)	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Domestic demand (2)	3.3	2.8	2.4	2.5	2.2	2.3	2.4	0.7	0.6
Exports of goods and services	4.9	4.4	5.9	2.9	4.4	7.3	4.5	3.0	0.7
- Goods (fob)	4.4	3.0	5.7	1.0	3.0	8.3	3.2	4.5	-0.6
- Services	6.0	7.5	6.3	7.2	7.8	5.1	7.5	-0.3	3.8
Imports of goods and services	5.6	3.3	4.2	1.0	2.3	5.7	2.8	3.1	-0.2
- Goods (fob)	5.8	1.7	3.3	-1.5	0.4	5.4	1.3	4.5	-1.5
- Services	4.6	10.7	8.0	12.6	10.4	6.7	9.2	-2.6	5.5
Net foreign balance (2)	-0.1	0.5	0.7	0.7	0.8	0.7	0.7	0.1	0.3
GROSS VALUE ADDED									
Agriculture (3)	-2.9	3.4	4.2	3.1	2.9	4.4	4.1	2.5	-2.6
Industry. Total	5.5	2.4	2.7	1.7	2.2	2.8	2.6	0.4	0.8
- Manufacturing	7.0	3.1	2.7	2.4	2.0	2.7	2.6	0.7	0.8
Construction	0.2	2.5	4.6	2.9	3.0	4.4	4.8	2.9	1.5
Services	2.6	3.4	2.8	3.4	3.1	2.8	2.8	0.7	0.8
GDP m.p.	3.2	3.2	3.0	3.2	3.0	3.0	3.1	0.8	0.9
GDP at current prices	3.7	3.6	3.7	3.3	3.7	4.0	3.4	0.7	0.8

(1) Equipment and cultivated assets. (2) Contribution to GDP growth (percentage points). (3) Agriculture, forestry and fishing.

(4) First semester.

Source: INE *(CNE-2010).*

Domestic and external demand record positive contributions to GDP growth

Economic growth continued to be supported by domestic demand, increasing its contribution to the GDP y-o-y increase by one tenth in the second quarter, up to 2.4 percentage points (p.p.). On the other hand, the contribution of net external demand was of 0.7 p.p., as in the previous quarter, and it was positive for the fifth consecutive quarter, a fact that had not occurred since 1997.

Among the domestic demand components and in y-o-y terms, private consumption slows down slightly and, to a greater extent, investment, mainly due to the equipment component, while public consumption gains momentum.

The positive contribution of net external demand to the y-o-y GDP growth is due to an increase in exports stronger than that of imports, with rates of 4.5% and 2.8% respectively, 2.8 and 2.9 points lower than those registered in the previous quarter.

The most recent indicators of global activity confirm the economic activity dynamism

The indicators for the third quarter of the year point to a continuation of the economic activity dynamism, considering the evolution of the *Global Activity Composite PMI*, which, although moderated slightly in the period between July and August, points towards a strong growth in the third quarter, by approximately 0.7% q-o-q, according to Markit. The *Business Confidence Indicator*, published by INE, points in the same direction, as its q-o-q increase in the third quarter (2%) surpassed the figure registered in the second quarter (1.8%), as well as the *economic sentiment indicator*, which improved two tenths in the two month period from July to August, to 108.6 (average 1990-2016 = 100), as a result of the increase in confidence on its two most important components, industry and services.

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, moderated slightly in July in comparison to the previous month, reaching 99.6, a figure almost identical to its long term average (100).

2.1.- Domestic demand

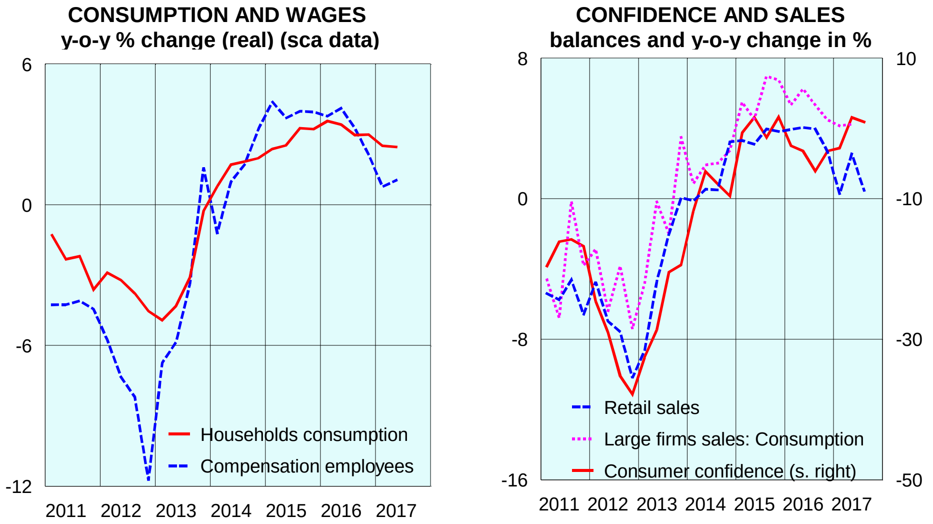
Private consumption remains strong in the second quarter of the year...

Among the domestic demand components, Final Consumption Expenditure of Households and Non-profit Institutions Serving Households (NPISHs), in volume, experienced a 2.4% y-o-y growth in the second quarter of 2017, one tenth lower in comparison to the previous quarter. However, in q-o-q terms, private consumption accelerated three tenths, up to 0.7%. The expansionary trend of private consumption is due to the employment dynamism, improved consumer confidence and favourable financial conditions, in a context where households have extended the deleveraging process started in mid-2010.

...and the most recent indicators point towards the continuation of the consumption dynamism in the third quarter

The most recent private consumption indicators point to an extension of the consumption dynamism in the period elapsed in the third quarter. Among quantitative indicators and according to the figures provided by ANFAC (Spanish Association of Vehicles Manufacturers), *passenger* *car registrations* grew by 6.4% in the period between July and August, one tenth less versus the second quarter (6.5%). On the other hand, the *retail general index*, with deflated and calendar adjusted data, slowed down almost two points and a half in July, to record a y-o-y rate of 0.5%. This fall was due to the less expansionary trend of its two components: food (2.3% y-o-y, versus the 3.6% increase registered in June) and non-food, which registered a 0.3% rise, 2.4 points lower than in the previous month.

G 2.2 PRIVATE CONSUMPTION INDICATORS



Sources: INE, EC and AEAT.

Amongst the qualitative indicators, the *consumer confidence indicator* (CCI), published by the European Commission, moderated slightly in the period between July and August in comparison to the second quarter, six tenths, reaching a balance of 0.9, due to the worse unemployment prospects, in comparison to the rise in consumer rating on trends in the household situation, the general situation of the economy and savings. On the other hand, the Consumer Confidence Indicator published by the Sociological Research Centre (known in Spanish as CIS) rose half a point in August in comparison to July, reaching 108.8, indicative of a positive perception of consumers, as it stood above the 100 threshold for the fifth consecutive month. This result, record high of the series that began in September 2004, is explained by an improvement in the rating of the current situation, which increased by two points in August reaching 105.4 points (also the record high of the time series), partially offset by the one point decline in the expectations index, which reached 112.1 points.

The q-o-q growth rate of public consumption moderates

As for the Final Consumption Expenditure of the General Government, in volume, rose 0.2% q-o-q in the second quarter of the year, six tenths less than in the first quarter. It accelerated by eight tenths in y-o-y rate, up to 1.3%, ending the first half of the year with an average annual advance of 0.9%, similar to 2016 as a whole (0.8%).

Investment slows down after the rebound registered in the first quarter...

With regard to investment, Gross Fixed Capital Formation (GFCF) registered a 0.8% q-o-q growth rate in the first second of 2017, 1.3 points lower when compared to the previous quarter. In the first half of the year, fixed investment rose by 3.6%, a rate half a point higher than that of

2016 as a whole, due to the strong dynamism of investment in equipment (4.7%) and the expansionary trend of both investment in construction (2.9%) and intellectual property products (3.4%).

Among the main determining factors of this investment evolution the good momentum of domestic and external demand, the improvement of business expectations, the low interest rates and the greater use of productive capacity stand out.

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

			2016		**2017**			**Latest**
	2016	**2017(1)**	**III**	**IV**	**I**	**II**	**III(1)**	**Data**
Households & bussiness financing (2)	-2.4	-3.2	-1.9	-3.0	-3.8	-2.8	-3.1	Jul.17
Private Consumption								
Composite Consumption Indicator (3)	3.6	2.9	3.4	3.3	2.8	3.0	-	Q.II.17
Consumer Goods. Apparent cons. (3)	2.6	-0.4	0.4	1.6	-2.0	1.1	-	Jun.17
IPI consumer goods (adjusted)	2.1	0.3	1.6	1.4	-0.5	1.4	-0.9	Jul.17
Consumer goods imports (vol.)	7.1	1.9	4.6	6.2	3.0	0.8	-	Jun.17
Retail sales index (4)	3.6	1.3	3.9	3.0	0.5	2.5	0.4	Jul.17
Passenger car registrations	10.9	6.9	9.7	9.0	7.9	6.5	6.4	Aug.17
Real wages (5)	3.3	0.9	3.3	2.1	0.8	1.0	-	Q.II.17
Consumer goods. Capacity utiliz. (%)	75.6	73.5	74.6	76.6	73.6	72.5	74.4	Q.III.17
Consumer confide. indicator (balances)	-3.8	-0.3	-6.1	-3.2	-2.8	1.5	0.9	Aug.17
Large firms sales. Consumption (6)	5.3	4.2	5.3	4.5	4.1	4.2	-	Jun.17
Households financing (2)	-2.1	-3.8	-1.8	-2.9	-4.2	-3.5	-3.3	Jul.17
Equipment Investment								
Composite Equipment Indicator (3)	5.7	6.6	6.5	4.4	7.0	6.2	-	Q.II.17
Capital Goods. Apparent cons.(3)	3.5	1.0	3.8	1.3	1.4	0.5	-	Jun.17
IPI consumer goods (adjusted)	3.4	0.7	1.5	-0.7	1.4	-0.2	1.7	Jul.17
Capital goods imports (vol.)	4.1	8.6	2.1	2.1	13.1	4.4	-	Jun.17
Corporations financing (2)	0.4	-5.8	1.2	-3.4	-7.1	-4.8	-4.5	Jul.17
Truck registrations	11.4	14.7	10.6	6.3	20.8	8.7	17.7	Jul.17
Capital goods. Capacity utilization (%)	81.7	83.4	83.6	81.7	82.9	83.0	84.2	Q.III.17
Large firms sales. Capital (6)	3.3	2.4	1.5	3.3	2.4	2.3	-	Jun.17

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

...mainly due to investment in equipment goods

Investment in equipment and cultivated assets slowed down by three points in the second quarter of 2017, after the sharp rebound recorded in the first quarter, to 0.5% q-o-q. In y-o-y terms, the increase stood at 4.1%, 1.3 points lower than in the first quarter. This slowdown is due to the lower dynamism of investment in other machinery, which has gone from growing by 3.7% q-o-q in the first quarter of the year to 1% in the second quarter, together with the decline in investment in transport equipment, 0.6% q-o-q, in comparison to a 3.3% increase in the previous quarter.

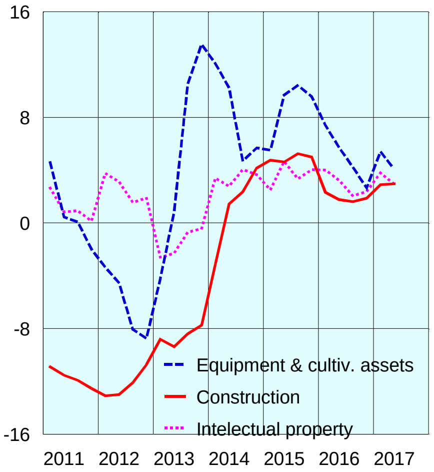
The most recent investment in equipment indicators, point towards the continuity of the expansionary trend, even with more intensity than in the first half of the year, improving the businessmen perception of the current situation in the third quarter, as the business confidence indicator advances. The *capital goods productive capacity utilisation* rose more than one point, reaching 84.2% in the third quarter of the year and the *qualitative indicator of investment goods climate* showed a positive balance in the period from July to August (0.5 points), although lower than in the second quarter (1.5 points). On the other hand, *truck registrations*, increased the growth rate in July, registering a y-o-y increase close to 18%, according to the figures provided by ANFAC.

Construction investment remains dynamic

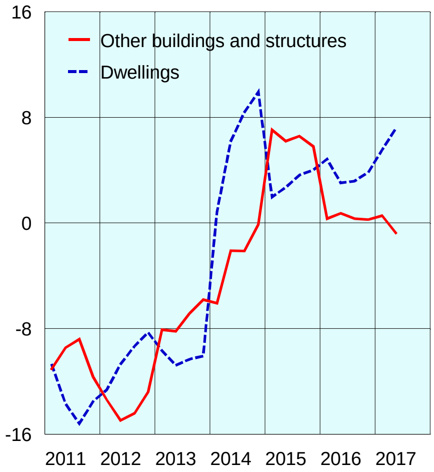
Investment in construction maintained the q-o-q growth rate in the second quarter at 1.1%. By components, the dynamism of the residential segment stands out, which rose by 2.4%, following the strong 2.7% rebound registered in the previous quarter, while the other constructions, moderated the fall pace by four tenths, to 0.1%.

In this context, short-term indicators related to residential investment were very dynamic. The number of *new housing purchases* grew by 3.1% in the second quarter, seven tenths more than in the previous quarter, and the number of *mortgages on housing* increased by 5.2%. In parallel, the private housing price index, published by the INE, increased by 5.6% in the second quarter in comparison to the same period of 2016, three tenths more versus the previous quarter. This acceleration was due to the greater increase in the prices of used housing (5.8%, half a point higher than the previous quarter), while the price of new housing moderated the rate of increase by more than one point, to 4.4% y-o-y.

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



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



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

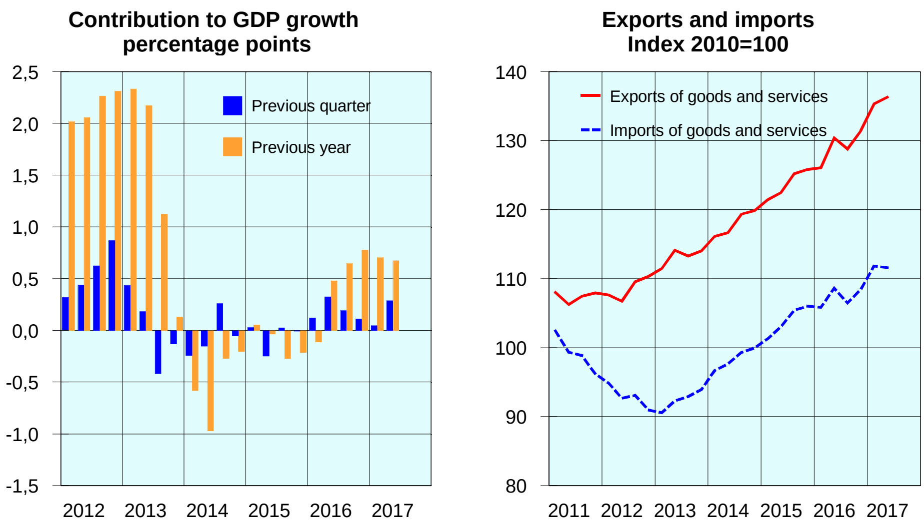
2.2.- Foreign demand

The external sector contributes with seven tenths to GDP y-o-y growth in the second quarter of 2017

In the second quarter of 2017, according to QNA figures, the external sector contributed with three tenths to the GDP q-o-q growth, after a contribution of one tenth in the previous quarter, as a result of an increase in goods and services exports (0.7% q-o-q, following the 3% increase registered in the first quarter) and the slight fall registered by imports (-0.2%, versus the 3.1% recorded in the previous quarter). In y-o-y terms, the net external demand contributed with seven tenths to the GDP variation in the second quarter of 2017, a contribution equal to that of the previous quarter, due to a similar slowdown of exports and imports (2.8 and 2.9 points, respectively), down to 4.5% and 2.8%.

Compared with the major economies of the European Union, the q-o-q rate of Spanish real exports (0.7%) was higher than that of Italy (0.6%), similar to that of Germany and the United Kingdom (0.7%) and lower than that of France (3.1%). Similarly, the y-o-y rate of Spanish exports (4.5%) was higher than that of France (4.4%), Germany (3.5%) and the United Kingdom (2.4%), and lower than that of Italy (4.7%).

G 2.5 EXTERNAL SECTOR



Source: INE.

Real exports of goods and services slow down

Real exports of goods and services slowed down in the second quarter of 2017, after the strong rebound observed in the previous quarter, in a context of moderate recovery of the activity of the main trading partners and the major emerging economies.

In y-o-y terms, real exports of goods and services increased by 4.5% in the second quarter of 2017, compared to the 7.3% rise registered in the first quarter. Goods exports increased by 3.2%, 5.1 points lower when compared to the previous period, while services exports accelerated by 2.4 points, up to 7.5%. In q-o-q terms, exports rose by 0.7%, versus the 3% rise registered in the previous quarter, with goods exports registering a 0.6% fall and services exports rising by 3.8% (4.5% and -0.3% in the previous quarter, respectively).

In the second quarter of 2017, the evolution of the activity of Spain's main trading partners was uneven. The GDP q-o-q growth rate moderated one tenth in Germany (0.6%), remained constant in France and Italy (0.5% and 0.4%, respectively) and intensified one tenth in the United Kingdom (0.3%) and five tenths in the United States (0.8%). In the major emerging economies, a generalised pattern was neither observed: China registered an acceleration of four tenths (1.7%) and Indonesia accelerated more than four points (4%), while a moderation of one tenth was observed for Mexico (0.6%), five tenths for Korea (0.6%) and eight tenths for Taiwan and Brazil (0.1% and 0.2%, respectively).

Competitiveness worsens slightly against the developed countries

On the other hand, in the second quarter of 2017, the competitiveness trend index based on consumer prices against the developed countries, prepared by the Secretary of State for Trade, reported a slight loss of competitiveness of 0.1% y-o-y, following the 0.3% gain registered in the first quarter, due to an increase in relative prices (0.2%), partially offset by the 0.1% depreciation of the nominal effective exchange rate. Against the European Union, a competitiveness loss of 1.1% was recorded, due to the appreciation in the nominal effective exchange rate (0.7%) and to the rise in the relative consumer prices index (0.4%). Finally, a competitiveness gain of 2% with regard to the BRICS countries was recorded, thus linking three consecutive quarters of gains, resulting from a depreciation of the nominal exchange rate index (2%), while the relative prices index remained stable.

Real exports of goods gain market share in the first half

In this context, the real exports of goods y-o-y growth rate in the second quarter of 2017 (3.2%) has been lower than that registered by the world trade of goods (4.3% according to the Central Planning Bureau of the Netherlands), although it was clearly higher in the first quarter (8.3%), resulting in a real market share gain of 0.03 points in y-o-y terms in the first half of the year, reaching 1.98%.

According to Customs figures, deflated by unit value indices, which are more volatile than the QNA figures, the "momentum" of exports (variation in volume in the last three months compared to the previous three months) reached 1.6% in June, following the 4.2% recorded in March, due to the positive contribution from EU countries and, to a lesser extent, from non-EU OECD Countries. By products, the positive contribution of energy intermediate goods stands out, and to a lesser extent, of non-food consumer and capital goods.

According to Customs figures, in y-o-y terms, real exports of goods grew by 6.3% in the second quarter of 2017, after the 13.3% registered in the first quarter. By type of product, the volume of exports of all groups registers a lower dynamism, except for intermediate energy goods exports, which accelerate 15.1 points, up to 78.5%. Exports of food consumer goods slowed down by 1.5 percentage points, down to 3.6% and non-food consumer goods went from growing by 11.9% in the first quarter to falling by 2.1% in the second quarter; exports of capital goods slowed down 7.7 points, down to 5.8%; and exports of non-energy intermediate goods recorded a 8.1% growth, 6.1 points lower than in the previous quarter.

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

	Weight in Total	**Year-on-year change (%)**					**Contribution to growth**		
	2016	**2016**			**2017**		**2016**	**2017**	
		II	**III**	**IV**	**I**	**II**	**IV**	**I**	**II**
Total exports	**100.0**	**7.1**	**0.0**	**4.3**	**13.3**	**6.3**	**4.3**	**13.3**	**6.3**
Consumer goods	*39.7*	*12.7*	*1.2*	*3.3*	*9.5*	*-0.1*	*1.2*	*3.3*	*-0.2*
Foods	14.2	5.5	0.5	2.3	5.1	3.6	0.3	0.7	0.4
Others goods	25.4	16.7	1.6	3.8	11.9	-2.1	0.9	2.7	-0.6
Cars	12.6	19.7	-0.4	0.8	9.3	-9.8	0.1	1.0	-1.1
Capital goods	*8.9*	*16.4*	*-4.5*	*-5.0*	*13.5*	*5.8*	*-0.5*	*1.3*	*0.6*
Excl. heavy trans. equipment	8.7	16.9	-3.8	-7.5	12.8	2.8	-0.8	1.2	0.3
Intermediate goods	*51.4*	*1.8*	*-0.1*	*6.6*	*16.2*	*11.3*	*3.6*	*8.6*	*5.9*
Energy	2.8	-27.0	-16.3	12.4	63.4	78.5	0.4	1.4	1.9
Non-energy	48.6	3.8	1.1	6.2	14.2	8.1	3.2	7.2	4.0
Total imports	**100.0**	**4.7**	**-1.1**	**2.9**	**8.0**	**3.0**	**2.9**	**8.0**	**3.0**
Consumer goods	*29.5*	*9.1*	*4.6*	*6.2*	*3.0*	*0.8*	*1.6*	*0.7*	*0.2*
Foods	7.5	13.3	10.0	6.5	6.2	0.1	0.4	0.3	0.0
Others goods	22.0	7.6	2.6	6.2	2.0	1.1	1.2	0.3	0.2
Cars	6.0	2.5	-1.6	5.5	2.3	-1.4	0.3	0.1	-0.1
Capital goods	*8.8*	*10.9*	*2.1*	*2.1*	*13.1*	*4.4*	*0.2*	*1.2*	*0.4*
Excl. heavy trans. equipment	8.7	10.9	1.7	2.2	9.9	1.2	0.2	0.9	0.1
Intermediate goods	*61.8*	*2.2*	*-4.0*	*1.4*	*9.7*	*3.7*	*1.1*	*6.1*	*2.4*
Energy	10.8	-11.2	-11.9	-1.8	23.5	19.3	-0.2	2.7	2.1
Non- energy	51.0	5.4	-1.9	2.1	6.6	0.6	1.3	3.4	0.3

Sources: Customs and SGACPE.

Within the non-food consumer goods group, car exports decreased by 9.8% y-o-y, after the 9.3% increase registered in the first quarter, reducing by 1.1 percentage points the total exports growth, after the positive contribution of one point recorded in the previous quarter.

Moderation in exports of goods both to the EU and the rest of the world

By geographic destination, according to Customs data, in the second quarter of 2017, exports in volume to the European Union (EU) and the Eurozone grew by 5.9% and 6% respectively in y-o-y terms, after rebounding by 11.6% and 11.5% in the previous quarter. The nominal sale growths to new EU partners, Benelux and Portugal stood out. Exports to the rest of the world registered a 7% increase in real terms, following the 16.9% registered in the previous quarter. The breakdown by geographic destination outside the European Union reveals significant growths of nominal sales to Mexico, Argentina, Sub-Saharan Africa, China and Russia, while those to Venezuela continued to fall strongly. Consequently, contributions to the total increase in exports to the EU and the rest of the world were of 3.9 and 2.4 percentage points, respectively, in the second quarter of 2017, following the 7.8 and 5.5 points contributions registered in the previous quarter.

Final consumption expenditure of non-residents in the economic territory maintains a high dynamism

According to QNA figures, the expenditure of non-resident households in the economic territory, in volume, increased by 4% q-o-q in the second quarter of 2017, versus the 2.1% rise recorded in the previous quarter, and by 9.8% y-o-y, nine tenths more than in the previous quarter. For the third quarter of 2017, the main indicators of foreign tourism, such as inbound tourists and foreign overnight stays in domestic hotels, show favourable signals, with y-o-y growth rates in July of 10.1% and 3.5%, respectively.

For the second quarter of 2017, real exports of non-tourism services grew by 3.6% q-o-q, versus the 2% fall registered in the first quarter. In y-o-y terms, they registered an increase of 5.9%, 3.2 points higher than the figure recorded in the previous quarter. According to the International Trade in Services Survey published by the INE, referring to the first quarter of 2017, the services with greater contribution to the nominal growth of exports were transport (2.5 p.p.); intellectual property (0.5 p.p.) and insurance and pension services (0.3 p.p.); while business services (-2.2 p.p.) and telecom, computer and information technology services (-0.4 p.p.) contributed negatively.

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

	Weight in Total	**Year-on-year change (%)**					**Contribution to growth**		
	2016	**2016**			**2017**		**2016**	**2017**	
		II	**III**	**IV**	**I**	**II**	**IV**	**I**	**II**
Total exports	**100.0**	**7.1**	**0.0**	**4.3**	**13.3**	**6.3**	**4.3**	**13.3**	**6.3**
EU	*66.3*	*8.1*	*0.0*	*5.9*	*11.6*	*5.9*	*3.9*	*7.8*	*3.9*
Euro-area	51.8	7.7	0.0	7.8	11.5	6.0	4.0	6.1	3.1
Non-EU	*33.7*	*5.2*	*-0.1*	*1.2*	*16.9*	*7.0*	*0.4*	*5.5*	*2.4*
USA	4.5	13.6	-9.8	4.5	17.9	-1.1	0.2	0.8	-0.1
Latin America	5.4	-4.2	-7.3	-6.4	14.9	13.4	-0.4	0.8	0.7
China	2.0	28.3	9.9	18.7	37.1	19.9	0.3	0.7	0.4
Other countries (1)	10.8	7.1	3.7	0.7	9.7	2.2	0.1	1.0	0.2
Total imports	**100.0**	**4.7**	**-1.1**	**2.9**	**8.0**	**3.0**	**2.9**	**8.0**	**3.0**
EU	*57.0*	*3.7*	*-0.5*	*-0.3*	*9.5*	*-1.1*	*-0.2*	*5.4*	*-0.6*
Euro-area	45.7	3.7	2.0	1.0	9.5	0.8	0.5	4.2	0.4
Non-EU	*43.0*	*6.2*	*-1.8*	*7.7*	*5.9*	*8.9*	*3.1*	*2.5*	*3.6*
USA	4.8	-1.0	-10.7	28.1	2.9	-1.8	1.4	0.2	-0.1
Latin America	5.1	-5.9	-1.3	9.2	34.1	10.0	0.4	1.5	0.5
China	8.7	17.4	3.0	2.6	-10.7	4.1	0.2	-1.0	0.3
Other countries (1)	10.1	9.2	-0.8	4.1	7.3	7.3	0.4	0.7	0.7

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

Real imports of goods slow down in the second quarter

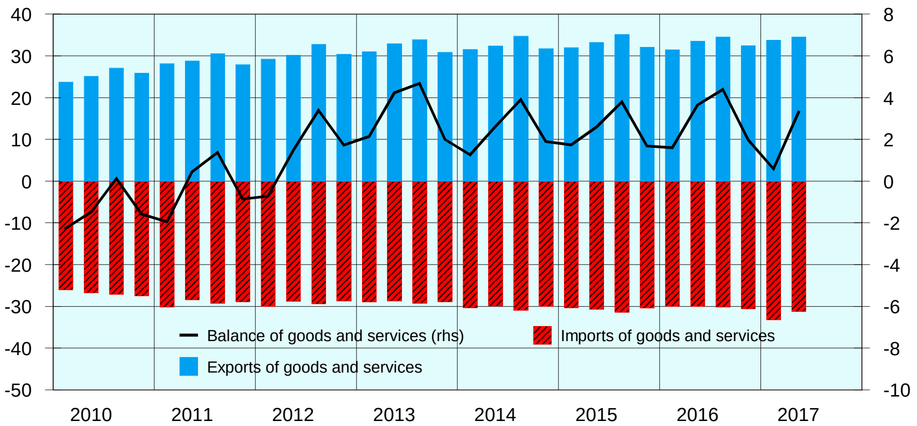
Furthermore, goods and services imports, in real terms and according to QNA figures, fell by 0.2% in the second quarter of 2017 compared to the previous quarter, following the 3.1% growth registered in the first quarter. By components, goods imports fell by 1.5% q-o-q (4.5% in the first quarter), while services imports rose by 5.5% following the 2.6% fall of the previous quarter. In y-o-y terms, imports of goods and services grew by 2.8%, 2.9 points less than in the first quarter, with imports of goods and services increasing by 1.3% and 9.2%, respectively.

According to Customs figures, deflated by unit value indices, the "momentum" of goods imports (change in imports of goods in volume in the last three months versus the previous three months) became negative in June (-0.4%), following the 3.6% recorded in March, reflecting a negative contribution of EU countries, partially offset by the positive contribution of non-OECD countries. By products, the negative contribution of energy and non-energy intermediate goods and, to a lesser extent, of capital goods stands out, versus the positive contribution of non-food consumer goods.

In y-o-y terms, imports of goods in volume, deflated by unit value indices, rose by 3% in the second quarter of 2017, following the 8% registered in the previous quarter.

By type of product and in volume, in the second quarter of 2017 the positive contribution of the different groups fell: consumer goods fell five tenths (down to 0.2 points), that of capital goods by eight tenths (down to 0.4 points) and the contribution of imports of intermediate goods fell 3.7 points (2.4 points). Consumer goods, registered a 0.8% growth rate, 2.2 points lower in comparison to that recorded in the previous quarter, due to the slowdown of its components, where the 1.4% drop in cars stood out.

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



Source: INE.

By geographical areas, real imports of goods from the EU fell by 1.1%, and those from the Eurozone grew by 0.8% in the second quarter of 2017, following the 9.5% growth registered by both items in the previous quarter. In nominal terms, the purchases from France, Italy and Benelux are remarkable. On the other hand, real imports from outside the EU accelerated three points, up to 8.9%. In the breakdown by geographical origin, and in nominal terms, the growth of purchases (exceeding 20%) from Turkey, the Middle East, New Industrial Economies of Asia, India and Brazil are remarkable.

Tourism services imports fall

According to QNA figures, in the second quarter of 2017, real spending of households resident abroad fell by 1.3% q-o-q, following the 1.6% decrease observed in the previous quarter. On the other hand, imports of non-tourism services rose by 7.9% q-o-q, following the 3% fall registered in the previous quarter. According to the latest data released by the INE, the services with the highest positive contribution to this rate were transport (3.4%) and business services (3.1%).

The surplus of the balance of goods and services moderates

In the second quarter of the year, the surplus of the goods and services balance, calculated with QNA gross data at current prices, stood at 3.3% of the quarterly GDP, three tenths less than in the previous year, due to the higher deficit of goods (1.4% of GDP compared to the 1% registered a year earlier), which offset the increase in the surplus of services (4.7% of GDP, one tenth higher than in the same period last year). Within the services sector, the tourism net revenue surplus (3.1% of GDP) rose three tenths compared to the percentage recorded in the second quarter of 2016, while the non-tourism services (1.6% of GDP) fell two tenths.

2.3.-Productive activity

Activity increases in all productive sectors

From the supply point of view, in the second quarter the Gross Value Added (GVA) in volume and with data adjusted for calendar and seasonal effects, increased in y-o-y terms in all major branches of activity. The GVA of the construction sector rose four tenths, up to 4.8% y-o-y; and the GVA of agriculture, farming, forestry and fishing and industrial sectors slowed down by three and two tenths, respectively. On the other hand, the GVA growth rate of the services sector remained unchanged at 2.8%.

In q-o-q terms, the GVA of the services and industrial sectors accelerated one and four tenths, respectively, both registering a q-o-q rate of 0.8%. On the other hand, the GVA of the construction sector increased by 1.5%, almost half the growth registered in the previous quarter (2.9%) and GVA of agriculture, farming, forestry and fishing fell by 2.6%, after the 2.5% increase recorded in the previous quarter.

The industrial activity indicators moderate the expansionary trend

Amongst the industrial activity indicators, the *Industrial Production Index* (IPI), with calendar and seasonally adjusted data, moderated the y-o-y growth rate by seven tenths in July, to 1.9% due to the slowdown of the energy component (5.9 points, to register a null variation) and to the sharpening in the pace of decline in the consumer goods component (from -0.1% y-o-y in June to -0.5% in July). On the other hand, equipment and intermediate goods accelerated by 1.1 and 0.6 points, respectively, up to 1.9% and 4.9% y-o-y.

The *Industry New Orders*, a leading indicator of the activity in the sector, showed a high growth in the second quarter of 2017 (7.5% y-o-y, with work calendar adjusted data) although was lower than in the first quarter (8.8%), mainly due to the slowdown of the equipment goods and energy components, in contrast to the high drive of intermediate goods and consumption.

Table 2.5 **Employment and productivity**

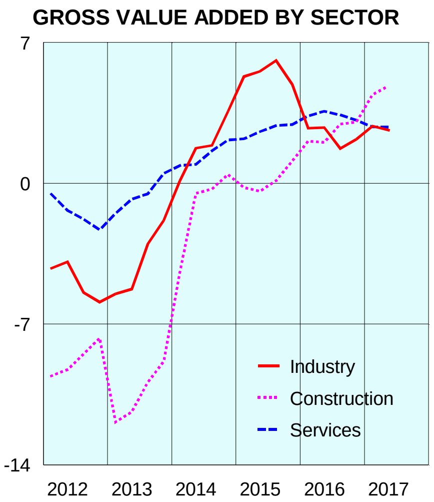
Year-on-year change (%)

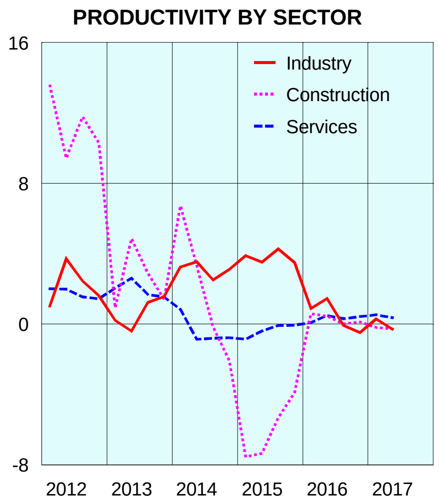
	2015	2016	2017 (4)	2016 I	2016 II	2016 III	2016 IV	2017 I	2017 II
EMPLOYMENT (1)									
Agriculture (2)	1.2	3.3	5.2	5.6	2.1	2.8	2.8	4.9	5.5
Industry total	1.6	1.9	2.7	1.8	1.3	1.8	2.7	2.5	2.9
Manufacturing	2.0	2.4	2.8	2.5	1.9	2.2	2.9	2.6	2.9
Construction	6.6	2.2	4.9	1.5	1.6	2.9	2.9	4.6	5.1
Services	3.0	3.0	2.3	3.3	3.1	3.1	2.7	2.3	2.4
Total	3.0	2.9	2.7	3.1	2.7	2.9	2.7	2.5	2.8
PRODUCTIVITY (3)									
Agriculture (2)	-4.1	0.1	-0.9	-0.6	0.6	0.3	0.1	-0.5	-1.3
Industry total	3.8	0.4	0.0	0.9	1.4	-0.1	-0.5	0.3	-0.3
Manufacturing	4.9	0.8	-0.1	1.9	1.9	0.2	-0.9	0.1	-0.3
Construction	-6.1	0.3	-0.2	0.6	0.5	0.0	0.1	-0.2	-0.3
Services	-0.4	0.3	0.4	0.1	0.5	0.3	0.4	0.5	0.4
GDP per employee	0.2	0.4	0.4	0.3	0.7	0.3	0.3	0.5	0.3

(1) Full-time equivalent jobs. National Accounts. (2) Agriculture, forestry and fishing. (3) GVA per employee (adjusted series and full-time equivalent jobs). (4) First semester.
Source: INE *(CNE-2010).*

Among the qualitative indicators, the *manufacturing PMI* fell 1.7 points in the period from July to August, reaching 53.2, pointing towards a continuation of the expansion in the sector. On the other hand, the *industrial confidence* indicator, published by the European Commission edged downwards in the two month period from July to August, recording a balance of -1.2 points, seven tenths less compared to the second quarter.

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





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

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

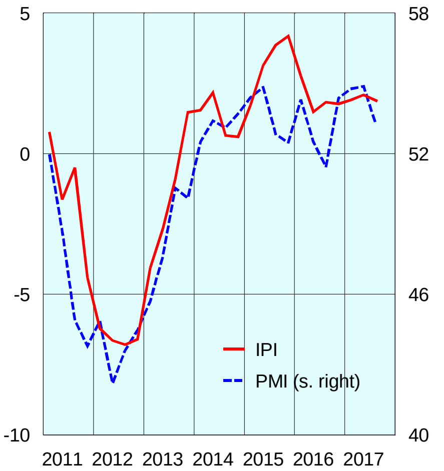
INDICATORS	2016	2017(1)	2016 III	2016 IV	2017 I	2017 II	2017 III(1)	Latest data
Composite Activity Indicator (2)	2.9	3.3	2.7	3.0	3.2	3.3	-	Q.II.17
Electric power consumption (3)	0.0	1.4	0.3	-0.1	1.5	1.4	1.3	Aug.17
Non energy imports (vol.)	4.3	3.4	0.7	3.6	5.9	1.0	-	Jun.17
Economic Sentiment Indicator (90-16=100)	106.3	108.2	105.0	107.2	107.7	108.4	108.6	Aug.17
Large Firms Sales (4)	2.5	3.9	2.2	3.0	4.1	3.7	-	Jun.17
Large Firms Sales. Domestic (4)	2.5	2.7	2.6	2.4	2.4	3.0	-	Jun.17
Industry								
Composite Industry Indicador (2)	2.1	3.6	1.6	2.8	3.5	3.6	-	Q.II.17
IPI calendar adjusted	1.9	1.9	1.6	1.8	1.8	2.1	1.7	Jul.17
Large Firms Sales. Industry (4)	2.5	2.5	1.9	2.3	2.2	2.7	-	Jun.17
Industry goods Exports (vol.)	6.0	5.9	0.4	1.2	11.9	0.6	-	Jun.17
Employment (LFS)	1.6	4.6	0.5	4.7	3.6	5.6	-	Q.II.17
Social Security covered workers (5)	2.8	3.1	2.7	2.8	3.0	3.1	3.1	Aug.17
Industry confidence indicator (balances)	-2.3	-0.4	-3.8	-0.6	0.3	-0.5	-1.2	Aug.17
Industry capacity utilization %	78.6	78.5	78.4	79.1	78.8	78.1	78.7	Q.III.17
Construction								
Composite Construction Indicator (2)	1.2	1.5	0.7	0.7	0.5	2.5	-	Q.II.17
Cement Apparent Consumption	-3.6	10.8	-4.0	-3.5	14.0	6.6	-	May.17
Large Firms Sales.Construction (4)	-4.4	0.6	-3.7	-6.4	-3.1	4.2	-	Jun.17
Employment (LFS)	0.0	5.0	2.3	2.0	4.8	5.2	-	Q.II.17
Social Security covered workers (5)	2.6	5.8	2.7	3.3	5.3	6.1	6.0	Aug.17
Official bidding (at current prices)	-4.2	4.4	48.4	13.5	-6.5	16.7	-	Jun.17
Floorage approvals: total	20.1	13.3	17.0	21.4	13.8	12.5	-	May.17
Floorage approvals: housing	29.0	13.8	13.7	19.6	16.9	9.4	-	May.17
Construction confidence indicator (balances)	-39.6	-32.1	-44.3	-42.0	-43.7	-24.7	-25.6	Aug.17
Mortgages. Amount borrowed	9.2	12.1	-6.2	6.6	14.1	10.2	-	Jun.17
Housing Prices	4.7	5.4	4.0	4.5	5.3	5.6	-	Q.II.17
Services								
Composite Services Indicator (2)	3.7	3.9	3.5	3.7	3.8	4.0	-	Q.II.17
Large Firms Sales. Services (4)	2.9	4.2	2.7	3.4	4.1	4.2	-	Jun.17
Railway passengers	4.1	3.7	6.6	1.3	3.2	4.7	2.4	Jul.17
Railway traffic goods (Tm per km)	-7.3	2.1	-8.1	-2.9	5.5	0.1	-2.3	Jul.17
Air traffic passengers	11.0	8.8	9.6	11.7	6.4	11.1	7.4	Jul.17
Hotel overnight stays	7.4	3.8	5.9	8.1	-2.8	8.8	1.6	Jul.17
Foreign tourists	10.1	11.3	8.0	11.1	9.3	12.9	10.1	Jul.17
Employment (LFS)	2.9	1.6	3.0	1.7	1.4	1.7	-	Q.II.17
Social Security covered workers (5)	3.2	3.6	3.3	3.5	3.4	3.8	3.6	Aug.17
Services confidence indicator (balances)	17.8	22.3	16.0	18.7	19.2	23.3	25.3	Aug.17
Retail trade confidence indicator (balances)	12.4	11.3	12.1	11.9	11.3	11.5	11.1	Aug.17

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

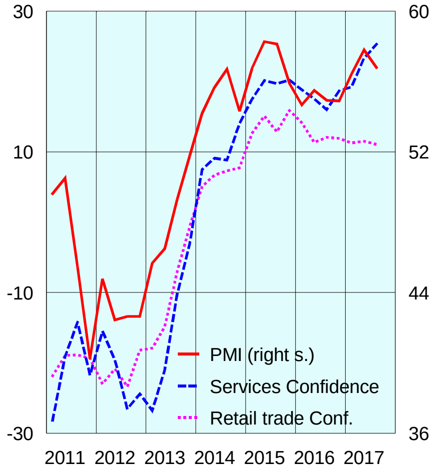
Mixed signals in the construction sector activity indicators

On the other hand, the *Production Index in the Construction Industry* (PICI), published by the Eurostat, rebounded in June, registering a y-o-y rate of 6.5%, with calendar adjusted data, after three months of uninterrupted falls. This improvement was due to the acceleration of its two components: the building component, which rose 7.7% after the 6.2% fall registered in May, and civil works, whose rate rose up to 3.1% (-1.4% in the previous month).

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



G 2.9 SERVICES ACTIVITY INDICATORS
balances in % and index



Sources: INE, EC and Markit Group.

However, *confidence* in the sector deteriorated in the period from July to August, reaching an average balance of -25.6 points, according to data from the European Commission, almost one point lower than the figure registered in the second quarter.

Among leading indicators, according to new construction permits, the *building surface in new construction* moderated the y-o-y growth rate to 13.3% in the first five months of the year, almost seven points lower than in 2016 as a whole (20.1%). On the other hand, the *official tenders* rebounded in the second quarter of the year, registering a y-o-y rate of 16.7% (-6.5% in the first quarter), an improvement that was transferred to the civil works component (10.7%, compared to the -23% recorded in the period from January to March), while building lost momentum (29.3%, after the 40.4% registered in the first quarter).

Service activity continues to grow strongly

With regard to activity indicators in the services sector, the *turnover index* rose by 7.5% y-o-y in the period from April to June, with calendar adjusted data series. This is seven tenths more than in the previous quarter, an acceleration that affected its main components.

Among the qualitative indicators, *confidence* in services reflects an improvement in July and August, reaching an average balance in the two-month period of 25.3 points, two points higher in comparison to the figure registered in the second quarter. The *services PMI* moderated by one point in that period, to 56.8, a level indicating a high dynamism.

The international tourist inflow reaches record highs in July

In July, the tourism-related indicators showed strong expansionary trend. Thus, more than ten and a half million *tourists* visited Spain in July. This is a record figure and 10.1% higher in comparison to that of a year earlier. In the same month, *air traffic passenger* rose by 7.4%, and *hotel overnight stays* increased by 1.6% y-o-y.

3. - PRICES

The CPI y-o-y rate remains at 1.5% in July

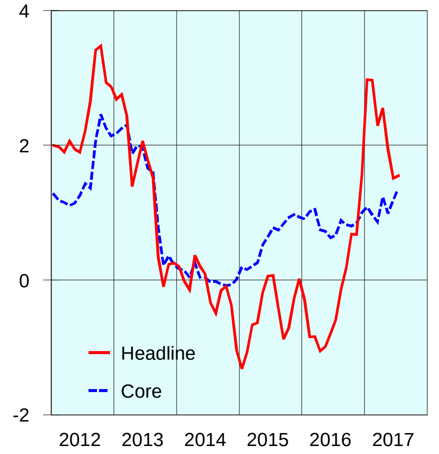
The Consumer Price Index (CPI) y-o-y variation rate remained stable in July 2017, standing at 1.5%, due to the fact that the acceleration of energy products, non-energy industrial goods and processed food prices offset the fall in non-processed food prices, following the increase registered in the previous month. On the other hand, services prices maintained their growth rate unchanged. The CPI monthly variation rate of change stood at -0.7% in July 2017, as in the same month of 2016.

Energy products prices accelerate

Energy products prices rose by 4.1% y-o-y, four tenths more than in June. This evolution is mainly explained by the acceleration in fuels and lubricants prices, which rose from 0.4% y-o-y in June to 1.9% in July, partially offset by the lower growth rate of electricity prices, which slowed down by 2.2 points, down to 6.2% y-o-y in July. On the other hand, gas prices accelerated by seven tenths, up to 10.7%.

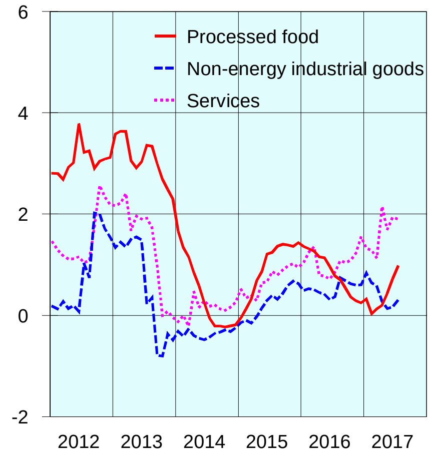
Non-processed food prices went from growing by 1.4% in June to falling by 1% in July, where the performance of fresh fruits stood out, as it increased the pace of decline by 9.4%, from the 2.6% registered in June to 12% in July.

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



Source: INE.

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



Source: INE.

Table 3.1 **Main price indicators**

	Annual average			Year-on-year change in %					
				2016			2017		
	15	**16**	**17**(1)	**Jul.**	**Sep.**	**Dec.**	**Mar.**	**Jun.**	**Jul.**
CPI: Total	-0.5	-0.2	2.3	-0.6	0.2	1.6	2.3	1.5	1.5
Core inflation (2)	0.6	0.8	1.1	0.7	0.8	1.0	0.9	1.2	1.4
CPI excl. food and energy	0.5	0.8	1.2	0.6	0.9	1.2	1.0	1.3	1.4
CPI excl. energy	0.7	0.9	1.2	1.0	0.8	1.1	1.1	1.2	1.2
CPI food	1.2	1.3	1.1	2.3	0.7	0.8	1.4	0.9	0.3
- Non-processed	1.8	2.3	2.7	5.7	1.2	2.1	4.3	1.4	-1.0
- Processed	0.9	0.8	0.4	0.8	0.5	0.2	0.1	0.7	1.0
CPI excl. food	-1.0	-0.6	2.5	-1.4	0.0	1.8	2.5	1.7	1.9
- Industrial goods	-2.7	-2.4	3.4	-3.7	-1.0	2.0	3.8	1.2	1.5
- Energy	-9.0	-8.6	10.5	-12.0	-4.8	5.3	11.7	3.7	4.1
- Non-energy industrial goods	0.3	0.5	0.4	0.4	0.7	0.6	0.6	0.2	0.3
- Total services	0.7	1.1	1.6	0.9	1.0	1.6	1.1	1.9	1.9
CPI manufactured goods (3)	0.5	0.6	0.4	0.5	0.6	0.5	0.4	0.4	0.6
Industrial Producer Prices: Total	-2.1	-3.1	5.5	-4.6	-2.0	2.9	5.8	3.2	3.2
Energy	-8.8	-10.8	15.0	-15.5	-6.3	8.3	14.7	5.8	6.5
Non-energy IPP	0.3	-0.4	2.4	-0.5	-0.5	1.0	2.8	2.2	2.0
Consumer goods	1.1	0.2	2.1	0.1	-0.1	1.2	2.1	2.1	2.0
- Durable	0.2	1.2	0.2	1.4	1.2	1.1	0.3	0.0	-0.2
- Non-durable	1.2	0.2	2.2	0.0	-0.2	1.2	2.3	2.3	2.1
- Food	1.3	-0.1	2.8	-0.3	-0.5	1.5	2.8	3.0	2.6
- Non-food	0.7	0.8	0.9	1.0	0.6	0.6	0.9	0.7	0.8
Capital goods	0.8	0.6	1.0	0.6	0.2	0.6	1.2	1.0	0.8
Intermediate goods	-0.7	-1.5	3.4	-1.7	-1.1	1.1	4.4	2.8	2.6
Unit Value Indices (UVI): Imports	-2.5	-3.1	6.1	-3.3	-1.7	2.8	11.4	2.1	-
- Consumer goods	7.0	1.4	3.0	2.0	1.3	1.0	4.7	4.0	-
- Consumer food	4.2	-0.9	4.8	-1.3	-3.6	3.6	3.5	6.1	-
Exports	0.6	-1.7	0.4	-1.7	-0.2	0.3	1.5	-1.6	-
Prices received by farmers (4)	6.4	-3.3	-	-2.5	-6.2	4.5	-	-	-
GDP Deflator	0.5	0.3	0.6	-	0.2	0.6	0.9	0.3	..
Private Consumption Deflator	-0.2	-0.2	2.1	-	-0.2	0.8	2.3	1.8	..

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

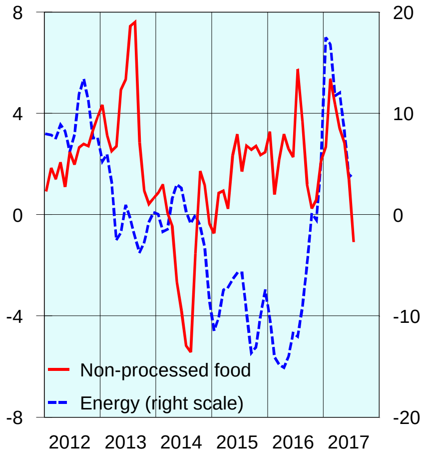
Core inflation reaches 1.4%

Core inflation, which excludes the most volatile elements from the CPI (non-processed food and energy), rose by two tenths in July, up to 1.4%, due to the acceleration of non-energy industrial goods prices and processed food prices.

Non-energy industrial goods grew by 0.3% y-o-y in July, one tenth more than in June, with the evolution of clothing and footwear prices standing out, as they increased their growth rate by two tenths, up to 0.4%

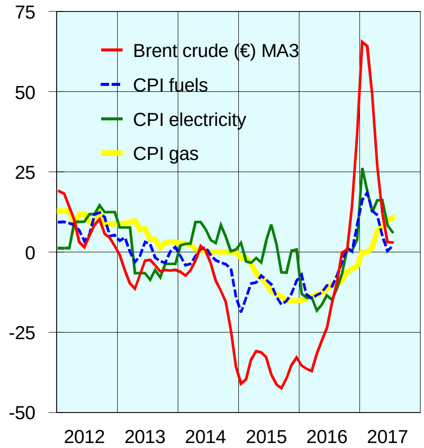
Processed food rose by 1%, three tenths more than in the previous month, and it is worth noting the two-point intensification of oils and fats rise, up to 6.1%. In food as a whole, prices grew by 0.3% y-o-y, six tenths less than in the previous month. On the other hand, the services prices y-o-y growth rate remained at 1.9%.

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



Source: INE.

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



Sources: INE and Reuters.

According to the CPI flash estimate, inflation rises by one tenth in August, up to 1.6%

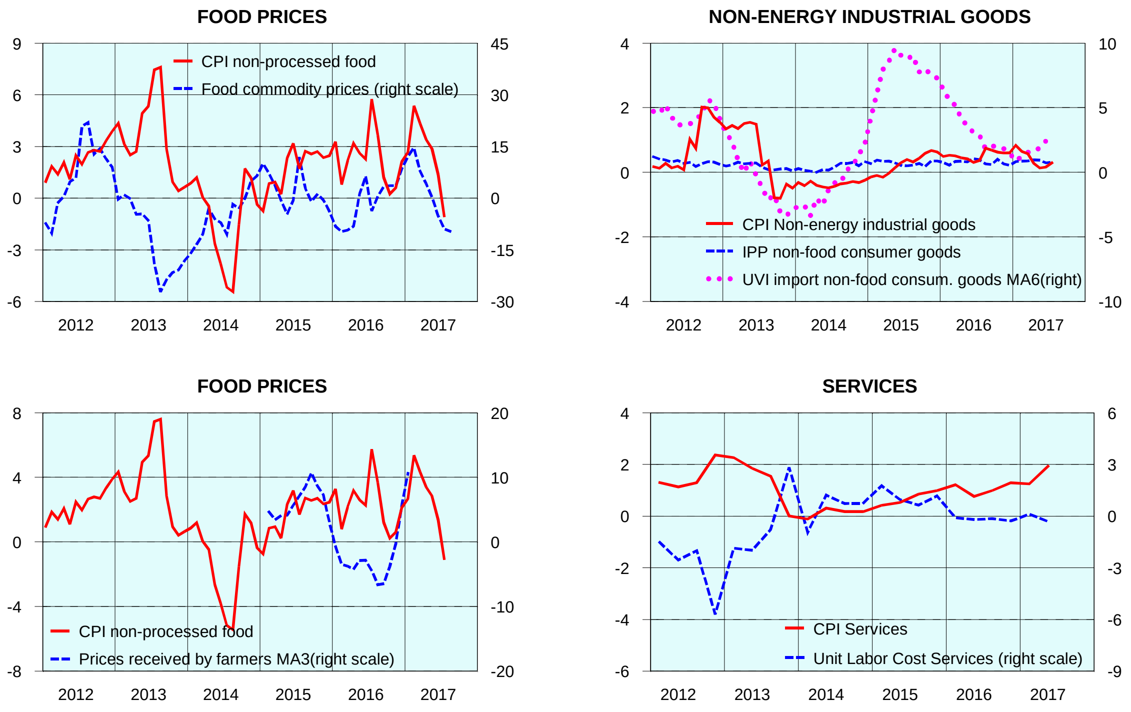
According to the flash estimate published by the INE, the y-o-y rate of the national CPI stood at 1.6% in August 2017, one tenth higher in comparison to July. According to the INE, the rise in fuel prices (diesel and petrol) stands out.

Spain's inflation differential against the Eurozone stands at 0.5 p.p. in August

The harmonised inflation, estimated by the Spanish HICP flash estimate, stood at 2% y-o-y in August, while the Eurozone's HICP flash estimate, published by the Eurostat, recorded a y-o-y variation of 1.5%. If August final figures confirm the estimates, Spain's inflation differential against the Eurozone would be of half a point (four tenths in July).

G. 3.5 COMPONENTS AND MAIN LEADING INDICATORS

Year-on-year change in %



Sources: INE, MAPM, Customs and SGACPE.

The PPI y-o-y rate stabilises at 3.2% in July

The Producer Price Index (PPI) registered a null m-o-m variation rate in July 2017, as in July 2016.

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

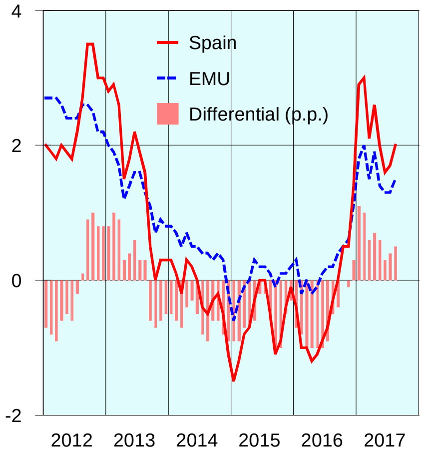
	2015	2016	2017(2)	2016 Jul.	2016 Sep.	2016 Dec.	2017 Mar.	2017 Jun.	2017 Jul.
Eurozone	-0.6	-0.5	0.7	-0.9	-0.4	0.3	0.6	0.3	0.4
Core inflation	-0.4	-0.1	0.1	-0.2	-0.2	-0.1	-0.1	0.1	0.3
- Proc. food.	0.4	0.1	-1.1	0.1	-0.3	-0.9	-1.2	-1.1	-1.2
- Non-energy industrial goods	-0.2	-0.1	0.0	0.0	0.1	-0.1	-0.2	-0.2	-0.2
- Services	-0.7	-0.2	0.3	-0.4	-0.2	0.1	0.1	0.6	0.5
Non-proc. food.	-0.1	0.6	-0.2	1.1	0.2	-0.2	0.1	0.4	-0.6
Energy	-2.2	-3.5	4.7	-5.3	-1.8	2.7	4.3	1.8	2.0
EU	-0.6	-0.6	0.6	-0.9	-0.4	0.2	0.5	0.1	0.2
OECD	-1.2	-1.4	0.1	-1.6	-1.2	-0.4	-0.2	-0.3	-0.3
USA	-0.7	-1.6	0.2	-1.5	-1.5	-0.7	-0.3	0.0	0.0

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

In y-o-y terms, the PPI variation rate stood at 3.2%, identical to the figure registered in June. This was due to the fact that the acceleration of energy prices offset the growth rate moderation of the production prices for intermediate goods, consumer goods and equipment goods.

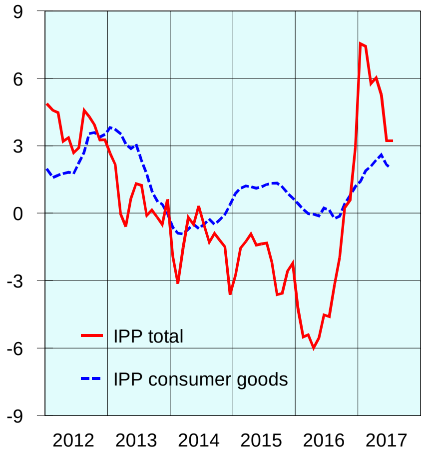
Energy production prices rose by 6.5% y-o-y in July, seven tenths more than in June. By NACE divisions, the evolution of coke and oil refining stands out, as its prices accelerated by 5.6 points, up to 6.4% y-o-y, as well as, in the opposite direction, electricity, gas, steam and air-conditioning supply, whose prices slowed down 1.8 points, to 6.8%.

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



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

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



Source: INE.

The non-energy PPI moderated its y-o-y growth rate in July by two tenths, to 2%, its main components experiencing a slowdown.

Intermediate goods prices grew by 2.6%, two tenths less than in the previous month. In turn, this evolution was influenced by metallurgy prices, which grew by 10.7%, 2.2 points less than in the previous month and, to a lesser extent, by the chemical industry prices, which increased by 2.1% in July, a rate three tenths lower than in the previous month.

Consumer goods also contributed to the non-energy PPI slowdown, as they grew by 2% in July, one tenth less than in June. By components, this moderation in the pace of growth is mainly explained by the evolution of non-durable consumer goods prices, which slowed down by two tenths, to 2.1%, as well as by the evolution of durable consumer goods, which fell by 0.2% y-o-y, after the stabilisation recorded in the previous month. Among the non-durable consumer goods production prices, olive oil production and meat processing and preservation stood out, as they rose by 22.2% and 7.2% y-o-y, respectively, 5.4 points and 2.3 points less than in the previous month. Finally, the y-o-y growth rate of equipment goods prices moderated by two tenths, down to 0.8%.

4. - LABOUR MARKET

In the second quarter of 2017, labour market statistics point to an extension of the employment creation dynamism, both in the case of the Labour Force Survey (LFS) and of the register of Social Security covered workers. In July and August 2017, a slight moderation in the pace of job creation is observed, according to the published figures of covered workers.

Employment increases by 2.8% y-o-y in the second quarter of 2017

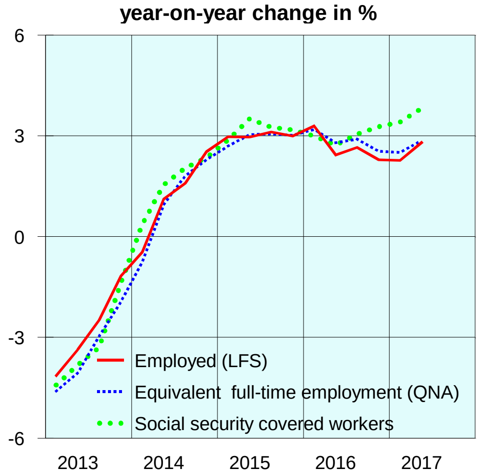
According to LFS data for the second quarter of 2017, published by the INE, the number of employed people increased by 375,000 (271,400 in the same quarter of 2016). The employed population amounted to 18,813,300 people, a figure higher, by 2%, than the one of the previous quarter, and the highest since the third quarter of 2010. With seasonally adjusted data, the q-o-q variation rate stood at 0.85%, a rate 0.12 points above that of the previous quarter. In comparison to the same quarter of 2016, employment increased by 512,300 people, 2.8%, a rate half a point higher than the one registered in the previous quarter.

In the same direction, according to the Quarterly National Accounts figures, full-time equivalent employment, with seasonally and calendar adjusted data, grew by 0.9% q-o-q in the second quarter, two tenths more than in the previous quarter; and it increased by 2.8% in y-o-y terms, three tenths more than in the period between January and March.

Furthermore, according to the information published by the Ministry of Employment and Social Security, the number of Social Security covered workers, with seasonally adjusted data, rose by 1.2% q-o-q in the second quarter of 2017, three tenths more than in the previous period. In y-o-y terms, and with unadjusted data, the number of Social Security covered workers accelerated by four tenths, recording a rate of 3.8% in the second quarter.

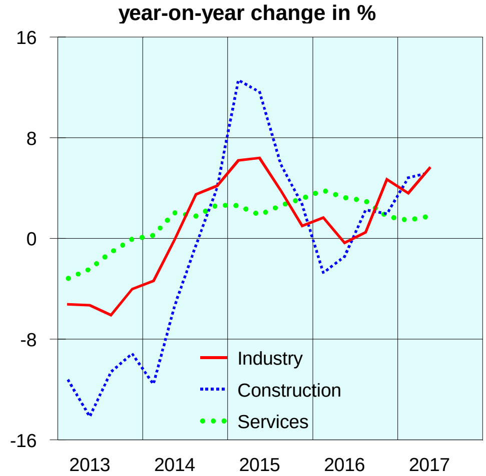
On the other hand, according to LFS data, the employment rate of 16 years old and over population rose by one point in the second quarter, compared to the figure registered in the same period of 2016, standing at 49%.

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



Sources: INE (LFS and QNA) and MESS.

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



Source: INE (LFS).

Table 4.1 **Summary of employment market indicators**

	Latest available data (1)		**Year-on-year change in %**					
	Thousands	**Annual Δ**	**2016-I**	**2016-II**	**2016-III**	**2016-IV**	**2017-I**	**2017-II**
Labour Force Survey								
In work	22727.6	-148.1	-0.3	-0.6	-0.2	-0.6	-0.6	-0.6
- Men	12158.3	-62.4	-0.8	-1.0	-0.9	-0.7	-0.7	-0.5
- Women	10569.4	-85.5	0.2	-0.1	0.6	-0.4	-0.4	-0.8
Rate of employment (2)(*)	58.8	-	-0.2	-0.4	-0.2	-0.5	-0.5	-0.6
- Men	64.7	-	-0.4	-0.6	-0.6	-0.6	-0.6	-0.5
- Women	53.3	-	0.1	-0.1	0.2	-0.4	-0.4	-0.6
In work	18813.3	512.3	3.3	2.4	2.7	2.3	2.3	2.8
- Non-agricultural sector	17980.8	440.0	3.1	2.4	2.6	2.2	2.0	2.5
- Industry	2636.6	139.5	1.7	-0.4	0.5	4.7	3.6	5.6
- Construction	1133.6	56.4	-2.7	-1.4	2.3	2.0	4.8	5.2
- Services	14210.6	244.1	3.8	3.2	3.0	1.7	1.4	1.7
- Men	10256.9	285.8	3.4	2.1	2.2	2.1	2.0	2.9
- Women	8556.4	226.5	3.1	2.8	3.2	2.5	2.5	2.7
- Foreign nationals	2071.7	89.2	4.5	3.8	3.8	3.1	4.6	4.5
- Full time	15943.2	443.3	4.0	3.0	3.5	2.8	2.4	2.9
- Part time	2870.1	69.0	-0.2	-0.6	-1.9	-0.4	1.5	2.5
Rate of part-time employment (3)(*)	15.3	-	-0.6	-0.5	-0.7	-0.4	-0.1	-0.1
Wage earners	15690.3	502.5	3.8	2.9	3.0	2.6	2.7	3.3
- Private Sector	12686.5	493.8	4.2	3.3	3.7	3.4	3.8	4.0
- Public Sector	3003.8	8.8	2.1	1.3	0.6	-0.5	-1.5	0.3
- On a permanent contract	11484.1	202.8	1.8	2.0	1.9	1.5	1.7	1.8
- On a temporary contract	4206.1	299.7	10.1	5.5	6.2	5.9	5.6	7.7
Rate of workers on temporary contracts (4)(*)	26.8	-	1.4	0.6	0.8	0.8	0.7	1.1
Self-employed	3123.1	9.9	1.1	0.3	0.7	0.6	0.1	0.3
Unemployed	3914.3	-660.4	-12.0	-11.2	-10.9	-11.3	-11.2	-14.4
- Men	1901.4	-348.2	-15.1	-13.1	-13.4	-12.3	-12.1	-15.5
- Women	2012.9	-312.2	-8.7	-9.2	-8.4	-10.4	-10.3	-13.4
- Under the age of 25	583.8	-109.0	-14.3	-9.7	-15.6	-10.7	-11.7	-15.7
- Having no previous job	413.8	-58.9	-19.9	-15.8	-16.9	-8.3	-6.3	-12.5
Rate of unemployment (5)(*)	17.2	-	-2.8	-2.4	-2.3	-2.3	-2.2	-2.8
- Men	15.6	-	-3.3	-2.6	-2.5	-2.3	-2.2	-2.8
- Women	19.0	-	-2.2	-2.2	-2.0	-2.3	-2.3	-2.8
- Young people (aged 16-24)	39.5	-	-4.9	-2.7	-4.6	-3.3	-4.8	-7.0
MEMBERSHIP OF THE S.S.								
Total no. workers covered	18309.8	609.8	3.0	2.7	3.0	3.3	3.4	3.8
Wage earners	15082.4	588.5	3.4	3.1	3.5	3.8	4.0	4.4
Self-employed	3227.4	21.3	1.2	1.0	0.9	0.9	0.9	0.9
- Foreign nationals	1848.3	120.8	5.4	4.5	5.1	5.5	5.6	7.2
EMPLOYMENT OFFICES								
Registered unemployment	3382.3	-315.2	-8.1	-7.9	-9.1	-9.4	-9.6	-10.9
Registered contracts	1536.4	84.6	6.1	9.9	6.9	7.1	12.5	9.8
- Permanent (6)(*)	7.5	-	0.2	0.6	0.6	0.5	0.3	0.0
- Part time (6)(*)	34.7	-	0.1	0.4	0.6	0.3	-0.9	-0.4

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

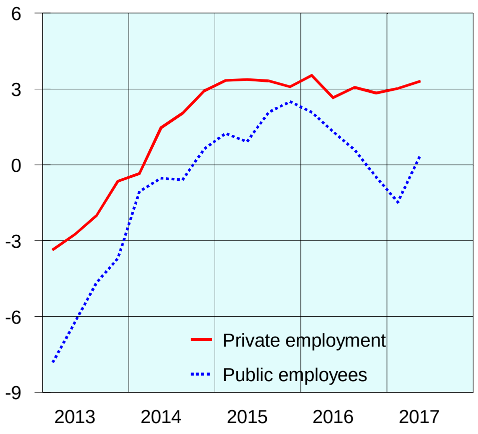
The employment rise in the second quarter of 2017 reaches all major branches of activity

According to LFS figures, and in y-o-y terms, the rise in employment affected all main sectors, particularly the services one, where it increased by 244,100 people (1.7% y-o-y), followed by industry, with 139,500 (5.6%), agriculture with 72,400 (9.5%) and construction with 56,300 employed people more (5.2%).

40% of jobs created were of a permanent nature

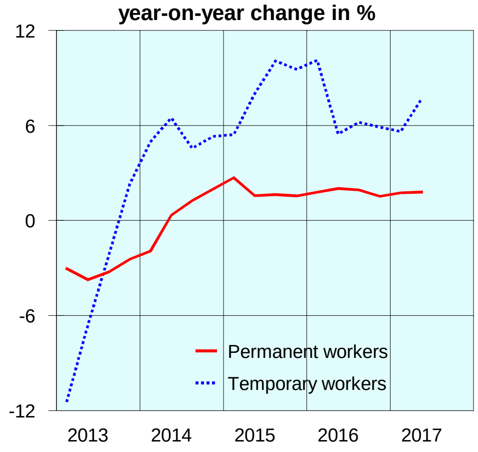
Focusing on the professional status of workers, in y-o-y terms, wage employees rose by 502,500, registering a y-o-y variation rate of 3.3%, six tenths above the figure registered in the previous quarter, and the number of self-employed workers increased by 9,900, 0.3%, versus the 0.1% of the previous quarter.

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



Source: INE (LFS).

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



Source: INE (LFS).

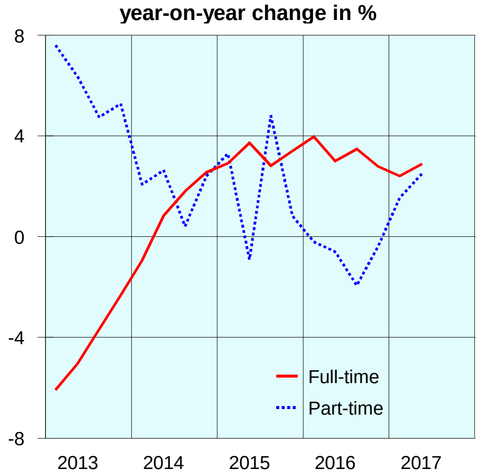
By type of contract, compared to a year earlier, almost 60% of the increase in waged employment was of a temporary nature (299,700), with the temporary rate reaching 26.8%, 1.1 points higher than a year earlier.

Regarding working hours, and in y-o-y rates, full-time workers rose by 2.9%, a rate half a point higher than in the previous quarter, and part-time workers increased by 2.5%, one point more than in the previous quarter. As a result, the weight of part-time workers in total employment decreased by one tenth compared to a year earlier, standing the partiality rate at 15.3%. The proportion of those who work part-time because they could not find a full-time job ("involuntary") stood at 8.8% of the total employed people, which is half a point lower than in the second quarter of 2016.

LFS unemployment falls by 14.4% y-o-y

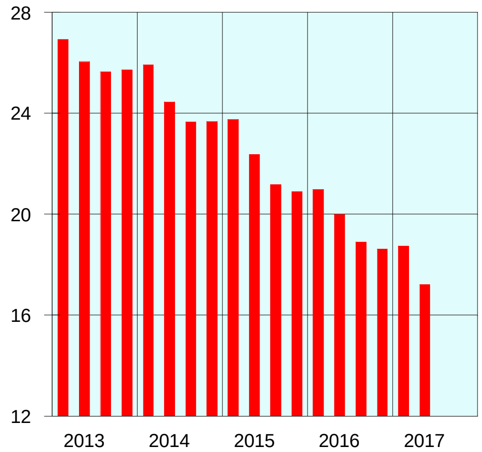
Unemployment fell by 340,700 people in the second quarter of 2017, compared to the decrease of 216,700 people in the same period of 2016. Thus, the total number of unemployed people stood at 3,914,300, below four million for the first time since late 2008. With seasonally adjusted data by the INE, the q-o-q variation in the number of unemployed people stood at -5.1%, (-3.4% in the previous quarter), the sharpest drop since the third quarter of 2005 (-7%). During the last year, unemployment has fallen by 660,400 people, which results in an annual decline rate of 14.4%, 3.2 points higher than the previous quarter (-11.2%) and the highest since the fourth quarter of 2005 (-14.5%). The unemployment rate fell by 1.5 points during the quarter and by 2.8 points compared to a year earlier, down to 17.2% of the labour force.

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



Source: INE (LFS).

G 4.6 UNEMPLOYMENT RATE
% of labour force

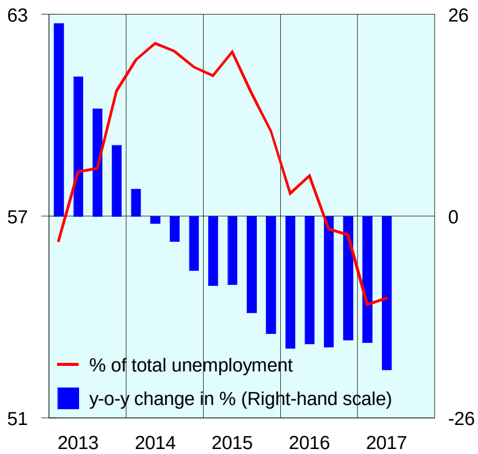


Source: INE (LFS).

Youth unemployment and long-term unemployment continue to fall strongly

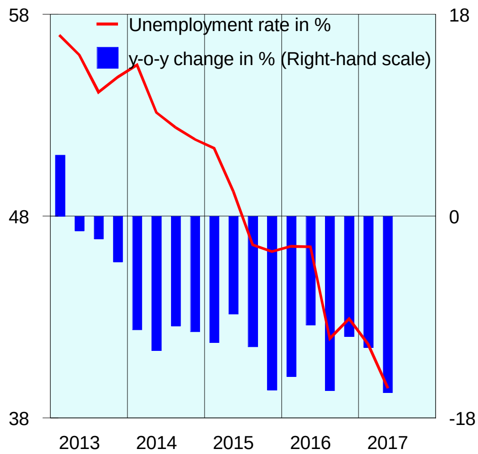
By age groups, it is worth noting the fall in youth unemployment (people aged between 16 and 24), 15.7% y-o-y, the sharpest rate of decline in the time series, with the youth unemployment rate standing out at 39.5%, seven points lower than a year earlier.

G 4.7 UNEMPLOYED SEARCHING FOR OVER A YEAR



Source: INE (LFS).

G 4.8 YOUTH UNEMPLOYMENT



Source: INE (LFS).

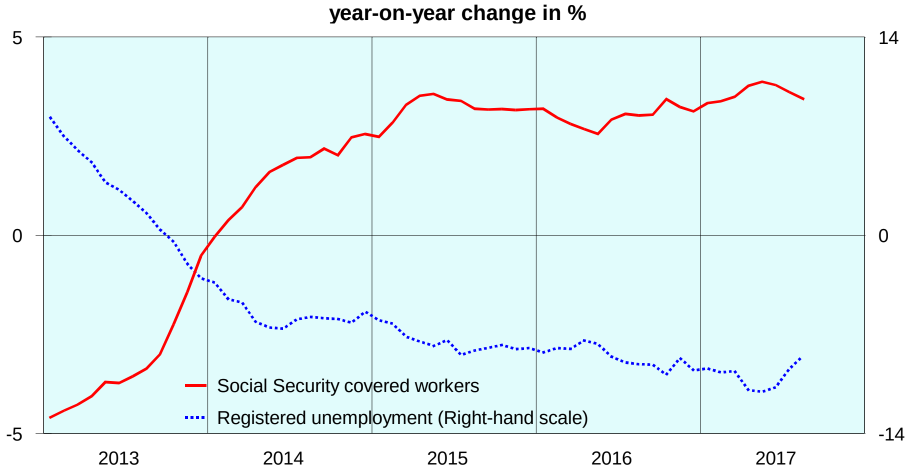
According to LFS figures for the second quarter of 2017, the number of unemployed people looking for a job for one year or more fell by 19.8% y-o-y, 3.5 points more than in the previous quarter.

On the other hand, long-term unemployment, defined as the number of people who are unemployed for over one year, fell by 20% y-o-y in the second quarter of 2017, according to Eurostat figures, reaching a proportion of 45.7% on the total number of unemployed people, which represents a reduction of 3.2 points compared to the same period of 2016.

Social Security covered workers increase by 3.5% y-o-y in the two-month period from July to August…

According to the latest labour market information, from the Social Security covered workers records, employment rose by 3.5% y-o-y in the two-month period from July to August 2017, a rate three tenths lower compared to the second quarter. This is due to the moderation of employment growth in all activity branches, except for industry, where the number of Social Security covered workers increased by 3.1% y-o-y, as in the second quarter of 2017. In particular, services increased by 3.6% y-o-y in the two-month period, compared to the 3.8% registered in the second quarter, and agriculture by 0.9% (2.8% in the second quarter).

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



Source: MESS.

…and registered unemployment falls by 9% y-o-y

With regard to registered unemployment, the rate of decline was of 9% y-o-y in the two-month period, 1.9 points less intense than in the second quarter. The moderation of the registered unemployment decrease rate recorded in the two-month period affected all branches.

Unit labour costs maintain the downward trend

According to the Quarterly National Accounts figures, in the second quarter of 2017, compensation per employee fell by 0.1% y-o-y, following the 0.4% growth registered in the previous quarter, and apparent labour productivity rose by 0.3%, two tenths less than in the previous period, so unit labour cost fell by 0.4% y-o-y, extending the downward trend of the last two years.

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

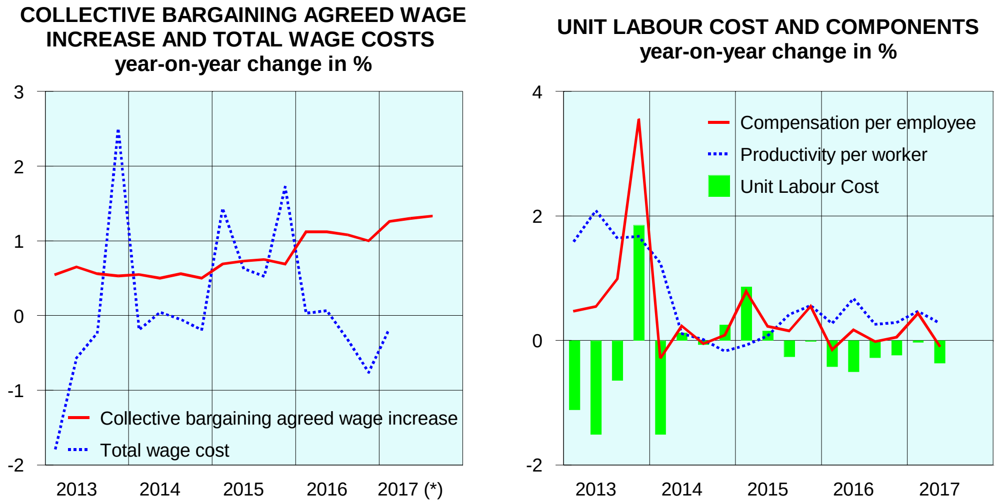
	2015	2016	2017 (1)	2016 I	2016 II	2016 III	2016 IV	2017 I	2017 II
WAGES FROM COLLECTIVE BARGAINING (2)									
All sectors	0.7	1.0	1.3	1.1	1.1	1.1	1.0	1.3	1.3
- Agriculture	0.7	0.9	1.0	0.9	0.9	0.9	0.9	0.9	0.9
- Industry	0.7	1.1	1.5	1.1	1.1	1.1	1.1	1.4	1.4
- Construction	0.8	0.9	2.2	0.7	0.9	0.9	0.9	2.2	2.2
- Services	0.7	1.0	1.3	1.2	1.2	1.1	1.0	1.2	1.3
TOTAL LABOUR COSTS PER WORKER									
All sectors	0.6	-0.4	0.0	-0.2	-0.1	-0.5	-0.8	0.0	-
- Industry	-0.4	0.4	0.9	0.5	0.3	0.0	0.6	0.9	-
- Construction	-1.1	-1.7	-1.3	-2.2	-1.4	-1.9	-1.4	-1.3	-
- Services	1.0	-0.4	-0.1	-0.2	-0.1	-0.4	-1.0	-0.1	-
WAGE COSTS PER WORKER									
All sectors	1.1	-0.3	-0.2	0.0	0.1	-0.3	-0.8	-0.2	-
- Industry	0.4	0.4	0.8	1.0	0.4	-0.2	0.5	0.8	-
- Construction	-0.7	-1.5	-1.0	-1.7	-0.9	-1.7	-1.6	-1.0	-
- Services	1.4	-0.3	-0.3	0.0	0.1	-0.2	-0.9	-0.3	-
NON-WAGE COSTS PER WORKER									
All sectors	-0.7	-0.8	0.5	-1.0	-0.6	-0.9	-0.9	0.5	-
- Industry	-2.6	0.3	1.1	-0.7	0.3	0.6	0.9	1.1	-
- Construction	-2.0	-2.3	-1.8	-3.5	-2.4	-2.3	-0.9	-1.8	-
- Services	-0.1	-0.9	0.6	-0.8	-0.6	-1.1	-1.3	0.6	-
COMPENSATION PER EMPLOYEE (3)									
All sectors	0.4	0.0	0.2	-0.1	0.2	0.0	0.1	0.4	-0.1
- Agriculture	6.0	1.3	0.0	1.9	2.6	0.4	0.2	-0.2	0.2
- Industry	-0.7	0.2	0.4	0.6	0.2	0.0	-0.1	0.5	0.3
- Construction	-1.0	-1.5	-1.5	-1.6	-1.6	-2.0	-1.0	-1.3	-1.7
- Services	0.8	0.1	0.3	0.0	0.3	0.2	0.1	0.6	0.0
UNIT LABOUR COST (4)									
All sectors	0.2	-0.4	-0.2	-0.4	-0.5	-0.3	-0.2	0.0	-0.4
- Agriculture	10.5	1.2	0.9	2.5	2.1	0.1	0.1	0.3	1.5
- Industry	-4.4	-0.3	0.4	-0.3	-1.2	0.1	0.4	0.2	0.6
- Construction	5.3	-1.8	-1.3	-2.1	-2.0	-2.0	-1.1	-1.1	-1.4
- Services	1.1	-0.2	-0.1	-0.1	-0.2	-0.2	-0.3	0.1	-0.3

(1) Average of the period available data.
(2) Aggregate figures. The years include the reviews from wage revision clauses.
(3) Equivalent full-time employment. Adjusted for seasonal and calendar effects.
(4) Compensation per employee/labour productivity. Adjusted for seasonal and calendar effects.
Sources: MESS and INE (Quarterly Survey of Labour Costs and National Accounts Base 2010).

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

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 August 2017), three tenths above the wage increase agreed in the financial year 2016, reviewed. By sectors, up to August, the agreed wage increase stands at 2.2% in construction, 1.5% in industry, 1.3% in services and 1% in agriculture.

G 4.10 WAGE INDICATORS



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

Up to August 2017, 762 opt-outs were registered, affecting 14,812 workers, 36.5% less than in the same period of last year. As usual, most of the opt-outs submitted (89.8%) indicate that they have been “pulled away from” the wage amount agreed.

5. - PUBLIC SECTOR

On 12th September, 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 June 2017. Likewise, on 8th September, the Ministry published the State monthly budget execution data for July, both in terms of National Accounts and Cash. Furthermore, the Ministry of Employment and Social Security published the monthly budget execution data of the Social Security, in terms of Cash, corresponding to July.

On the other hand, the Bank of Spain (BoS) published the General Government Debt data, following the Excessive Deficit Procedure (EDP) methodology, for June 2017 and the Debt data for the State, corresponding to July.

The General Government consolidated deficit, excluding Local Governments, reaches 2.35% of GDP up to June

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded up to June 2017 a deficit of € 27.3 billion (2.35% of GDP), 22.5% lower in comparison to the same period of 2016 (3.17% of GDP). This deficit decrease is explained by a y-o-y increase of non-financial resources (4.5%) higher than the one recorded by non-financial uses (0.1%)

The increase in revenues was mainly due to the rise in taxes (5.6%) and social contributions (4.9%). Regarding non-financial uses, all main items rose, except interest and compensation of employees, which fell by 5.3% and 0.4%, respectively, the rises of intermediate consumption (3.2%), subsidies (14.3%), social contributions (1.5%), social transfers in kind (4.7 %) and transfers to other General Government sub-sectors (3.7%) standing out.

The budget execution of the Central Government ended the first half of 2017 with a deficit of € 12.7 billion, equal to 1.09% of GDP, 0.84 points below the one recorded in the same period of 2016 (€ 21.5 billion, 1.93% of GDP). This deficit reduction, compared to the first half of 2016, is due to the decrease of non-financial uses, which fell by 4.7%, down to € 102.8 billion, and to the increase in non-financial resources, which rose by 4.3%, up to € 90.0 billon).

The increase of resources is due to the rise of tax revenues (5.2%), mainly current taxes on income, wealth, etc. (11.1%), since the first instalment payment of companies in 2017, made in April, 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 accrued interests (-5.3%), the fall in transfers to other administrations (-4.1%), in particular to the State Public Employment Service (known in Spanish as SEPE) and the lower support provided to financial institutions (in 2016 there was a capital transfer from the Fund for Orderly Bank Restructuring, known in Spanish as FROB, to the Management Company for Assets from the Banking Sector Reorganisation, known in Spanish as SAREB), with no correspondence in 2017).

The expenditure of the Central Government eligible to be included in the calculation of the expenditure benchmark decreased by 2.1% y-o-y, with an amount of € 48.5 billion in comparison to the € 49.5 billion registered in the first half of 2016.

The Regional Governments accumulated a deficit of € 8.4 billion (equivalent to 0.72% of GDP) up to June this year, eight hundredths higher than in the same period of 2016 (€ 7.2 billion, 0.64% of GDP). This slightly higher deficit is explained by a y-o-y increase of non-financial resources (1.1%) lower than the one registered by non-financial uses (2.5%). The increase in resources is mainly explained by the growth of taxes (6.6%), partially offset by the decline in the transfers received from the State (-1.3%). In turn, the taxes increase is partly explained by the higher advanced payments made by the State as personal income tax, as well as by the revenues derived from the Tax on Property Transfers and Documented Legal Acts. The uses growth (2.5%) is mainly due to an increase in intermediate consumption (5.1%), compensation of employees (1.3%, which includes in several Communities the pending amounts corresponding to the release of the bonus pay of 2012), social transfers in kind (4.6%) and transfers made to other General Government sub-sectors (7.3%).

The expenditure of the Regional Governments eligible to be included in the calculation of the expenditure benchmark in the analysed period increased by 3.6% y-o-y, standing at € 70.6 billion.

As for Social Security Funds, these ended the first half of 2017 with a deficit of € 6.2 billion, equal to 0.54% of GDP, five hundredths lower than in the same period of 2016 (€ 6.6 billion, equivalent to 0.59% of GDP). This lower deficit is due to an increase of non-financial resources (1.9%), higher than non-financial uses (1.3%). The increase in revenues is explained by the favourable evolution of social contributions (5.6%), partially offset by the decrease in transfers received from the State (-16.3%) and, to the fall of interests generated by the Social Security Reserve Fund (-50.4%). On the other hand, the rise in uses is due to the evolution of expenditure on social benefits, which increased by 1.6%, boosted by the Social Security System benefits increase (3.3%), versus the fall of unemployment benefits from the State Public Employment Service (-8.2%) and the Wage Guarantee Fund (-36,3%, known in Spanish as FOGASA).

The State's deficit in terms of National Accounts falls by 28.6% y-o-y up to July

Up to July 2017, the budget execution of the State ended with a deficit, in terms of National Accounts, of € 21.6 billion (1.86% of GDP), 28.6% 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 (4.8%) and a decrease registered by non-financial uses (-3.2%) in comparison to the same period of last year.

Table 5.1. **State Budget Outturn**
Accumulated amounts in millions euros. Year-on-year in %

	2016 Outturn	2017 Budget	% Change	Outturn July 2016	Outturn July 2017	Outturn July % Change
1. NON-FINANCIAL RECEIPTS	**133,588**	**133,055**	**-0.4**	**70,060**	**73,848**	**5.4**
TAXES	104,915	112,880	7.6	54,257	60,157	10.9
Direct	62,237	69,404	11.5	26,335	29,826	13.3
Personal income tax	35,799	38,264	6.9	23,237	23,628	1.7
Corporate income tax	21,678	24,399	12.6	436	3,221	-
Others	4,760	6,741	41.6	2,662	2,977	11.8
Indirect	42,678	43,476	1.9	27,922	30,331	8.6
Value added tax	31,528	33,052	4.8	21,578	24,159	12.0
Excise duties	7,739	7,811	0.9	4,384	4,122	-6.0
Others	3,410	2,613	-23.4	1,960	2,049	4.6
OTHER RECEIPTS	28,674	20,175	-29.6	15,803	13,691	-13.4
2. NON-FINANCIAL PAYMENTS	**149,792**	**153,852**	**2.7**	**83,969**	**88,471**	**5.4**
Wages and salaries	16,207	16,371	1.0	9,364	8,716	-6.9
Goods and services	3,516	3,031	-13.8	1,782	1,430	-19.7
Interest payments	32,078	32,229	0.5	15,025	22,019	46.6
Current transfers	85,497	85,891	0.5	51,862	51,266	-1.1
Contingency fund	-	2,368	-	-	-	-
Real investment	4,338	5,321	22.7	1,742	1,223	-29.8
Capital transfers	8,156	8,641	5.9	4,194	3,817	-9.0
CASH BALANCE (1-2)	**-16,203**	**-20,797**	**28.4**	**-13,909**	**-14,623**	5.1
Memorandum item (National Accounts):						
Non-financial resources	179,230			94,736	99,329	4.8
Non-financial uses (EDP)	208,538			124,995	120,933	-3.2
NET LENDING (+) OR BORROWING (-)	**-29,308**			**-30,259**	**-21,604**	**-28.6**
As % of GDP	-2.63			2.72	-1.86	

Source: Ministerio de Hacienda y Función Pública.

The increase in non-financial resources is mainly due to the evolution of tax revenues, which rose by 7.1%, boosted by the Corporate Income Tax (36.3%) and VAT (5.9%) growth. The increase in revenues accrued from the Corporate Income Tax is due to the rise in the first instalment payment as a result of the impact of Royal Decree-Law 2/2016 and Royal Decree-Law 3/2016, while that of the previous year was affected by the removal of increased rates and minimum payment.

On the other hand, the decrease in uses is mainly due to the fewer current transfers between Public Administrations (-3.3%) and in particular to Social Security Funds, the lower contribution to the budget of the EU based on VAT and GNI resources (-10.1%) and the interests fall (-5.5%), compensation of employees (-4.1%, since in 2016 approximately half of the extra pay of December 2012 had been returned, around € 341 million) and intermediate consumption (-6.5%).

In terms of Cash, the State recorded a deficit of € 14.6 billion up to July 2017 (1.26% of GDP), in comparison to the deficit of € 13.9 billion recorded in the same period of 2016 (1.25% of GDP). Non-financial revenues registered a y-o-y increase of 5.4%, as non-financial payments, up to € 73.8 and € 88.5 billion, respectively.

Tax revenues up to July increase by 9.4% in homogeneous terms, on Cash basis

Total tax revenue (including the Regional and Local Governments' share) recorded a y-o-y increase of 9.2% up to July, mainly due to the increase of the first instalment payment 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 9.4%. The remaining non-financial revenue decreased by 13.4%. Without including the Regional and Local Governments, and in non-homogeneous terms, tax revenues rose by 10.9%.

Table 5.2. **State tax collection**
Accumulated amounts in millions euros. Year-on-year in %

				January-July		
	2015	2016	% Annual Change	2016	2017	% Annual Change
Direct taxes	**97,789**	**98,854**	**1.1**	**48,631**	**54,429**	**11.9**
Personal income tax	72,346	72,416	0.1	45,533	48,230	5.9
Corporate income tax	20,649	21,678	5.0	436	3,221	-
Non-resident income	1,639	1,961	19.6	1,147	1,380	20.4
Other direct taxes	3,156	2,799	-11.3	1,516	1,597	5.4
Indirect taxes	**82,726**	**86,122**	**4.1**	**53,557**	**57,173**	**6.8**
Value added tax	60,305	62,845	4.2	40,325	43,469	7.8
Excise duties	19,147	19,866	3.8	11,272	11,654	3.4
Tobacco	6,280	6,677	6.3	3,729	3,629	-2.7
Hydrocarbons	9,783	10,556	7.9	6,087	6,433	5.7
Others	3,084	2,633	-14.6	1,457	1,593	9.3
Other indirect taxes	3,275	3,410	4.1	1,960	2,049	4.6
TOTAL TAXES	**180,516**	**184,976**	**2.5**	**102,188**	**111,602**	**9.2**

Source: IGAE, Ministerio de Hacienda y Función Pública.

Within total taxes, revenue from Personal Income Tax, including the Regional and Local Governments' share, increased by 5.9% up to July, mainly due to the labour income withholdings rise (2.9%), boosted by the rise in employment and the pensions mass. In homogeneous terms, after correcting the effect of tax refunds in both years and the deferrals of public entities, the Personal Income Tax increase stands at 7%.

Revenue from Corporate Income Tax reached € 3.2 billion up to July, versus the € 436 registered in the same period of the previous year. This evolution is due to the increase of the first instalment payment 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. In homogeneous terms, after correcting the effect of tax refunds, the effect of regulatory measures and the revenues derived from inspections in 2016, the Corporate Income Tax increase reached 10.8%.

VAT revenue, including the Regional and Local Governments' share, increased by 7.8% y-o-y up to July, due to the improvement of consumption, the increase of the final expenditure subject to VAT and to the change in legislation as concerns deferrals, which contributed to an additional income of € 824 million up to the end of July. In homogeneous terms, adjusted by the different tax refunds, the VAT increase stands at 9.2%. If the effect of the deferrals is also excluded, the increase stands at 7.1%.

Excise duties collection, including the Regional and Local Governments' share, was 3.4% higher compared to the figure registered in the same period of 2016, mainly due to the increase in the Tax on Hydrocarbons (5.7%, which in homogeneous terms, corrected for the health cent refunds, stood at 3.5%).

The State non-financial expenditure increases by 5.4% up to July

With regard to expenditure, total non-financial payments increased by 5.4% up to July in comparison to the amount accumulated in the same period of 2016, due to the rise of interest expenditure (46.6%), despite the decrease in the rest of its components: staff expenses (-6.9%), current expenses on goods and services (-19.7%), current transfers (-1.1%), real investments (-29.8%) and capital transfers (-9%).

The borrowing requirement of the State falls

With regards to the borrowing requirement of the State, it fell by 37.5% up to July, compared to the same period of last year, reaching € 25.4 billion, versus the € 40.6 billion recorded in the same period of 2016. This decrease is due to the lower net acquisition of financial assets (€ 10.8 billion, compared to the € 26.7 billion registered in the same period of 2016), and in particular the current account and other deposits in the Bank of Spain, partially offset by the higher cash deficit. The borrowing requirement was mainly financed through mid and long term domestic debt (€ 29.6 billion).

The Social Security reduces the deficit up to July

On the other hand, up to July 2017, the Social Security System (Managing Entities, General Treasury and Mutual Insurers) recorded a deficit of € 5.1 billion in terms of Cash (0.44% of GDP), 10.9% below the figure recorded in the same period of 2016 (€ 5.7 billion). Revenues increased by 3.8% mainly due to the favourable evolution of social contributions (4.8%, up to € 63 billion), and current transfers (2.8%, up to € 12.0 billion), despite the fall in other revenues. On the other hand, payments rose by 2.7%, mainly due to the increase recorded by pension (3%, up to € 71.1 billion).

Table 5.3. **Social Security System Budget Outturn**
Accumulated amounts in millions euros. Year-on-year in %

	2016 Outturn	2017 Budget	% Change	2016 July	2017 July	% Change
1. REVENUE	**123.253**	**137.522**	**11,6**	**74.021**	**76.802**	**3,8**
Social Security contributions	103.517	117.243	13,3	60.083	62.955	4,8
Current transfers	16.066	16.732	4,1	11.671	12.003	2,8
of which: from the State	12.936	13.143	1,6	9.877	10.052	1,8
Property income	1.723	1.634	-5,2	711	472	-33,7
Other revenue (1)	1.947	1.914	-1,7	1.556	1.373	-11,8
2. EXPENDITURE	**141,954**	**141,266**	**-0.5**	**79.743**	**81.902**	**2,7**
Contributory pensions	121,361	121,233	-0.1	69.007	71.103	3,0
Sickness benefits	6,840	5,398	-21.1	2.970	3.261	9,8
Maternity benefits	2,182	2,204	1.0	1.237	1.323	7,0
Other benefits	2,027	2,107	4.0	1.364	1.372	0,6
Wages and salaries	2,274	2,358	3.7	1.303	1.245	-4,4
Goods and services purchases	1,320	1,478	12.0	690	738	6,9
Other revenue (2)	5,951	6,489	9.0	3.171	2.860	-9,8
3. CASH BALANCE (1-2)	**-18,701**	**-3,745**	**-80.0**	**-5.721**	**-5.100**	**-10,9**
As % of GDP	-1.7	-0.4		-0,51	-0,44	

(1) Fees and other current revenues, disposal of real investments and capital transfers. (2) Interest payments, real investments, other current transfers and capital transfers.
Source: Intervención General de la Seguridad Social, Ministerio de Empleo y Seguridad Social.

The General Government EDP Debt slows down in June

On 17th August, the Bank of Spain published the General Government Debt data for June 2017, according to the EDP methodology. According to the Bank of Spain, the General Government EDP Debt reached € 1,138.9 billion in that period, 2.9% higher than in the same period last year, which represents a moderation of four tenths compared to the increase registered in May (3.3%).

By subsectors, the State EDP Debt stood at € 976.3 billion, registering a y-o-y increase of 4.0%. The Debt of other entities belonging to the Central Government reached € 36.3 billion, which implies a 23.1% decrease in comparison to June last year. On the other hand, the Regional Government EDP Debt reached € 286.2 billion, 4.6% more in comparison to the figure registered in the same month of 2016. The Local Government subsector registered an EDP Debt of € 32.5 billion in June, 7.4% lower as compared to the previous year. Finally, the EDP Debt of the Social Security subsector reached € 17.17 billion, a figure equal to the one registered in June 2016.

On 31st August, the Bank of Spain published the State EDP Debt data for July. At the end of July, the State Debt, according to the EDP methodology, stood at € 972.5 billion, compared to the € 937.5 billion registered a year earlier, which represents a y-o-y increase of 3.7%, three tenths lower in comparison to the increase registered in the previous month (4.0%).

6. - BALANCE OF PAYMENTS

The Balance of Payments generates net lending to the rest of the world

According to the available Balance of Payments data, in the first half of 2017, the Spanish economy generated a net lending to the rest of the world of € 4.6 billion, versus a net lending of € 6.3 billion in the same period last year.

The current account balance registered a surplus amounting to € 3.6 billion, lower than that registered in the first half of 2016 (€ 5.8 billion). This fall is due to the decrease of the goods and services surplus partially offset by the moderation of the deficit of primary and secondary income. On the other hand, the capital account surplus rose by € 400 million, up to € 992 million.

In parallel, the financial balance registered net capital outflows amounting to € 610 million, versus net outflows of € 1.2 billion registered a year earlier, due to net capital outflows of € 37.9 billion, excluding the Bank of Spain, slightly higher than the increase in the net debtor position of the Bank of Spain (€ 37.3 billion).

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

	January-June 2016			January-June 2017		
	Credit	Debit	Net	Credit	Debit	Net
Current and capital accounts	**212,811**	**206,464**	**6,346**	**227,181**	**222,620**	**4,561**
Current account	**211,403**	**205,648**	**5,752**	**225,980**	**222,410**	**3,571**
Goods and services	178,512	163,999	14,512	193,293	182,221	11,071
Tourism	*22,677*	*7,221*	*15,456*	*25,388*	*8,424*	*16,964*
Primary and secondary income	32,891	41,649	-8,759	32,687	40,189	-7,502
Capital account	**1,408**	**816**	**592**	**1,201**	**210**	**992**

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

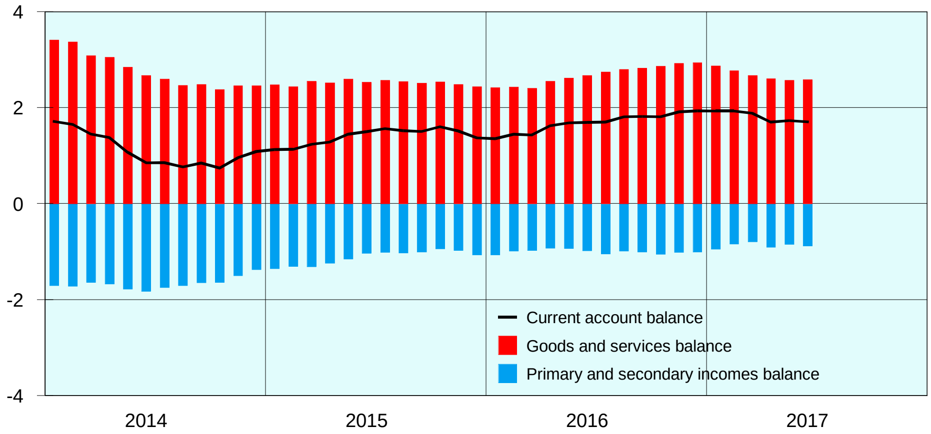
The surplus of goods and services moderates in the first half of 2017

Trade of goods and services with the rest of the world in the period between January and June 2017 resulted in a surplus of € 11.1 billion, 23.7% lower compared to the figure recorded in the same period last year. In nominal terms, exports increased by 8.3% and imports by 11.1%. These rates are 5 and 9.5 points higher, respectively, in comparison to those registered in the same period of the previous year.

The non-energy trade surplus increases

The Balance of Payments only provides disaggregated data between the balances of goods and services for the first quarter of 2017. According to Customs data, which show a similar evolution, in the first half of 2017, the energy goods trade deficit increased by 42.6%, in line with the evolution of the price of imported oil which, measured in euros, became 45.2% more expensive on average during the period, while the non-energy balance surplus grew by 50.2%. As a result, the trade deficit rose by 40.7%.

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



Sources: Banco de España and SGACPE.

Tourism revenues accelerate...

The balance of tourism services accumulated a surplus of € 17 billion in the first half of 2017, 9.8% higher than in the same period of the previous year. This result reflects an increase of 12% of tourism revenues, which is five points higher compared to the figure registered a year earlier. Foreign tourists´ expenditure, according to the Tourist Expenditure Survey (EGATUR), increased by 14.8% y-o-y in the first half (7.9% in the same months of 2016) and tourist arrivals, an indicator of the evolution of tourism in real terms, increased by 11.6%, one tenth more than in the first half of last year.

...and so does tourism payments

Tourism payments, as a result of Spanish residents travelling abroad, grew by 16.7% in the first half compared to a year earlier. This rate implies a 2.5 points increase compared to that registered in the first half of 2016.

The deficit of primary and secondary income falls

The *balance of primary and secondary income* accumulated a deficit of € 7.5 billion between January and June 2017, 14.4% lower than that recorded in the same months of 2016, due to a revenue decrease (-0.6%) lower than the one registered by payments (-3.5%). There is only data available split into primary and secondary income up to March 2017. The only available data for the first half of 2017 are included in the secondary income and, in particular, are provided by the Directorate General of the Treasury and Financial Policy corresponding to financial flows with the European Union, which show a balance of net current transfers received from the EU of € 310 million, following the € 686 million recorded a year earlier, with a fall in revenues (-2.6%) and a rise in payments (4.3%). With regards to revenues, public transfers received from the European Social Fund, aimed at promoting employment, fell by 10%, while in the transfers for the private sector, the subsidies received by farmers as refunds of the Common Agricultural

Policy fell by 0.3%. On the payments side, within public payments for the EU, those related to the VAT Resource (25.5%), GNI Resource (0.7%) and Traditional Own Resources (6.2%) grew, although it should be noted that these payments are not divided in the same way through all financial years.

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

	Million euro					% y-o-y change		Accumulated amounts		
								Million euro		% y-o-y change
	2016			2017		2017		2016	2017	2017
	II	III	IV	I	II	I	II	I-II	I-II	I-II
Net current transfers	**-361**	**-1,656**	**-2,103**	**1,365**	**-1,055**	**30.4**	**192.4**	**686**	**310**	**-54.9**
- Revenue	**1,489**	**1,115**	**903**	**4,295**	**1,470**	**-3.0**	**-1.2**	**5,917**	**5,765**	**-2.6**
Refunds CAP	931	856	608	4,208	709	5.2	-23.9	4,931	4,917	-0.3
ESF	491	213	186	32	729	-91.0	48.6	846	761	-10.0
Other subsidies	67	46	109	55	33	-24.7	-51.1	140	88	-37.3
- Payments	**1,849**	**2,771**	**3,007**	**2,930**	**2,526**	**-13.4**	**36.6**	**5,231**	**5,455**	**4.3**
VAT	206	332	344	409	468	-16.9	127.0	699	878	25.5
GNI	1,294	2,009	2,140	2,012	1,681	-15.2	29.9	3,668	3,693	0.7
Traditional Own Resources	348	337	409	367	370	6.1	6.4	694	737	6.2
Other	1	93	114	142	6	-16.3	595.4	170	148	-13.2
Capital transfers	**861**	**277**	**707**	**15**	**190**	**-98.1**	**-77.9**	**1,673**	**205**	**-87.7**
ERDF	814	251	678	15	181	-98.1	-77.8	1,590	196	-87.7
Cohesion Fund	0	0	11	0	0	-100.0	-	3	0	-100.0
Other	47	26	17	1	9	-97.7	-80.7	81	10	-87.8

Sources: D. G. Tesoro and SGACPE.

The capital balance surplus rises

In the first half of 2017 the capital balance generated a surplus of € 992 million, 67.6% higher in comparison to the figure registered last year, due to a fall in revenues (-14.7%) lower than that of payments (-74.3%). Capital transfers from the EU fell by 87.7% over the same period last year, to € 205 million. Within revenues, the most important quantitatively were public transfers from the structural funds of the EU Budget, aimed at infrastructure, rural development and environment. In this regard, no transfers were received by the Cohesion Fund and revenues corresponding to the ERDF fell by 87.7%, down to € 196 million. However, it is important to note that these revenues are very erratic, due to the multiannual nature of many of the actions they finance.

Net capital outflows in financial transactions with the rest of the world

In the first six months of 2017, the *financial account* recorded net capital outflows amounting to € 610 million, versus the net outflows of € 1.2 billion registered a year earlier. Excluding the Bank of Spain, the financial account recorded net capital outflows worth € 37.9 billion up to June, lower in comparison to the net outflows of € 43.0 billion registered a year earlier. This result includes positive balances (investments) in asset and liability transactions.

Foreign investment in Spain rises...

The change in liabilities generated net capital inflows up to June 2017 worth € 39.6 billion, three times higher than the figure registered a year earlier. The direct investment balance fell by 29.7% y-o-y, recording net inflows of € 16.0 billion, which were channelled toward other resident sectors (the breakdown by instrument is only available for the first quarter). On the other hand, portfolio investment recorded net inflows amounting to € 29.0 billion (net outflows of 15.2 billion in the first half of 2016), due to the results of all sectors, especially Public Administrations and Monetary Financial Institutions. Finally, other investments (loans, deposits and repos) recorded net outflows of € 5.4 billion, versus the net inflows seen in the same period of 2016, the financial private sector being the leading party.

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

Million euro

	January-June 2016			January-June 2017		
	Assets change	Liabilities change	Balance	Assets change	Liabilities change	Balance
Financial account	**14,412**	**13,181**	**1,230**	**40,230**	**39,623**	**610**
- Excluding Bank of Spain	**56,202**	**13,181**	**43,020**	**77,556**	**39,623**	**37,937**
Direct investment	***35,601***	***22,754***	***12,845***	***14,440***	***16,000***	***-1,560***
Monetary financial institutions	4,098	-91	4,189	2,489	115	2,374
Other resident sectors	31,502	22,848	8,654	11,953	15,884	-3,931
Portfolio investment	***8,984***	***-15,199***	***24,184***	***53,899***	***29,002***	***24,897***
General Government	67	-1,884	1,951	42	15,936	-15,894
Monetary financial institutions	-1,989	-10,460	8,471	6,770	8,460	-1,690
Other resident sectors	10,906	-2,856	13,762	47,087	4,608	42,479
Other investment	***13,276***	***5,626***	***7,650***	***10,309***	***-5,379***	***15,692***
General Government	-2,610	-940	-1,670	-1,105	-1,239	134
Monetary financial institutions	14,397	5,399	8,998	8,557	-5,255	13,812
Other resident sectors	1,489	1,167	322	2,857	1,115	1,742
Financial derivatives	***-1,659***	-	***-1,659***	***-1,092***	-	***-1,092***
- Bank of Spain	**-41,790**	-	**-41,790**	**-37,326**	-	**-37,326**
Reserves	2,881	-	2,881	444	-	444
Claims on the Eurosystem	-47,354	-	-47,354	-36,118	-	-36,118
Other net assets	2,683	-	2,683	-1,652	-	-1,652
- Net errors and omissions	**-5,114**	-	**-5,114**	**-3,952**	-	**-3,952**

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

...and so does Spain's investment abroad

The change in net assets with the rest of the world, excluding the Bank of Spain, accumulated in the first six months of 2017 net capital outflows of € 77.6 billion, 38% higher than the figure reached in the same period of the last year. Direct investment accumulated capital outflows amounting to € 14.4 billion, 59.4% lower than a year earlier, coming mainly from other resident sectors. The portfolio investment balance was six times higher in comparison to a year earlier, registering net outflows of € 53.9 billion, mainly corresponding to the private non-financial sector. On the other hand, other investment recorded net outflows amounting to € 10.3

billion, 22.3% lower compared to a year earlier, led by the Monetary Financial Institutions. Finally, financial derivatives registered net inflows of € 1.1 billion (€ 1.7 billion a year earlier).

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

Current, capital and financial transactions generated a decrease (increase of the net debtor position) of net assets of the Bank of Spain amounting to € 37.3 billion, due to the decrease of the assets vis-à-vis the Eurosystem (€ 36.1 billion) and in other net assets (€ 1.7 billion), while reserves rose by € 444 million.

The NIIP debtor balance falls in the first quarter of 2017

The Net International Investment Position (NIIP) decreased its debtor balance in the first quarter of 2017, by € 28.5 billion, compared to the same period of 2016, reaching € 973 billion, equal to 86.6% of GDP, a percentage 5.8 points lower in comparison to the first quarter of 2016. Assets amounted to € 1.8 trillion, 10% more compared to a year earlier, and liabilities € 2.8 trillion, 5.2% more compared to the first quarter of a year earlier. Furthermore, the gross external debt stood in the first quarter of 2017 at € 1.9 trillion (170.1% of GDP), versus the € 1.8 trillion registered in the same period of 2016 (170.2% of GDP).

The NIIP debtor balance, excluding the Bank of Spain, reached an amount of € 765 billion in the first quarter of 2017, 13.1% less than a year earlier. By item, the debtor balance fell in direct investment, (-42.4%, down to € 36 billion); portfolio investment (-4%, down to € 565 million); and in the other investment (-28.7%, down to € 157 billion).

The Bank of Spain increased its debtor balance by € 87.1 billion in the first quarter of 2017 compared to a year earlier, up to € 207.8 billion, equal to 18.5% of the GDP. This increase is explained by the expansion of the Bank of Spain debtor balance vis-à-vis the Eurosystem (€ 92.7 billion), and to a lesser extent, to the € 5.3 billion decrease of the positive balance of other net assets. On the other hand, reserves increased by 11 billion.

THE ADJUSTMENT OF THE CURRENT ACCOUNT IN SPAIN

The structural reforms undertaken by the Government in recent years made it possible to correct the main macroeconomic imbalances of the Spanish economy, laying the foundations necessary to guarantee a sustainable and lasting recovery.

The adjustment of the external imbalance is the clearest example. Since 2007, the Spanish economy has been characterised by an intense external adjustment process, which went from registering a deficit in the current account, equal to 9.6% of GDP, to link four consecutive years of surplus, 1.9% of GDP in 2016. This represents a milestone in the Spanish recent economic history. The competitiveness gains, the maintenance of favourable financial conditions, the fiscal consolidation, the improved economic prospects and the fall of oil prices are among the main determinants of the current account adjustment.

Despite the improvement of the external sector, the debtor balance of the net international investment position (NIIP) continues at high levels, and this is one of the main vulnerabilities of the Spanish economy. The large inflow of foreign investment that accompanied the strong expansion during the first decade of 2000 and the accumulated imbalances in the years preceding the global financial crisis led to a significant increase in the negative balance of the NIIP, which reached figures close to -99% of GDP in 2014 and early 2015.

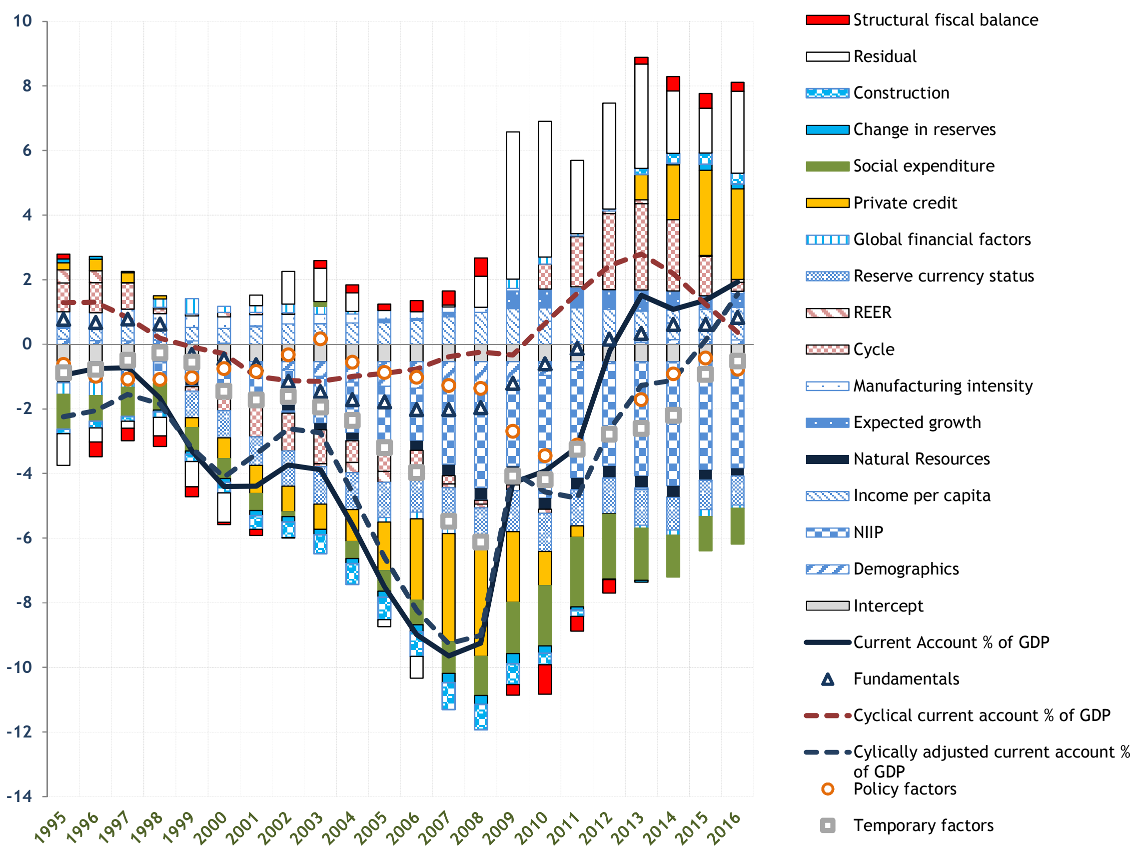
From the second quarter of 2015 until the first one of 2017, the debtor balance of the NIIP fell by 13 GDP points, reaching 86.5% of GDP in the first quarter of this year. In this context, it is necessary to continue reducing the net debtor position of the Spanish economy, which requires the maintenance of current account surplus balances in a sustained manner for the coming years. This result not only depends on the evolution of the economic cycle or short-term factors, but also on structural determinants and economic policy factors. In this sense, it is useful to analyse the transient or permanent nature of the main factors determining the adjustment of the current account.

The European Commission has developed a methodology based on the EBA[1] model used by the International Monetary Fund that enables decomposing the current account balance based on cyclical or short-term factors, on the one hand, and on the other hand, on other explanatory factors of savings and investment decisions of the economic agents as well as of net exports growth patterns. With this breakdown, the methodology allows analysing the contribution of the different determinants to the evolution of the current account, differentiating between factors of a transitory nature and others of a structural or permanent nature. Using panel data corresponding to the 1987-2016 time period, for a total of 67 countries representing over 90% of world GDP and taking into account a total of 23 explanatory variables, the following equation has been estimated:

$$\frac{\widehat{CA}}{Y} = \alpha + X'\beta + Y'\gamma + Z'\delta + W'\theta$$

[1] Philips et al. (2013), "The External Balance Assessment Methodology", *IMF working paper n^o 13/272*

where CA represents the current account balance, Y the nominal GDP, the vector X includes explanatory variables considered of a structural nature, vector Z represents the temporal determinants, vector Y represents the cyclical variables and vector W the economic policy variables. It is important to note that many of the variables introduced in the model are expressed in deviations from the world average, since the effect they may have on the current account depends not only on the national value but also on the value of the variables in the other countries. For example, a reduction of the cyclically adjusted public balance would have a negative impact on the current account of the corresponding country, as long as the fiscal policy of the rest of the world was not expansionary to the same extent.



Source: Bank of Spain and Ministry of Economy, Industry and Competitiveness.

The graph above represents the evolution of the Spanish current account balance as a percentage of GDP (continuous dark blue line) in the period from 1995 to 2016, as well as the contribution of its different determinants. The blue dashed line represents the current account adjusted for the economic cycle and short-term factors, and the red dashed line represents the cyclical current account.

The triangles reflect the level of the current account explained by the fundamental characteristics of the economy that influence the savings and investment patterns of the economic agents, such as demography, per capita income, potential growth, manufacturing intensity in domestic production or the presence of natural resources.

On the other hand, the squares show the determinants that have a more temporary nature, such as volatility in the financial markets or the credit flow to the private sector. Likewise, the circles reflect the contribution of variables fundamentally determined by the economic policy, as is the case of the public structural balance among others.

As it can be seen, despite the cyclical and short-term factors having helped to correct the external imbalance, especially between 2010 and 2014, the current account recovery from 2008 to the present time is largely explained by the adjustment of the cyclically adjusted balance, which went from -9.3% of GDP in 2007 to +1.5% in 2016. This evolution of the cyclically adjusted balance is a consequence of both temporary and other fundamental factors. This points to an ability to generate future current account surpluses on a sustained basis. The intense deleveraging process of the private sector contributed very positively to the recent current account evolution. On the other hand, the fiscal consolidation plays an essential role in this process and the reduction of the public structural deficit should help in the coming years to maintain a surplus in the current account balance, a necessary condition to continue advancing in the external deleveraging process of the Spanish economy.

In short, the analysis suggests that the savings and investment patterns of an economy with structural characteristics (demography, per capita income, potential growth, etc.) such as those shown by the Spanish economy, should tend to generate current account balances with surplus in the coming years, even in the absence of the short-term factors that reinforced this trend in the recent past.

September 2017