September 2017

SPANISH ECONOMY REPORT

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MINISTERIO DE ECONOMÍA, INDUSTRIA Y COMPETITIVIDAD

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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

Financial markets

The financial markets evolution in September was conditioned by the monetary policy meeting of the Federal Reserve (Fed), which agreed to start the reduction of its balance sheet in October, the proposal of a tax reform in the US administration and the result of the general elections in Germany. Likewise, the markets have also been affected by the hurricanes that hit the Atlantic, the tensions between the United States and North Korea, as well as the increase in oil prices. In this context, the main stock indices and public debt yields rose and the euro depreciated 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, maintained the interest rates on the main financing operations, the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.40%, respectively. The Governing Council also announced that it expects the 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 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 the interest rates and begins to reduce its balance sheet

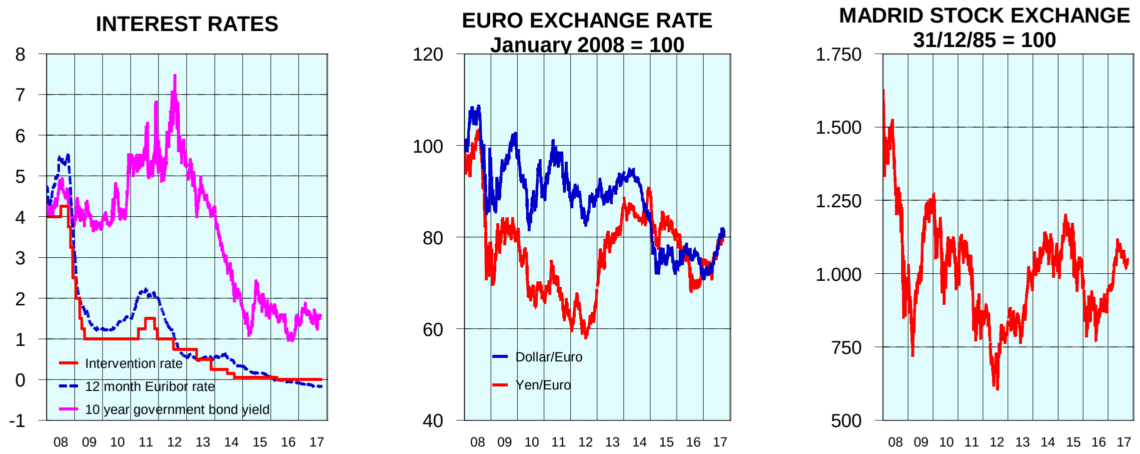
The Federal Open Market Committee (FOMC) of the Federal Reserve (Fed), in its two day meeting held on 19th and 20th September, decided to maintain the Federal Funds interest rates within the target range of 1.00%-1.25%, set in the meeting held in June.

The FOMC believes there is still room for a new rate increase before the end of the year and expects three rate hikes in 2018, two more in 2019 and one in 2020. Likewise, the Fed announced that a gradual reduction of its bond portfolio and mortgage-backed assets - MBS - will start in October. These currently stand at $ 4.2 trillion. The reduction will start with $ 10 billion per month, $ 6 billion in bonds and $ 4 billion in MBS, by not reinvesting all of the maturities. This amount will increase by $ 10 billion more each quarter until reaching a maximum of $ 50 billion per month. Once this ceiling has been reached, the amounts will remain stable until the treasury securities reach levels considered adequate to articulate the monetary policy.

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 13th September, 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 and 10 billion pounds, respectively, in a context of volatility of the pound sterling and rising inflation. Seven members of the Committee were in favour of maintaining the monetary policy and two considered it appropriate to increase interest rates. The Committee will assess the situation in November, in the context of the inflation report and the macroeconomic projections.

G1. MONETARY AND FINANCIAL INDICATORS (1)



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

The BoJ maintains the interest rates and the monetary stimulus plans

In the meeting held on 20th and 21st September, 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, which expands the monetary base at an annual pace of approximately 80 trillion yen, and the exchange-traded funds programme (ETFs), which was increased to an annual pace of 6 trillion yen in its outstanding balance.

The 12 month Euribor remains negative and registers record lows

In the interbank market of the Eurozone, interest rates continued the downward trend between late August and late September, in a context where the ECB maintained an accommodative monetary policy, and remained negative, until reaching their record low in the last week of the period. Thus, on 29th September, the one, six and twelve-month Euribor stood at -0.372%, -0.273% and -0.172%, respectively, versus the -0.373%, -0.273% and -0.161% recorded at the end of August. The 12-month Euribor evolution in this period is due to the fall of risk premiums required in the market (the Euribor-OIS differential fell two b.p.), partially offset by the expectations of an increase in interest rates (the twelve-month OIS rose by one b.p. in the period).

European public debt yields increase

In the secondary debt market, yields decreased in the first part of September, in a context of expectations regarding the ECB's monetary policy meeting and risk aversion due to the geopolitical tensions. However, the subsequent lower geopolitical tensions, the announcement of the normalisation of the Fed's balance sheet and the fiscal plan of the US administration have led to a generalised increase of yields. Thus, the 10-year Spanish bond yield stood at 1.63% on 29th

September, 19 b.p. above the figure recorded on 31st August. On the other hand, the German bond yield rose by 11 b.p. in that period, up to 0.47%, the Spain-Germany differential standing at 116 b.p., 8 b.p. above the level recorded in late August. Meanwhile, the Spain-Italy differential stood at -55 b.p., falling by 4 b.p. in comparison to that of 31st August. On the other hand, yields fell by 45 b.p. in Portugal, due to the rating upgrade by Standard and Poor's.

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

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-30-16	Aug-31-17	Sep-29-17	Variation in spreads		Dec-30-16	Aug-31-17	Sep-29-17	Variation in spreads	
	(1)	(2)	(3)	Period (3)-(2)	Annual (3)-(1)	(4)	(5)	(6)	Period (6)-(5)	Annual (6)-(4)
Germany	0.21	0.36	0.47	11	26					
Holland	0.35	0.50	0.58	8	23	14	14	11	-3	-3
Finland	0.35	0.36	0.62	26	27	14	0	15	15	1
Austria	0.42	0.57	0.63	6	21	21	21	16	-5	-5
Ireland	0.77	0.68	0.73	5	-4	56	32	26	-6	-30
France	0.68	0.66	0.74	8	6	47	30	27	-3	-20
Belgium	0.55	0.66	0.74	8	19	34	30	27	-3	-7
Spain	1.40	1.44	1.63	19	23	119	108	116	8	-3
Italy	1.82	2.03	2.18	15	36	161	167	171	4	10
Portugal	3.78	2.83	2.38	-45	-140	357	247	191	-56	-166
Greece	7.11	5.59	5.65	6	-146	690	523	518	-5	-172

Source: Financial Times.

The stock indices rebound in September

In the stock markets, the main indices on both sides of the Atlantic fell during the first week of September, in a context of volatility derived from the geopolitical tensions and the euro appreciation. However, the indices edged upwards later on, driven by the lower geopolitical tensions, the downward trend of the euro exchange rate against the dollar and the announcement of the monetary policy normalisation by the Fed. In Europe, the Eurostoxx 50 index rose by 5.1% in the period between 31st August and 29th September. In Spain, the IBEX 35 rose by 0.8% during that period, reaching 10,381.5 points. On the other hand, in the United Kingdom, the FTSE 100 fell by 0.8% during the same period. In the US market, the S&P 500 index increased by 1.9%, in a context of normalisation of the monetary policy.

T 2. International stock exchange

Countries	Index	Level Sep-29-17	% Variation Aug-31-17	% Variation Dec-30-16
Germany	DAX	12,828.86	6.4	11.7
France	CAC 40	5,329.81	4.8	9.6
Italy	FTSE MIB	22,696.32	4.7	18.0
Spain	IBEX 35	10,381.50	0.8	11.0
Eurozone	EUROSTOXX 50	3,594.85	5.1	9.2
United Kingdom	FTSE 100	7,372.76	-0.8	3.2
United States	S&P 500	2,519.36	1.9	12.5
Japan	NIKKEI 225	20,356.28	3.6	6.5
China	SHANGHAI COMP	3,348.94	-0.4	7.9
Mexico	IPC	50,343.05	-1.7	10.3
Brazil	BOVESPA	74,293.51	4.9	23.4
Argentina	MERVAL	26,074.33	10.5	54.1

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

The euro depreciates against the dollar

With respect to the currency market, the euro began September with a strong appreciation, in a context of high volatility arising from the geopolitical tensions. However, at the end of the month, the expectations of the US monetary policy normalisation and the outcome of the German elections slowed down the rise of the euro, boosting the dollar exchange rate. Thus, in the period between late August and late September, the euro depreciated by 0.2% against the dollar and by 4.1% against the pound and appreciated by 1.5% against the yen, trading at the end of the 29th September session at 1.1806 dollars, 0.8818 pounds and 132.82 yen. In the same period, the euro depreciated by 0.1% in nominal effective exchange rate terms vis-à-vis the group of industrialised countries.

The M3 broad monetary aggregate accelerates in August...

The y-o-y growth rate of the M3 broad aggregate rose five tenths in August, up to 5%. This evolution was due to the acceleration of currency in circulation (two tenths, up to 3.6%) and overnight deposits (five tenths, up to 10.6%) as well as to the lower rate of decline of other short-term deposits (-2.7% compared to the -3.2% recorded in July) and marketable instruments (-1.4%, compared to the -2.4% registered in the previous month).

T 3. Eurozone monetary aggregates

Monetary aggregates	August 2017 Balance (Billion €)	% Year-on-year variation		
		June 2017	July 2017	August 2017
1. Currency in circulation	1,099	3.8	3.4	3.6
2. Overnight deposits	6,532	10.6	10.1	10.6
M1 (= 1 + 2)	**7,632**	**9.6**	**9.1**	**9.5**
3. Other short-term deposits (= 3.1. + 3.2.)	3,451	-3.0	-3.2	-2.7
3.1. Term deposits up to two years	1,246	-9.4	-10.0	-9.1
3.2. Deposits redeemable at notice up to three months	2,206	1.1	1.2	1.4
M2 (= M1 + 3)	**11,083**	**5.3**	**4.9**	**5.4**
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	660	-0.6	-2.4	-1.4
4.1. Repurchase agreements	72	-18.6	-18.5	-10.6
4.2. Money market funds shares/units	517	5.0	3.7	5.6
4.3. Securities other than shares up to two years	71	-13.9	-19.7	-28.6
M3 (= M2 + 4)	**11,743**	**4.9**	**4.5**	**5.0**

Source: European Central Bank.

...and financing to the private sector slows down

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, slowed down two tenths in August, down to 2.8% y-o-y. This evolution is due to the lower growth rate of securities other than shares (1.5 points, to 6%) and shares and other equity (2.7%, in comparison to the 5.7% recorded in the previous month), partially offset by the higher growth of loans (2.5%, versus the 2.3% recorded in July). Within loans, those received by households increased by 3.1%, two tenths more in comparison to the previous month, and those received by non-financial corporations grew by 1.4%, in comparison to the 1.2% registered in the previous month.

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

	August 2017 Balance (Billion €)	% Year-on-year variation		
		June 2017	July 2017	August 2017
Credit to the private sector	**12,992**	**3.1**	**3.0**	**2.8**
Loans	**10,761**	**2.4**	**2.3**	**2.5**
Households	**5,508**	**3.0**	**2.9**	**3.1**
House purchases	*4,133*	*3.3*	*3.1*	*3.4*
Consumer credit	*642*	*5.9*	*6.7*	*6.7*
Other lending	*733*	*-1.1*	*-1.3*	*-1.2*
Non-financial corporations	**4,302**	**1.2**	**1.2**	**1.4**
Insurance companies & pension funds	**115**	**8.3**	**3.7**	**4.0**
Other financial intermediaries	**837**	**3.5**	**3.3**	**3.4**
Securities other than shares	**1,443**	**7.2**	**7.5**	**6.0**
Shares and other equities	**788**	**6.5**	**5.7**	**2.7**

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

The stock of financing to the private sector in Spain intensifies slightly the fall in August

The stock of financing to the private non-financial sector fell by 0.5% y-o-y, three tenths more in comparison to the figure registered in August. Financing received by firms slowed down six tenths, registering a null variation, due to the fall of foreign loans, following the stabilisation registered in the previous month and the slowdown of securities other than shares, partially offset by the lower rate of decline of bank loans. On the other hand, financing received by households recorded a y-o-y rate of -1.1% in August, one tenth higher in comparison to the figure recorded in the previous month, due to the lower fall of loans for housing and the acceleration of other bank loans.

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

	August 2017 Balance (Billion €)	% Year-on-year variation		
		June 2017	July 2017	August 2017
Non-financial corporations and Households	**1,603**	**-0.2**	**-0.2**	**-0.5**
Non-financial corporations	**897**	**0.6**	**0.6**	**0.0**
Bank loans	*511*	*-1.6*	*-1.0*	*-0.9*
Securities(1)	*95*	*14.4*	*13.0*	*12.2*
External loans	*291*	*0.5*	*0.0*	*-1.7*
Households	**706**	**-1.1**	**-1.2**	**-1.1**
Bank loans. Housing	*534*	*-2.9*	*-2.9*	*-2.8*
Bank loans. Other	*173*	*4.6*	*4.2*	*4.6*
General Government	**-**	**2.8**	**2.9**	**-**
Total financing	**-**	**1.0**	**1.0**	**-**

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

New loan and credit operations to households and SMEs rise

The amount of new loan and credit operations to households, in cumulative terms for the last twelve months, increased by 2.9% y-o-y in August 2017, a rate 2.3 points higher in comparison to the figure registered in the previous month. This acceleration is due to the lower decrease of loans for housing (-3.3%, in comparison to the -6.8% registered in the previous month) and for other purposes (-4%, versus the -5.9% registered in the previous month), while the growth of loans for consumption remained stable at 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 August this year, by 5.3% y-o-y, 0.4 points less than in the previous month. On the other hand, the amount of new loan and credit operations exceeding one million euros declined by 12.7% y-o-y, a drop 2.6 points lower than in July.

Spanish economy

Domestic Demand and Production

The Bank of Spain maintains the growth forecast of the Spanish economy in 2017 at 3.1%

According to the macroeconomic projections for the Spanish economy for the period 2017-2019, published by the Bank of Spain (BoS), the real GDP growth will stand at 3.1% in 2017, as forecasted in June. For the period 2018-2019, it envisages the extension of the expansionary trend of the Spanish economy, although at a more moderate rate, foreseeing a real GDP growth of 2.5% in 2018 and of 2.2% in 2019, also with no changes compared with previous forecasts.

Moreover, the BoS foresees a q-o-q real GDP growth rate of 0.8% in the third quarter of 2017, one tenth lower in comparison to the previous quarter, with a domestic demand contribution equal to the one registered in the second quarter, of 0.6 percentage points (p.p.) and a net external demand contribution of 0.1 p.p., two tenths below the figure registered in the second quarter. In line with the evolution of the activity forecasted for this period, employment showed a y-o-y increase of 2.6%, two tenths lower than in the second quarter.

Qualitative indicators point towards the maintenance of the expansionary trend of the activity in the third quarter of the year

Available qualitative indicators point towards the continuation of the dynamism of the global activity in the third quarter of the year. Amongst them, the *Economic Sentiment Indicator* (ISE, by its Spanish abbreviation) of the European Commission stands out, as it rose six tenths in September versus the previous month, reaching 109.9 (average 1990-2016 = 100), the second highest value since April 2001 (111.8 in December 2015). The breakdown by component reflects a rise in construction confidence (9.7 points), industry confidence (2.7 points) and retail trade confidence (1.6 points), in comparison to the confidence decline in services (-1.3 points) and consumer confidence (-0.9 points). The third quarter of the year ended with an average ISE value of 109 points, six tenths higher when compared to the previous quarter. In the same vein, the *Global Activity Composite PMI* for Spain continued to show strong activity growth in September, registering a level of 56.4, 1.1 points higher in comparison to the figure recorded in August and three tenths lower in comparison to the figure registered in the Eurozone (56.7). The third quarter of the year ended with an average level of 56.1 (56 in the Eurozone), 1.3 points lower versus the second quarter.

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

The Spanish economy showed net lending vis a vis the rest of the world, amounting to € 5.9 billion (2% of quarterly GDP) in the second quarter of 2017, € 805 million below the figure registered in the same period of 2016 (€ 6.7 billion, 2.4% of GDP). This evolution of the external balance is explained by the higher deficit of the income and current transfers balance (€ 5.2 billion, compared to the deficit of € 4.5 billion recorded a year earlier), as well as by the decrease in the surplus in the balance of the capital transfers (€ 330 million in the second quarter, compared to the € 661 million registered in the same period of 2016), partially offset by the increase in the surplus of the foreign trade balance in goods and services, of € 243 million, compared to the second quarter of 2016, reaching € 10.8 billion.

By institutional sectors, the y-o-y decrease of the net lending of the Spanish economy in the second quarter of 2017 is explained by the decline of the balances of non-financial corporations, which registered net borrowing equal to 0.6% of quarterly GDP, versus the net lending registered in the same period of 2016 (1.2% of GDP), as well as by the lower net lending of households and Non-Profit Institutions Serving Households (NPISHs), which fell from 8.2% of GDP in the second quarter of 2016 to 6.7% in the second quarter of 2017. On the other hand, the General Government reduced its deficit by 2.2 points of GDP compared to the period between April and June 2016, down to 6.9% and financial institutions recorded higher net lending (2.8% of quarterly GDP, eight tenths higher in comparison to the figure recorded in the same period in 2016).

Private consumption indicators maintain the expansionary trend

Amongst the GDP components on the demand side, with regard to private consumption, the signals from available indicators generally point to an extension of the expansionary trend in the third quarter of 2017, although more moderate than in the second quarter.

Among the qualitative indicators, the *Consumer Confidence Indicator* (CCI), published by the Sociological Research Centre (known in Spanish as CIS), rose eight tenths in the period between July and September in comparison to the previous quarter, reaching an average level of 106.8, above 100 for the second consecutive quarter. This result, a record high in the quarterly average of the series that began in September 2004, is explained by an improvement in the assessment of the current situation, which rose 1.6 points in the third quarter, up to 101.5 points, partially offset by the slight two tenths drop recorded in the expectation component, which stood at 111.9. However, the *Consumer Confidence Indicator* published by the European Commission fell 1.3 points in the third quarter of 2017, down to 0.2, 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.

Among the quantitative indicators, *retail sales*, with work calendar and price adjusted data, slowed down by 1.3 points in the period between July and August, recording a y-o-y rate of 1.2%. This less expansionary evolution is due to the slower pace of increase of the non-food component (1.3% y-o-y, 1.5 points lower when compared to the second quarter), while the food group kept the growth rate unchanged (2.7% y-o-y). In the same vein, *domestic availability of consumer goods,* with seasonally and deterministic effects (calendar and outliers) adjusted data, recorded a y-o-y growth of 3.3% in the third quarter of the year (the latest observed data corresponds to July and forecasts in August and September), almost two points higher when compared to the previous quarter.

On the other hand, *domestic sales of consumer goods and services*, with deflated, fixed-sample and calendar adjusted data, grew by 3.1% y-o-y in July, compared to the 5.2% recorded in the previous month, and according to the figures provided by ANFAC (Spanish Association of Vehicles Manufacturers), *passenger car registrations* ended the third quarter with a y-o-y increase of 5.8%, seven tenths lower versus the first quarter (6.5%).

The savings rate of households falls

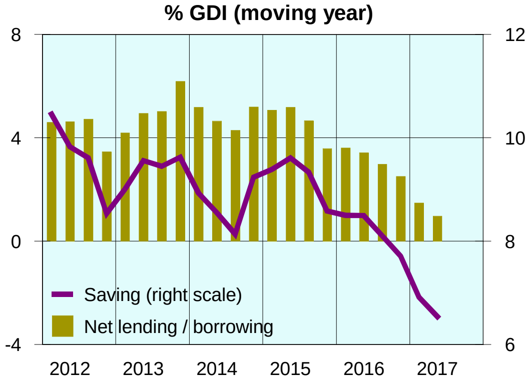
According to the Quarterly Non-Financial Accounts for the Institutional Sectors, the Gross Disposable Income (GDI) of households and NPISHs registered a 2.6% y-o-y increase in the second quarter of 2017. This evolution was due to the wage income growth (2.9%), the non-wage income growth (5%) and to the rise in net current transfers received (1.1%), partially offset by the increase in current taxes on income and wealth (2.7%) and current transfers paid (4.3%).

As a result of the higher GDI of households and NPISHs and the increase in final consumption expenditure (4.6% y-o-y), the savings rate stood at 14.8% of the GDI, more than one point and a half lower when compared to that of a year earlier (16.4%). The savings generated by households was enough to finance the investment of the sector and other net capital expenses, recording a net lending equivalent to 6.7% of GDP in the second quarter, 1.5 points below the figure registered in the second quarter of 2016.

Equipment investment indicators show mixed signals

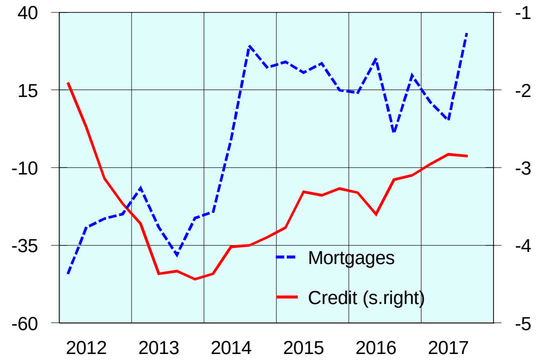
The available short-term information on equipment investment shows mixed results in the third quarter. Thus, according to the Business Tendency Survey, the *Industry Climate Indicator* for investment goods improved its balance 8.2 points in September, to 10.6 points. This evolution is attributed to the orders portfolio and production expectations increase, as well as to the fall in stocks. This indicator ended the third quarter with a balance of 3.9 points, 2.4 points higher in comparison to the previous quarter. In the same line, according to figures provided by the General Direction of Traffic, *truck registrations* recorded an 11.7% y-o-y rise in August, 1.4 points lower versus the previous month, accumulating an increase of 9.5% in the first eight months of the year (5.1% in the same period of 2016).

G 2. HOUSEHOLD SECTOR
% GDI (moving year)



Source: INE.

G 3. HOUSING: MORTGAGES AND CREDIT
year-on-year growth



Sources: INE and BE.

On the other hand, the *domestic availability of equipment goods* indicator, with seasonally and deterministic effects (calendar and outliers) adjusted data, fell by 0.5% y-o-y in the third quarter (forecast in August and September), compared to the 0.2% increase recorded in the previous quarter. On the other hand, *domestic sales of equipment and software in large companies*, with deflated, fixed-sample and calendar adjusted data recorded a 0.7% fall in July, following the 6% rise registered in June.

Non-financial corporations register net borrowing in the second quarter of 2017

Non-financial corporations showed a net borrowing position equal to 0.6% of GDP in the second quarter of the year, versus the net lending of 1.2% of GDP registered in the same period of 2016. This result was due to the fact that the gross saving, which fell by 1.3% y-o-y, together with net capital income, was not enough to finance business investment, which rose by 8.5% y-o-y.

The decrease in savings of non-financial corporations is, in turn, explained by the increase in net property income paid (13.2%) and corporate income tax, close to 72%, partially offset by the growth of the gross operating surplus (5.6%) and the decrease in net current transfers paid (15.1%).

The rise of the gross value added (GVA) of firms (5.2%) contributed to the gross operating surplus increase, while the taxes net of subsidies on production and compensation of employees rose (22.2% and 4.8%, respectively).

According to the Quarterly Central Balance Sheet data published by the BoS, non-financial corporations included in the sample recorded a decrease in their productive activity in the second quarter of 2017, the y-o-y variation of its nominal GVA, at factor cost, reaching -1.6%, versus the 0.7% rise recorded in the previous quarter. However, it should be taken into account that this result has been influenced by the negative behaviour of the high number of large firms in the sample, most of them belonging to the energy sector. Excluding these firms, the GVA rose by 2.2%. The overall production activity fall, coupled with the higher increase of staff expenses (these accelerated three tenths, up to 1.9%), resulted in a higher fall rate of the gross operating profit (GOP), of 4.8% y-o-y, compared to the slight fall (-0.4%) recorded in the previous quarter.

The GOP fall, partially offset by the lower drop in financial expenses (-5.7%, compared to the -15.6% registered in the first quarter), explains the behaviour of the net ordinary result, which fell by 4.2%, following the 12.1% increase registered in the previous quarter. On the other hand, the ordinary return on net assets for all the firms in the sample reached 4.1%, more than one point higher than the figure recorded in the previous quarter (3%). On the other hand, the ratio that measures the financial cost (financial expenses over liabilities) rose 0.3 points, up to 2.5%, so the differential between them (which is an indicator of firms' economic incentives to invest) rose almost one point, reaching 1.6%.

Construction investment continues the expansionary phase

With regard to residential investment, the available indicators point to an extension of the pace of progress of the activity. According to the INE Statistics based on the properties recorded in the Property Registers, *housing sales* rose sharply again in July, registering a high y-o-y increase, of 16.8%, although more moderate than the figure registered in the previous month (19.2%). Such moderation in the growth rate was due to the lower dynamism of both used housing purchases, which rose by 17.7% y-o-y, one point and a half lower versus the previous month, and new housing purchases, which grew by 12.5% y-o-y, 7.3 points less than in June. Up to July, housing purchases accumulated an average annual increase of 13.7%, seven tenths higher than in the same period of 2016.

On the other hand, the *number of mortgages on housing* rebounded in July, rising by 32.9% y-o-y, almost twice as much as in the previous month (16.5%). The average amount per mortgaged house rose by 3.8%, six tenths less than in June, and the capital borrowed for mortgages on housing rose by 38%, a rate 16.4 points higher than in the previous month. It should be noted that the y-o-y rebound of the number of mortgages on housing in July this year is partly explained by the base effect derived from the low figures recorded in July 2016, due to the suspension in that month of the registration of some mortgages under the jurisprudence of the Supreme Court (sentence 364/2016 of June 2016) on the unfairness of some terms on the interest rates for late payment. With seasonally and calendar adjusted data, the number of mortgages on housing fell by 0.2% in July compared to June, following the m-o-m rise recorded in the previous four months (6.5% in June).

Finally, the *average price of private housing per square meter*, according to the Ministry of Public Works and Transport statistics of the appraised value of housing, registered a y-o-y increase of 1.6% in the second quarter of 2017, six tenths lower than in the previous quarter. New housing prices (up to five years old) grew more sharply (2.8%, a rate three tenths lower than the figure recorded in the first quarter) than those of used housing (1.4%, versus the 2.1% registered in the previous month). In real terms, the price of private housing moderated slightly the y-o-y fall rate in the second quarter of the year, one tenth, to 0.4%, due to the Consumer Price Index rebound registered in that period. Since the record high recorded in early 2007, the average real price of housing per square meter has fallen by 35.3%, although it is already 4% above the minimum recorded in the second quarter of 2014.

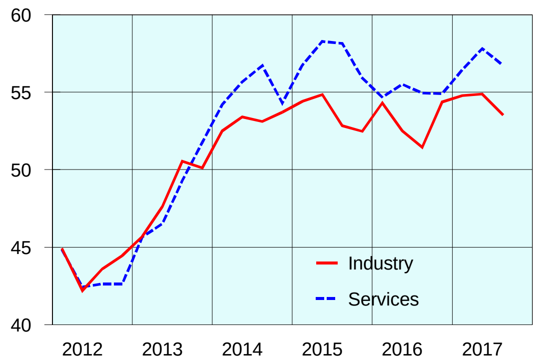
The industrial activity growth rate moderates

From the supply point of view, amongst the industrial activity indicators, the *Industrial Production Index* (IPI), with calendar and seasonally adjusted data, registered a 1.8% y-o-y increase in August, one tenth lower when compared to the previous month. By destination groups, the lower IPI y-o-y dynamism in August is explained by the lower pace of growth of equipment and intermediate goods, almost entirely offset by the growth in consumer goods and the null variation in energy, after the falls registered in both cases in the previous month. In particular, equipment goods slowed down by 1.4 points in August, down to 1% y-o-y, and intermediate goods went from growing by 5% in July to register a 4.3% y-o-y variation. Conversely, consumer goods recorded a 1.1% increase, compared to a slight decrease of 0.1% recorded in the previous month, and energy registered a null variation, following the 0.7% fall recorded in July.

The *Industry Turnover Index* (ITI) and the *Industry New Orders Index* (INOI), adjusted for calendar effects, showed a lower dynamism in July. The ITI registered a y-o-y increase of 5.2% and the INOI of 4.1% (5.6% and 7%, respectively, in the previous month). By components, the ITI evolution is due to the slowdown of equipment and consumer goods, 3.6 and 0.6 points, respectively, down to 0.4% and 3.1%, partially offset by the acceleration of the energy component, 5.3 points, up to 13.2%, and intermediate goods, one point, up to 8.9%. Likewise, the less expansionary evolution of the INOI is explained by the slowdown of consumer goods, more than one point and a half to 2.5%, and by the fall in equipment goods (-4.4%, compared to the 8.5% increase recorded in the previous month), while intermediate goods and energy accelerated by 2.9 and 4.6 points, respectively, up to 10.9% and 13.2%.

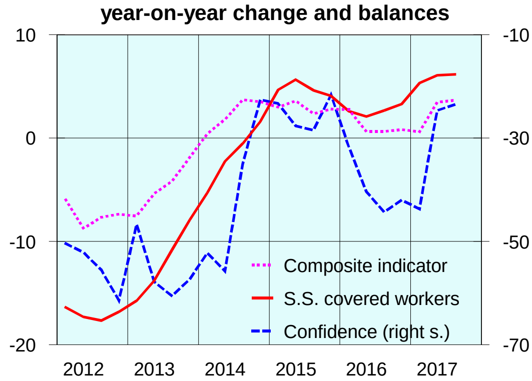
The most recent qualitative indicators of the industry activity have generally shown positive signs. Thus, the *Industrial Climate Indicator* (ICI), published by the Ministry of Energy, Tourism and Digital Agenda, stood in September at 2.1 points, after the slightly negative balance (-0.3) registered in August, due to the rise of the order portfolio and the production expectations of almost 6 points and 4.2, respectively, partially offset by the increase in the stocks level, 3.1 points, up to 9.4. In the same vein, the *Industrial Confidence Index* published by the European Commission rose 2.7 points in September, mainly due to a more favourable valuation of the production forecasts, which rose by 4.7 points, in comparison to the previous month, and to an increase of 7.6 points in the order portfolio level. The *manufacturing industry PMI* for Spain reached 54.3 in September, almost two points higher versus the previous month, showing the continuation of the expansionary evolution of the sector. The third quarter of 2017 ended with an average Industry PMI value of 53.6, 1.3 points lower than in the previous quarter.

G 4. PURCHASING MANAGERS' INDEX (PMI)



Source: Markit Group.

G 5. CONSTRUCTION ACTIVITY INDICATORS
year-on-year change and balances



Sources: SGACPE, MESS and CE.

The activity in the construction sector remains dynamic

The construction sector shows a high dynamism, although more moderate than in previous months. The *Production Index in the Construction Industry* (PICI), published by Eurostat, moderated the y-o-y growth rate by two points in July, to 5.4%, as a result of the building component slowdown, which rose by 7.4% y-o-y, a rate more than one percentage point lower than that recorded in the previous month (8.6%), and the decline in civil works (-3.7%), following the 3.4% rise registered in the previous month.

With regards to the construction activity leading indicators, according to construction new permits, *floorage approvals in new construction* maintained in July the strong dynamism registered in previous months, recording a y-o-y rate of 38.8% (49% in the previous month) and ending the first seven months of the year with an average annual increase of 21.9%, four points higher than in the same period of 2016. This evolution of the permits in July was due to the non-residential component, which increased by 79.8%, following the 18.6% decline of the previous month, while the residential component went from growing by 80.8% in June to 28.5% in July. Likewise, the *official tenders* rose by 13% y-o-y in July, 3.5 points lower when compared to the previous month, due to the acceleration of the building component, 5.1 points to 61.5%, while civil works fell by 7.4%, after the slight increase (0.4%) registered in June.

On the other hand, *confidence* in the sector, according to the European Commission indicator, registered an improvement of 9.7 points in September, following the seven points decrease recorded in the previous month, reaching -19.4. The two components of the indicator improved, the employment expectation in the sector component almost by 16 points and the orders component by 3.8 points. Activity and price prospects in the sector also advanced.

The service sector activity continues to show a solid growth…

With regards to the services sector, the *Services Sector Turnover Index* (SSTI), with work calendar adjusted data, slowed down 2.1 points in July, reaching a y-o-y rate of 4.4%. The SSTI lower expansionary trend is explained by the evolution of the trade sector, which grew by 3.8%, 2.5 points less than in June, and, to a lower extent, by the slowdown of other services, 1.4 points, to a rate of 5.5%.

Amongst the qualitative indicators, the *Services PMI* reached 56.7 in September, seven tenths higher in comparison to the figure registered in the previous month, and almost one point above the figure registered by the Eurozone. This improvement was due to the higher growth rate of new orders, which also resulted in an increase in hiring in the sector.

…and so does the tourism sector indicators

The tourism sector continued the expansionary trend in August, although more moderately. Among the indicators published, the arrival of 10.4 million international *tourists* to Spain in August 2017 stands out, a figure 4% higher than the one recorded a year earlier. According to the Survey of Tourist Movements on Border, published by the INE, this figure represents a slowdown of 6.1 points in comparison to that registered in the previous month. On the other hand, the *total expenditure by tourists* who visited Spain in August rose to € 11.3 billion, a figure 10.3% higher than in the same month of 2016 (16.3% y-o-y in July), and the second highest level in the time series, only below the level reached in July. The expenditure growth has been greater than that of tourist arrivals (4%), which resulted in a y-o-y increase in the average expenditure per tourist of 6.1% y-o-y, six tenths above versus the previous month.

Similarly, *overnight stays in hotels* registered a y-o-y increase of 0.5% y-o-y in August, 1.1 points lower in comparison to the previous month. This was due to the slowdown of foreign overnight stays by two points, down to 1.5% y-o-y, partially offset by the lower fall of domestic overnight stays (this rate went from -1.9% in July to -1.2% in August). This less expansionary trend is also observed in *air passenger traffic*, which registered a y-o-y growth of 6.3% in August, 1.1 points lower compared to the previous month, due both to the evolution in domestic traffic, which increased by 5.2%, 2.5 points less than in July, and international traffic, which increased by 6.6%, seven tenths less compared to the figure recorded in the previous month.

Prices

Inflation rose by one tenth in August, up to 1.6%

The Consumer Price Index (CPI) rose by 1.6% y-o-y in August 2017, a rate one tenth higher than in the previous month and matching the flash estimate issued by the INE. The higher inflation in August is due to the acceleration of energy products prices and, to a lesser extent, of processed food prices, partially offset by the lower growth rate in services and non-energy industrial goods prices (BINE), and by the sharper decrease of non-processed food prices.

Energy products prices increase by 6.3% y-o-y

Energy products prices rose by 6.3% y-o-y in August, 2.2 points more than in July. This evolution was due to the acceleration of fuels and lubricants prices (which rose from 1.9% y-o-y in July up to 5.4% in August). Likewise, gas prices accelerated 12.6%, versus the 10.7%

registered in the previous month. On the other hand, electricity prices decreased the growth rate by eight tenths, down to 5.4%.

Non-processed food prices fell by 1.6%, six tenths more than the figure recorded in the previous month, with the evolution of fresh fruit prices standing out, as they intensified the decline rate by 2.8 points, down to 14.8%.

Core inflation fell by two tenths, down to 1.2%

Core inflation, which excludes the most volatile elements from the CPI (non-processed food and energy), fell by two tenths in August, down to 1.2%, due to the slowdown in services and BINE prices.

Services prices slowed down by two tenths, down to 1.7%, as a result of the evolution of tourist packages, whose prices went from growing by 8.4% in July to 6.2% in August and telephone and fax services prices decreased their growth rate by nine tenths, down to 1.5%.

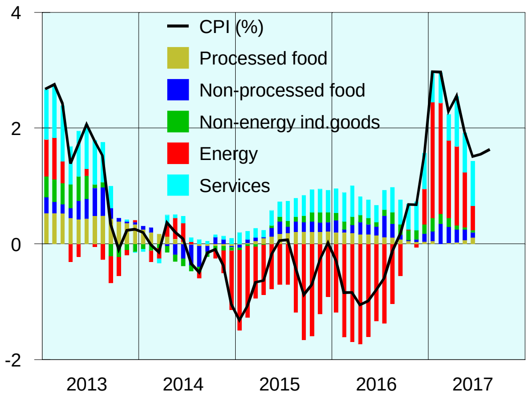
On the other hand, non-energy industrial goods prices stabilised in August, following the 0.3% growth recorded in July, mainly due to the slowdown of car prices, which went from growing by 3.3% in July to 1.7% in August. This slowdown could be largely explained by a base effect derived from the end of the PIVE Plan 8 in August 2016.

Lastly, prices of processed food rose by 1.1% y-o-y, one tenth more than in the previous month.

According to the CPI flash estimate, inflation rises by two tenths in September, up to 1.8%

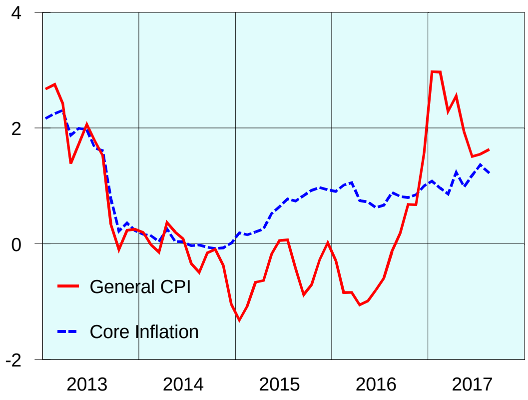
According to the flash estimate published by the INE, the y-o-y rate of the national CPI stood at 1.8% in September 2017, two tenths more in comparison to August. According to the INE, the rise in food and non-alcoholic beverages prices stands out.

G 6. CPI GROWTH CONTRIBUTION BY SECTORS
in percentage points



Sources: INE and SGACPE.

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



Source: INE.

The harmonised inflation, estimated by the Spanish HICP flash estimate, stood at 1.9% y-o-y in September, one tenth below the figure registered in August. On the other hand, the Eurozone's HICP flash estimate, published by Eurostat, recorded a y-o-y variation of 1.5%, identical to the one registered in August, so Spain's inflation differential against the Eurozone is four tenths, one less than in August.

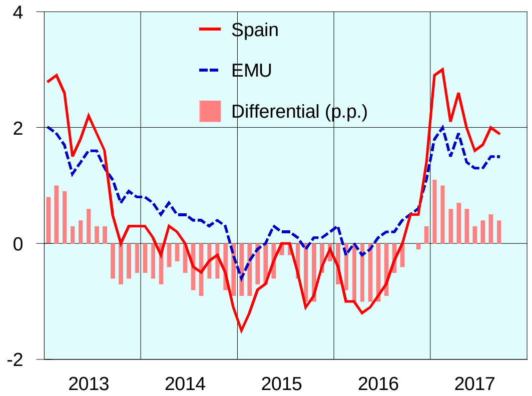
The PPI accelerates slightly in August, two tenths, up to 3.2% y-o-y

The Producer Price Index (PPI) registered a slight m-o-m decrease in August 2017, of 0.1%, compared to the 0.3% fall recorded in August 2016. In y-o-y terms, the PPI y-o-y variation rate stood at 3.2%, two tenths higher than the one registered in July. This is explained by the higher growth of intermediate goods and energy prices. On the other hand, consumer goods and equipment prices maintained their growth rate unchanged.

Energy production prices rose by 6% y-o-y in August, three tenths more than in July. According to the NACE classification, coke and oil refining should be noted in the energy component, whose prices accelerated 3.6 points, up to 10.4%, while those of electricity, gas, steam and air-conditioning supply increased by 4.7% y-o-y, eight tenths less than in the previous month.

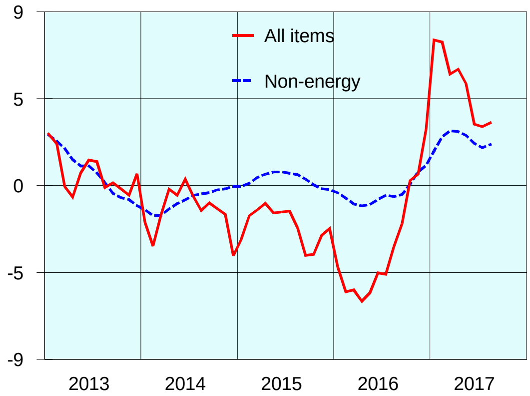
The non-energy PPI accelerated one tenth in August, up to 2.1% y-o-y. Intermediate goods prices grew by 2.9%, four tenths more than in the previous month, due to the evolution of metallurgy prices, which grew by 12.8% in August, 2.3 points more than in July and, to a lesser extent, by the chemical industry prices, which increased by two tenths, up to 2.2%.

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



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

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



Source: INE.

Consumer goods prices increased by 2% in August, the same rate as that of July. By components, non-durable consumer goods prices accelerated by one tenth, up to 2.2%, while durable consumer goods prices stabilised, after falling by 0.1% in the previous month. Consumer prices of food, beverages and tobacco increased by 2.7% and equipment goods prices by 0.8% y-o-y, as in July.

Labour market

The number of Social Security covered workers rose by 3.5% y-o-y in September, one tenth more than in August. This slight acceleration was mainly due to the service sector, although construction and industry also contributed. Conversely, the number of social security covered workers in agriculture moderated the y-o-y growth rate. On the other hand, registered unemployment decreased by 8.3% y-o-y, two tenths less than in August, the number of unemployed reaching similar levels to those registered in early 2009.

In the third quarter of 2017 as a whole, the y-o-y rate of Social Security covered workers reached 3.5%, three tenths less than in the second quarter. The rate of registered unemployment reached -8.8% which implies a 2.1 points less pronounced decline than in the previous quarter.

With regard to costs, the wage cost per worker and month remains virtually stable, falling by 0.1% y-o-y in the second quarter of 2017, one tenth less than in the first one, according to the Labour Costs Quarterly Survey.

Social Security covered workers rose by 3.5% y-o-y in September

The average number of Social Security covered workers rose by 26,318 people in September 2017 compared to the previous month, reaching 18,336,161, which represents the highest growth in a month of September since 2005.

By activity branches , and with gross data, the number of Social Security covered workers rose in September versus the previous month in all sectors except in services, with 25,215 covered workers more in agriculture, 12,062 in industry, 5,655 in construction, whereas services registered 16,615 less covered workers. By NACE activity sections, with gross data and for the General (excluding Agrarian and Domestic Workers Special Systems) and Self-employed Regimes, it is worth noting the m-o-m increases in education as it usually happens in September due to the start of the academic year (52,604 covered workers more, compared to 62,954 registered in the same month last year), administrative and auxiliary service activities (25,387 more, following the increase of 17,929 covered workers in September 2016) and manufacturing industry (14,099 more, similar to the increase of 12,180 recorded in September of the previous year). Conversely, the number of Social Security covered workers fell in hotel business (44,521 fewer, in line with the fall of 46,346 recorded in the same month of the previous year) and in trade (33,038 fewer covered workers, a decrease similar to that of September 2016, of 30,772). This behaviour was influenced by the end of the peak summer season and, in the case of trade, also by the end of the summer sales.

With seasonally adjusted data, Social Security covered workers increased by 56,400 people in September, 0.3% m-o-m, thus resuming the trend of more than three and a half years of positive rates (since December 2013) interrupted in August (-0.1%, equivalent to 14,976 fewer Social Security covered workers).

In y-o-y terms, Social Security covered workers rose by 624,141 people in September, 3.5%, a rate one tenth higher in comparison to that registered in August. By activity branches, the acceleration of Social Security covered workers in y-o-y terms was mainly due to services and construction, which intensified the growth rate by one tenth and half a point, up to 3.6% and 6.3% respectively, and, to a lesser extent, to the industry sector, which accelerated by one tenth, up to 3.2%. On the other hand, Social Security covered workers in agriculture moderated its growth rate by two tenths, to 0.7%. Non-agricultural Social Security covered workers accelerated by one tenth, up to 3.7%. It should be noted that the y-o-y growth rate of Social Security covered workers in the construction sector has been the highest since January 2007, and for the industry sector, the highest in the time series, together with the figures recorded in March and May this year (3.2% in both cases).

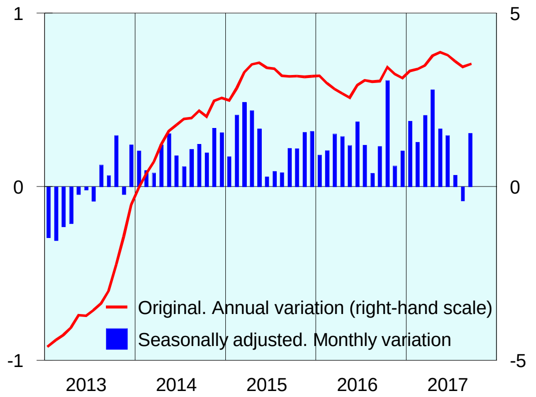
By NACE activity sections, with gross data and for the General (excluding Agrarian and Domestic Workers Special Systems) and Self-employed Regimes it is worth highlighting the acceleration of Social Security covered workers in public administration, defence and compulsory social security, which rose nine tenths, up to 4.2%, and in administrative and auxiliary services activities, which rose from 5.1% in August up to 5.6% in September. On the other hand, education stands out, with a 1.8 points moderation in the y-o-y rate, to 4.2%.

According to the professional situation, the acceleration came mainly from wage-earners, which grew by 4.1%, compared to the 0.8% registered by self-employed.

In the General Regime and for the total of 12.9 million covered workers whose type of contract is specified in the statistics, 52% of the y-o-y job creation in September was permanent and 48% temporary, with a y-o-y increase of 3.8% for the former, as in August, and of 7% for the latter, a figure eight tenths higher in comparison to the previous month.

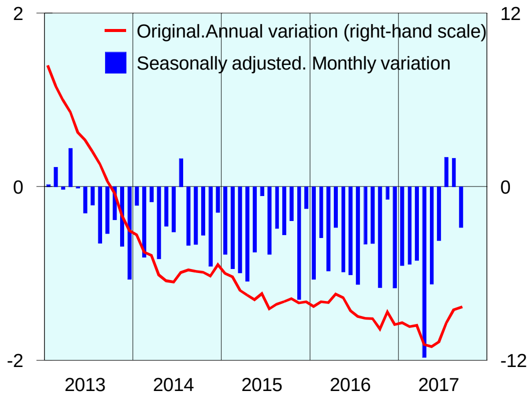
In the third quarter of 2017 as a whole, the annual variation rate of Social Security covered workers was of 3.5%, three tenths lower than the one registered in the second quarter.

G 10. SOCIAL SECURITY-COVERED WORKERS
change in %



Source: MESS.

G 11. REGISTERED UNEMPLOYMENT
change in %



Source: MESS.

Registered unemployment fell in September by 8.3% y-o-y

Registered unemployment rose by 27,858 people in September compared to the previous month (22,801 unemployed more in the same period of last year). As a result, the total number of registered unemployed stood at 3,410,182.

By activity branches, and with unadjusted data, registered unemployment rose in services (29,601 more people) and fell in the rest of the branches: 9,667 unemployed less in construction, 4,838 in agriculture and 3,622 in industry. In the group without a previous employment, unemployment increased by 16,384 people in September.

With seasonally adjusted data, unemployment fell again, by 16,451 people (-0.47%), following two months of increases (0.3% m-o-m in August).

In y-o-y terms, unemployment dropped by 310,115 people in September, by 8.3%, a rate of decline two tenths less pronounced than the figure registered in the previous month.

By branches, the registered unemployment y-o-y pace of decline sharpened in September in all non-agricultural branches: in services it decreased by 7.2%, three tenths more than in August; in construction it registered a decrease of 17.4%, four tenths more intense than in the previous month; and in industry it fell by 11.8%, two tenths more than in the previous month. On the other hand, registered unemployment in agriculture fell less than in August, by 5.1%, after the 9% fall recorded in the previous month.

It should be noted that youth unemployment (people below 25 years old) fell by 20,765 people in the last year, which represents a 6.7% y-o-y drop (-9.5% in August).

In the third quarter of 2017, registered unemployment annual variation stood at -8.8%, which implies a decline 2.1 points less pronounced than in the second quarter.

The wage cost per worker and month fell by 0.1% y-o-y in the second quarter of 2017

According to the Quarterly Labour Cost Survey, in the second quarter of 2017 the average labour cost per worker and month stood at 2,585 euros, a figure very similar to the one registered in the same quarter of 2016 (2,589 euros).

The 0.2% reduction of the labour cost in year-on-year terms, following the stabilisation in the previous quarter, was due to the evolution of other costs, which fell by 0.5%, compared to a growth of the same magnitude registered in the previous period, while the wage cost moderated its rate of decline by one tenth, to 0.1%.

Total wage cost fell by 0.1% y-o-y, down to €1.942 (75.1% of total labour cost), a fall one tenth lower compared to the previous quarter. In turn, the lower fall of total wage cost is explained by the evolution of the extraordinary salary cost, which rose by 2.1% in the second quarter, after falling by 1.3% in the first quarter, partially offset by the evolution of the other components: the payment of arrears fell by 14.3%, 9.6 points more than in the previous quarter, and ordinary wages (83.9% of total wage costs) fell by 0.1% in comparison to the null variation registered in the previous period.

In q-o-q terms and with calendar and seasonally adjusted data, the labour cost stabilised (0.1% in the previous quarter), as well as the wage cost component (also 0.1% in the first quarter) whereas other costs rose by 0.1%, as in the previous period.

From a sectorial point of view, labour costs rose by 0.4% y-o-y in industry (0.9% in the previous quarter), while it decreased by 1.2% in construction (-1.3% in the first quarter) and by 0.2% in services (-0.1% in the previous quarter). With regards to the wage cost, it rose by 0.3% in industry (0.8% in the first quarter), while it fell by 1.1% in construction (-1% in the previous quarter) and stabilised in services (-0.3% in the previous quarter).

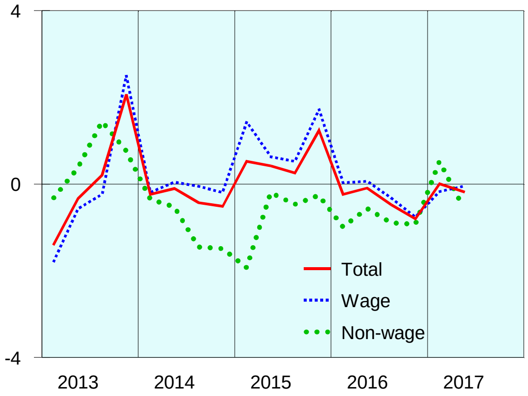
On the other hand, the labour cost per effective worked hour remained stable in comparison to the 0.1% rise registered in the previous quarter in q-o-q terms and with seasonally and calendar adjusted data, and the wage cost per hour rose by 0.1%, following the null variation registered in the first quarter of 2017.

The average agreed wage increase in collective bargaining agreements stands at 1.4% up to September

According to the Collective Bargaining Agreements Statistics published by the Ministry of Employment and Social Security, the average agreed wage rise stood at 1.4% (with the information available up to the end of September 2017), four tenths above the wage increase agreed in the financial year 2016, revised. Among the agreements that affect 2017, the agreed wage variation was 1.7% for those signed this year, compared to the 1.2% for those signed before 2017.

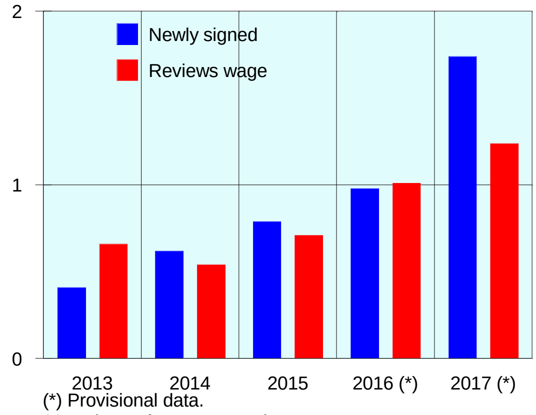
The wage increase in 2016, after including the revisions by wage guarantee clauses, reached 1%, the same as the initially agreed. These figures are provisional, as long as the statistics continue to include agreements which take effect in 2016.

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



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

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



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

External sector

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

According to the Balance of Payments data, in July 2017, the Spanish economy generated net lending to the rest of the world amounting to € 3.1 billion, a figure slightly lower than the one registered in the same month of 2016 (€ 3.2 billion). This decrease in the external balance is due to the fall of the surplus, both of the current account and the capital account.

The current account balance recorded a € 3.0 billion surplus in July, € 65 million lower in comparison to the figure registered in the same month of 2016 (€ 3.0 billion), due to the reduction of the goods and services surplus, almost entirely offset by the deficit decrease of primary and secondary income. On the other hand, the surplus in the capital account ended at € 89 million, versus the surplus of € 170 million of July last year.

The trade deficit rose in July

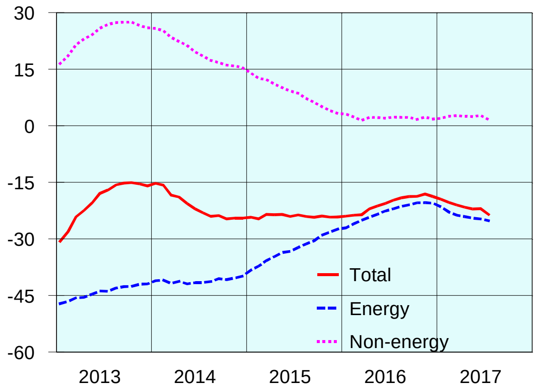
According to Customs data, the trade balance recorded a deficit of € 2.1 billion in July this year, compared to a deficit of € 558 million registered a year earlier. The trade deficit rise is explained by the surplus decrease of the non-energy component, which fell by 81.9% and, to a lesser extent, to the energy component deficit rise, by 25%.

In cumulative terms for the last twelve months up to July 2017, the trade balance recorded a deficit of € 23.5 billion, following the € 19.7 billion deficit registered a year earlier. This 19.1% reduction of the trade balance is explained by the energy component deficit increase, of 14.4% and by the decrease in the non-energy surplus, of 26.6%.

Real exports of goods slowed down in July

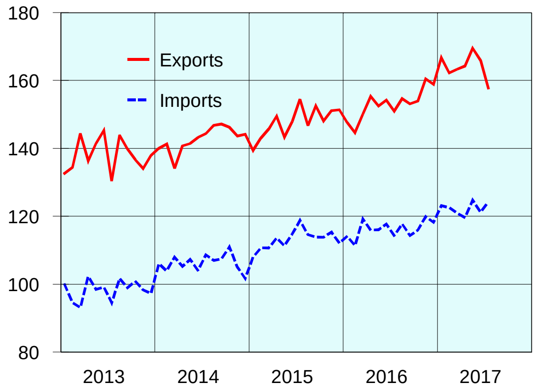
According to Customs figures, goods exports increased in July by 3.9% y-o-y, and their prices, approximated by unit value indices, decreased by 0.5% (following the 1.6% fall registered in June), resulting in a 4.3% rise in real terms, more than 3 points lower versus the previous month (7.4%). The analysis by product groups in real terms and in y-o-y terms shows a generalised moderation in July. Exports of food consumer goods rose by 4% (9.8% in June); non-food consumer exports declined by 3.1% (-0.2% in the previous month); capital goods exports rose by 2% (they grew by 7.7% in the previous month); non-energy intermediate goods exports increased by 7.4% (they increased by 8% in June); and energy intermediate goods exports moderated their growth rate to 32.1% (57.8% in the previous month).

G 14. TRADE BALANCE
accumulated 12 months, billion euros



Sources: DA and SGACPE.

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



Sources: DA and SGACPE.

By geographical areas, exports in volume to the European Union increased by 0.4% in July, in comparison to the 6% rise registered in June, and exports outside the Union increased by 11.7%, following the 10.2% increase recorded in the previous month.

Goods imports increased by 10.8% y-o-y in nominal terms in July, and their prices rose by 2% (2.1% in June). These price changes were due to the 5.7% rise in energy goods prices and in other products (1.6%). As a result, imports in real terms, experienced a y-o-y increase of 8.6%, (2.8% in the previous month). The analysis by products of imports in real terms and in y-o-y rates reflects a generalised acceleration, except for energy intermediate goods, which are moderated by nine tenths, to 18% y-o-y. Imports of consumer goods, food and non-food, and capital goods, registered positive rates again (5.8%, 8.4% and 12.4%, respectively) following the falls registered in June, and purchases of non-energy intermediate goods doubled the y-o-y rate, to 6.3%.

By geographical areas and in real terms, imports from the European Union rose by 3.6% y-o-y in July, following the 1.7% increase recorded in June. Real imports from the rest of the world accelerated eleven points, up to 15.5%.

The "momentum" of exports remains positive

The "momentum" (change during the last three months in comparison to the previous three months) of exports, in real terms, registered a positive rate in July (0.7%) for the tenth consecutive month, due to the positive contribution of EU countries. By products, the positive contribution of food consumer and intermediate goods, both energy and non-energy goods stands out. The "momentum" of imports was positive again in July (2%), after being negative in June, due to the positive contribution of non-OECD countries and, to a lesser extent, of EU countries. By products, the positive contribution of consumer goods stands out, mainly of non-food and non-energy intermediate goods.

The financial balance generates net capital outflows in July

According to the Balance of Payments, the financial balance, excluding the Bank of Spain assets, recorded net capital outflows of € 19.0 billion in July, versus the net inflows of € 5.4 billion recorded a year earlier. This result is explained by the net outflows registered by other investment (€ 15.9 billion), portfolio investment (€ 2.0 billion) and direct investment (€ 1.4 billion), while financial derivatives recorded net inflows (€ 192 million).

The assets net variation recorded net capital outflows (investments) of € 15.1 billion in July, versus the net inflows of € 8.9 billion registered in the same month of 2016. On the other hand, the liabilities net variation generated net outflows (disinvestments) of € 3.9 billion, versus the net outflows of € 3.5 billion recorded a year earlier.

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

The net debtor position of the Bank of Spain vis-à-vis the rest of the world increased by € 11.2 billion in July, due to the rise of € 10.3 billion registered in the net debtor position vis-à-vis the Eurosystem and to an increase of € 967 million in the remaining net assets. On the other hand, reserves rose by € 88 million.

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

On the other hand, the debtor balance of the Net International Investment Position, as a percentage of GDP, fell by 1.5 points compared to the second quarter of 2016, reaching 86.2% of GDP (€ 983.1 billion, compared to the € 964.1 billion registered in the same period of 2016).

The € 33.8 billion y-o-y reduction of the NIIP debtor balance, excluding the Bank of Spain, in the second quarter of 2017, was the result of a decrease in the net debtor position of portfolio investment, other investment and financial derivatives, while direct investment rose.

The gross external debt fell from 171% of GDP (€ 1.88 trillion) in the second quarter of 2016 down to 168.8% of GDP in the second quarter of 2017 (€ 1.92 trillion).

Public Sector

On 27th September, the Ministry of Finance and Civil Service published the data of non-financial transactions of the General Government in terms of National Accounts up to the second quarter of 2017, as well as the non-financial transactions of the Central Government, the Regional Governments and the Social Security Funds, with consolidated data, for July 2017, and the State monthly budget execution data for August, both in terms of National Accounts and Cash. Likewise, the non-financial transactions of the General Government for the period 2000-2016 were revised.

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

The Bank of Spain (BoS) published the General Government Debt data, following the Excessive Deficit Procedure (EDP) methodology, for the second quarter of 2017 as well as for July, and the Debt data for the State, corresponding to August.

The General Government deficit up to the second quarter of 2017 stands at 2.18% of GDP

Up to the second quarter of 2017, the General Government recorded a deficit, in terms of National Accounts, of € 25.5 billion (2.18% of GDP), 26.3% lower compared to the figure registered in the same period of 2016 (€ 34.5 billion). This deficit decrease is explained by an increase in non-financial resources (4.7% y-o-y) higher than the one registered by non-financial uses (0.1% y-o-y).

Excluding the support to financial institutions, the deficit up to the second quarter reached € 25.1 billion (2.15% of GDP), compared to the € 32.8 billion (2.93%) registered a year earlier.

Within the non-financial resources of the General Government, tax revenues rose by 5.9% up to the second quarter compared to the same period of the previous year, mainly due to the increase of Corporate Income Tax (37.5%) and VAT (6.4%). On the other hand, social contributions rose by 5.0%.

Non-financial uses of the General Government sector increased by 0.1% y-o-y up to the second quarter, despite the fall of interest expenditure (-5.4%) and support to financial institutions (-80.4%), which have offset the growth of other uses items.

By subsectors and compared to the second quarter of 2016, the Central Administration has reduced its deficit by 0.84 percentage points, down to 1.09% of GDP; the Regional Administration has increased its deficit by 0.05 percentage points, up to 0.72% of GDP; the Local Administration has raised its surplus by 0.06 percentage points, up to 0.16% of GDP; and the Social Security Funds subsector has reduced its deficit by 0.06 percentage points, down to 0.53% of GDP.

The General Government consolidated deficit, excluding Local Governments, stands at 2.34% of GDP up to July

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded up to July 2017 a deficit of € 27.3 billion (2.34% of GDP), 26.8% lower in comparison to the same period of 2016 (3.33% of GDP). This deficit decrease is explained by a y-o-y increase of non-financial resources (4.8%) higher than the one recorded by non-financial uses (0.1%).

The increase in revenue was mainly due to the rise in taxes (6.7%) and social contributions (4.9%). Regarding non-financial uses, almost all main items rose, more than offsetting the fall registered by interests (-6.1%), the contributions to the EU General Budget (-10.1%) and the support provided to financial institutions (-82.2%).

The Central Government ended the first seven months of 2017 with a deficit of € 21.7 billion, equal to 1.86 % of GDP, 0.88 points below the one recorded in the same period of 2016 (€ 30.7 billion, 2.74% of GDP). This deficit reduction, compared to the same period of 2016, is due to the fall of non-financial uses (which fell by 3.8%, down to € 127.1 billion) and to the rise in non-financial resources (3.9%, up to € 105.4 billon).

The increase of resources is due to the rise of tax revenues (6.0%), and, in particular, to the growth of the Corporate Income Tax (35.6%) and VAT (5.4%). The increase in the Corporate Income Tax is due to the rise of the first instalment payment in 2017, made in April, as it 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 explained by the fall of its main items, among which the following stood out: the fall in interest (-6.2%), the decrease of transfers to other administrations (-2.8%), in particular to the State Public Employment Service (known in Spanish as SEPE) and the smaller amounts related with the support to financial institutions. Specifically, in 2016 a capital transfer was registered 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 3.6% y-o-y, with an amount of € 55.6 billion in comparison to the € 57.6 billion registered in the first seven months of 2016.

Up to July, the Regional Governments accumulated a surplus of € 35 billion (equivalent to 0.00% of GDP), improving by € 806 million the balance obtained in the same period of 2016. This balance improvement is explained by a y-o-y increase of non-financial resources (2.9%) higher than that of non-financial uses (2.0%). The increase in revenue is mainly explained by the upward trend in resources obtained from the financing system (final settlement for 2015, which implies € 989 million in favour of the Regional Governments, and higher net advanced payments). The expenditure growth is mainly due to an increase in intermediate consumption (3.5%) and compensation of employees (1.9%). The expenditure of the Regional Governments eligible to be included in the calculation of the expenditure benchmark in the analysed period increased by 3.3% y-o-y, reaching € 82.6 billion.

As for Social Security Funds, these ended the first seven months of 2017 with a deficit of € 5.6 billion, equal to 0.48% of GDP, four hundredths lower than in the same period of 2016 (€ 5.8 billion, equivalent to 0.52% of GDP). This lower deficit is due to an increase of non-financial resources (1.7%) higher than the one registered by non-financial uses (1.3%). Social contributions increased by 5.3%, while transfers received from the State decreased by 15.5% and interests generated by the Social Security Reserve Fund, by 49.7%. On the other hand, the rise in uses is mainly due to the evolution of expenditure on social benefits, which increased by 1.6%, despite the fall in both unemployment benefits and in those granted by the Wage Guarantee Fund (known in Spanish as FOGASA).

The General Intervention of the State Administration (known in Spanish as IGAE) revised the annual accounts of the General Government for the period 2000-2016. The changes are not substantial for most years, except for 2015, for which the deficit is revised upwards by € 1.9 billion. As a percentage of GDP, the deficit reached 5.3% in 2015, versus the 5.1% previously estimated. For 2016, the deficit was revised downwards by € 175 million, maintaining the ratio on GDP stable at 4.5%.

The State's deficit in terms of National Accounts falls by 32.6% y-o-y up to August

Up to August 2017, the budget execution of the State ended with a deficit, in terms of National Accounts, of € 21.5 billion (1.84% of GDP), 32.6% 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 (5%) and a decrease registered by non-financial uses (-3.6%) in comparison to the same period of last year.

The increase in non-financial resources is mainly due to the evolution of tax revenues, which increased by 7.3%, mainly due to the growth of the Corporate Income Tax, by 23.9%, and VAT by 5.8%. The increase in the revenues accrued from the Corporate Income Tax is due to the increase in the first instalment 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 (-2.5%), and in particular to Social Security Funds (-17.2%), the interest fall (-6.0%) and the lower contribution to the EU based on VAT and GNI resources (-13.6%).

In terms of Cash, the State recorded a deficit of € 16.7 billion up to August 2017 (1.43% of GDP), in comparison to the deficit of € 19.6 billion recorded in the same period of 2016 (1.75% of GDP). Non-financial revenues registered a y-o-y decrease of 0.9%, reaching € 81 billion, while non-financial payments decreased by 3.6%, down to € 97.6 billion.

Tax revenues up to August increase by 8.9% in homogeneous terms, on Cash basis

Total tax revenue (including the Regional and Local Governments' share) recorded a y-o-y increase of 5.5% up to August, which would rise up to 8.7% if the impact of the Immediate Delivery of Information (known in Spanish as SII) in VAT was taken into account. This new system allows submitting returns of this tax on the 30^{th} day of the following month and has implied a reduction of VAT revenue in August amounting to € 3.8 billion, which is transferred to September. In homogeneous terms, that is, adjusted by the different tax refunds in both years, the IVMDH refunds (health cent), the deferrals of public entities and the SII impact, tax revenues rose by 8.9%. The remaining non-financial revenue decreased by 14.8%. Without including the Regional and Local Governments, and in non-homogeneous terms, tax revenues rose by 3.1%.

Within total taxes, revenue from Personal Income Tax, including the Regional and Local Governments' share, increased by 6.1% up to August, mainly due to the rise of labour income withholdings (3.1%), boosted by the rise in employment. 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 6.9%.

Revenue from Corporate Income Tax reached € 8.5 billion up to August, versus the € 5.3 billion registered in the same period of the previous year (59.4% more). This evolution is due to the increase of the first instalment of the Corporate Income Tax (made in April), responsible for the collection of € 2.9 billion more than in 2016 and the positive differential quota of the annual return for the financial year 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 9.1%.

VAT revenue, including the Regional and Local Governments' share, decreased by 1% y-o-y up to August. This result is affected by the implementation of the new Immediate Delivery of Information system, which implied a reduction of the collection in August amounting to € 3.8 billion, which will be transferred to September. Adding the amounts related to the SII, the net VAT collection increased by 7.7% compared to the same period of 2016 due to improved consumption and the price evolution. In addition, the deferral regulation change contributed with an additional net income of € 509 million up to the end of August. In homogeneous terms, adjusted by the different tax refunds and the SII, the VAT increase stands at 9%. If the effect of the deferrals is also excluded, the increase stands at 7.8%.

Excise duties collection, including the Regional and Local Governments' share, was 2.9% higher compared to the figure registered in the same period of 2016, mainly due to the increase in the Tax on Hydrocarbons (5.2%, which in homogeneous terms, corrected for the health cent refunds, stood at 3.2%).

Non-financial expenditure decreases by 3.6% up to August

With regard to expenditure, total non-financial payments decreased by 3.6% up to August in comparison to the amount accumulated in the same period of 2016, due to the fall of all its components: interest (-6.7%), current transfers (-1.1%), capital transfers (-12.5%), staff expenses (-3.4%), current expenditure on goods and services (-16.1%) and real investments (-4.2%).

With regard to the borrowing requirement of the State, it rose by 2.5% up to August in comparison to the same period of last year, reaching € 27.7 billion, versus the € 27 billion recorded in the same period of 2016. This increase is due to the higher net acquisition of financial assets (€ 11 billion, compared to the € 7.4 billion registered in the same period of 2016) as a result of the evolution of loans and other deposits of the Bank of Spain, partially offset by the lower cash deficit. The borrowing requirement was mainly financed through mid and long term domestic debt (€ 33.9 billion).

The Social Security reduces the deficit up to August

On the other hand, up to August 2017, the Social Security System (Managing Entities, General Treasury and Mutual Insurers) recorded a deficit of € 6 billion in terms of Cash (0.51% of GDP), 2.1% below the figure recorded in the same period of 2016 (€ 6.1 billion). Revenue increased by 3.2% mainly due to the favourable evolution of social contributions (5.0%, up to € 72.2 billion), despite the fall of most of other revenue items. On the other hand, payments rose by 2.9%, mainly due to the increase recorded by pensions (3.2%, up to € 80.2 billion).

The General Government Debt-to-GDP ratio falls in the second quarter of 2017 in y-o-y terms

In the second quarter of 2017, the General Government Debt-to-GDP ratio, according to the Excessive Deficit Procedure (EDP) methodology reached 99.8% of GDP, a percentage nine tenths lower than the one registered in same quarter of the previous year (100.7%).

By subsectors, the Central Government Debt stood at 87.4% of GDP in the second quarter of 2017, a percentage three tenths below in comparison to the figure registered in the same period of last year (87.7%). On the other hand, the Regional Government EDP Debt reached 25.1%, versus the 24.9% registered in the second quarter of 2016. In the second quarter of 2017, the Local Government registered an EDP Debt equivalent to 2.8% of GDP, four tenths lower compared to the figure recorded in the same period of the previous year. Finally, the EDP Debt of the Social Security Administrations stood at 1.5% in mid-2017, compared to the 1.6% registered in 2016.

The General Government EDP Debt maintains its growth rate in July 2017…

According to the BoS, the General Government Debt reached € 1,133.9 billion in July, 2.8% higher than in the same period of the previous year, maintaining the same growth rate registered in June.

By subsectors, the State EDP Debt stood at € 972.5 billion, a figure 3.7% higher in comparison to that registered a year earlier. The Debt of Other Bodies belonging to the Central Government reached € 36.3 billion, which implies a 18.7% decrease in comparison to July last year. On the other hand, the Regional Government EDP Debt reached € 284.8 billion, 3.6% higher in comparison to the figure registered in the same month of 2016. The Local Government subsector registered in July an EDP Debt equal to € 32 billion, 9.4% lower versus a year earlier. Finally, the EDP Debt of the Social Security subsector reached € 23.2 billion, a figure 34.8% higher than the one registered in July 2016 (€ 17.17 billion). This increase is due to the loan granted by the State.

…as well as the State's Debt in August

At the end of August, the State Debt, according to the EDP methodology, stood at € 975.5 billion, compared to the € 940.3 billion registered a year earlier, which represents a y-o-y increase of 3.7%, identical to the figure registered in the previous month.

October 2017