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SPANISH ECONOMY REPORT

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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

Financial markets

The financial markets evolution in December 2017 was conditioned by the approval of the tax reform in the United States and by the monetary policy meetings of the main central banks, the Federal Reserve's (Fed) decision to increase the interest rates being of particular relevance. The publication of macroeconomic data on both sides of the Atlantic and the oil price increase also affected this evolution. In this context, the main stock indices recorded losses in the Eurozone, while they have risen in the United Kingdom and in the United States, the public debt yields have increased, and the euro has appreciated against the dollar.

The Fed increases the interest rates and foresees three additional rises in 2018

The Federal Open Market Committee (FOMC) of the Fed, in its two day meeting held on 12th and 13th December, decided to increase the Federal Funds interest rates by 25 b.p., to the target range of 1.25%-1.50%. This is the third increase in 2017 and sets the rates at the levels registered in October 2008.

In addition, the FOMC continues to reduce gradually the bond portfolio and mortgage-backed assets in a context of labour market strength and economic growth. The monetary policy continues to be accommodative, supporting the strength of the labour market and the achievement of the 2% inflation target. With regards to future interest rates, the bank has reviewed its forecasts for 2018, setting a range between 1.9% and 2.4%, which leaves room for three increases this year.

The ECB maintains the interest rates and continues with the debt purchase programme in 2018

The Governing Council of the European Central Bank (ECB), on its meeting held on 14th December 2017, decided to maintain the interest rates on the main financing operations, the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.40%, respectively. The Governing Council continues to expect the key ECB interest rates to remain at their present levels for an extended period of time, and well past the horizon of the net asset purchases.

Regarding non-standard monetary policy measures, the Governing Council confirmed that as of January 2018 net asset purchases, under the asset purchase programme (APP), will continue at a monthly pace of € 30 billion, until the end of September 2018, or beyond, if necessary, and in any case, until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation target. If the outlook becomes less favourable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation, the Governing Council stands ready to increase the APP in terms of size and/or duration. The Eurosystem will reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of its net asset purchases, and in any case for as long as necessary. This will contribute both to favourable liquidity conditions and to an appropriate monetary policy stance.

On the other hand, the ECB decided to introduce changes to the admission criteria for collateral applicable to unsecured debt instruments issued by credit institutions, investment services companies or entities closely related to them. These instruments are known as unsecured bank bonds (UBB). UBBs subject to legal, contractual or structural subordination (for example, UBBs issued by banking holding companies) will no longer be eligible as collateral as of the entry into force of the next periodic update of the General Documentation (foreseen for the first quarter of 2018).

However, the UBBs issued by entities included in the list of agencies admitted to participate in the public securities purchase programme (PSPP) of the ECB and the Government-guaranteed bank bonds (GGBB), will continue to be eligible until their maturity, provided that they are not subject to contractual or structural subordination and that their issuance takes place prior to 31st December 2018. Senior unsecured bank bonds that are not subject to subordination will continue to be eligible as collateral.

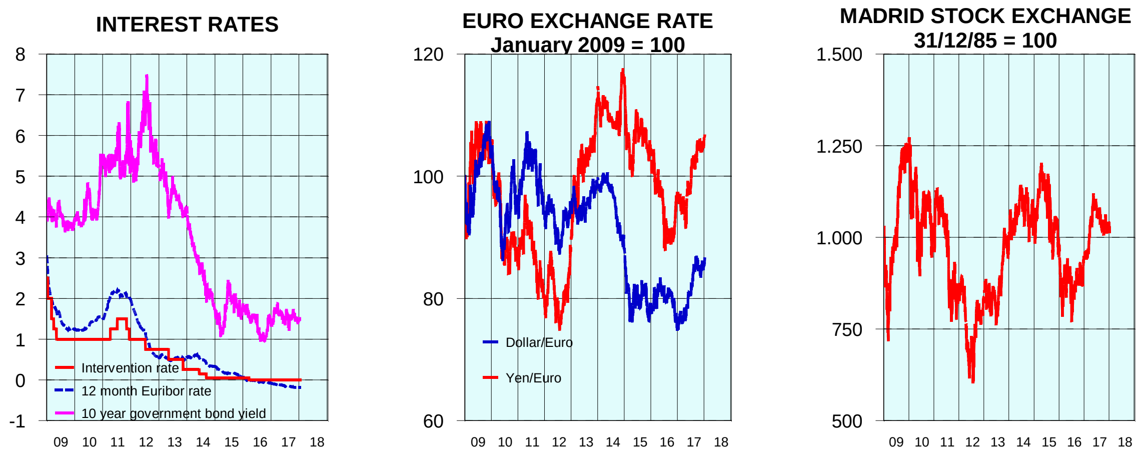
The BoE maintains the interest rates and the asset purchase programme

The Monetary Policy Committee of the Bank of England (BoE), in its meeting held on 13th December, decided to maintain the Official Bank Rate at 0.50% (in force since 2nd November 2017) 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.

The BoJ maintains the interest rates and the monetary stimulus plans

In the meeting held on 20th and 21st December 2017, 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.

G1. MONETARY AND FINANCIAL INDICATORS (1)



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

The 12 month Euribor remains negative and registers record lows

In the interbank market of the Eurozone, the Euribor continued to be negative and reached record lows, supported by the continuity of the ECB's accommodative monetary policy. Thus, on 2nd January 2018, the one, six and twelve-month Euribor stood at -0.368%, -0.271% and -0.186%, respectively, versus the -0.371%, -0.272% and -0.188% recorded on 30th November 2017. The evolution of the 12 month Euribor in this period is due to the expectations of stability in the interest rates (the twelve-month OIS rose by 1 b.p.) and the stability in the risk premiums required in the market (the Euribor-OIS differential fell by 1 b.p.).

European public debt yields increase

In the secondary public debt market, the lower risk aversion and the expectations concerning the impact of the United States tax reform, which is foreseen to raise the financing needs of the US administration, have boosted the yields upwards. Thus, yields rose in all countries of the Eurozone in the period between 30th November 2017 and 2nd January 2018 (except in Greece). The 10-year Spanish bond yield stood at 1.60% on 2nd January 2018, 13 b.p. above the figure recorded on 30th November. On the other hand, the German bond yield rose by 8 b.p. in that period, up to 0.46%, the Spain-Germany differential standing at 114 b.p., 5 b.p. above the level recorded in late November. Meanwhile, the Spain-Italy differential stood at -50 b.p., 22 b.p. higher in comparison to that of 30th November.

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

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-30-16	Nov-30-17	Jan-02-18	Variation in spreads		Dec-30-16	Nov-30-17	Jan-02-18	Variation in spreads	
	(1)	(2)	(3)	Period (3)-(2)	Annual (3)-(1)	(4)	(5)	(6)	Period (6)-(5)	Annual (6)-(4)
Germany	0.21	0.38	0.46	8	25					
Holland	0.35	0.47	0.56	9	21	14	9	10	1	-4
Austria	0.42	0.54	0.62	8	20	21	16	16	0	-5
Finland	0.35	0.53	0.63	10	28	14	15	17	2	3
Belgium	0.55	0.58	0.68	10	13	34	20	22	2	-12
Ireland	0.77	0.61	0.72	11	-5	56	23	26	3	-30
France	0.68	0.69	0.82	13	14	47	31	36	5	-11
Spain	1.40	1.47	1.60	13	20	119	109	114	5	-5
Portugal	3.78	1.90	1.99	9	-179	357	152	153	1	-204
Italy	1.82	1.75	2.10	35	28	161	137	164	27	3
Greece	7.11	5.40	4.08	-132	-303	690	502	362	-140	-328

Source: Financial Times.

The stock indices show mixed results

Stock markets registered a mixed behaviour in December 2017, with increases in the United States and the United Kingdom and falls in the Eurozone. Thus, the Eurostoxx 50 index fell by 2.2% between late November 2017 and early January 2018 and, so the annual gains stood at 6.1% compared to the end of 2016, trading on 2nd January at 3,490.19 points. In the Spanish market, the IBEX 35 also fell by 1.3%, with annual profits standing at 7.8% and closing on 2nd January at 10,079.10 points. On the other hand, in the US market, the approval of the tax reform boosted the S&P 500 index upwards, as it rose by 1.8% and the annual gain stood at 20.4%.

The euro appreciates against the dollar

With respect to the currency market, the euro exchange rate against the dollar during December 2017 was affected by the approval of the tax reform in the United States and by the monetary policy decisions of the central banks. Thus, in the period between late November 2017 and early January 2018, the euro appreciated by 1.8%, 1.7% and 1.1% against the dollar, the yen and the sterling, trading at the end of the 2nd January session at 1.2065 dollars, 135.4 yen and

0.8895 pounds. In the same period, the euro appreciated by 0.4% in nominal effective exchange rate terms vis-à-vis the group of industrialised countries.

T 2. International stock exchange

Countries	Index	Level Jan-02-18	% Variation Nov-30-17	% Variation Dec-30-16
Germany	DAX	12,871.39	-1.2	12.1
France	CAC 40	5,288.60	-1.6	8.8
Italy	FTSE MIB	21,845.16	-2.3	13.6
Spain	IBEX 35	10,079.10	-1.3	7.8
Eurozone	EUROSTOXX 50	3,490.19	-2.2	6.1
United Kingdom	FTSE 100	7,648.10	4.4	7.1
United States	S&P 500	2,695.79	1.8	20.4
Japan	NIKKEI 225	22,764.94	0.2	19.1
China	SHANGHAI COMP	3,348.33	0.9	7.9
Mexico	IPC	50,033.95	6.2	9.6
Brazil	BOVESPA	77,891.04	8.2	29.3
Argentina	MERVAL	31,084.42	15.5	83.7

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

The M3 broad monetary aggregate slows down in November 2017...

On 29th December 2017, the European Central Bank published the evolution of the monetary and credit aggregates in the Eurozone in November 2017. The y-o-y growth rate of the M3 broad aggregate slowed down one tenth in November, reaching 4.9%. This evolution was mainly due to the slowdown of overnight deposits (three tenths, to 10.1%) and the currency in circulation (two tenths, to 3.3%), partially offset by the lower fall in other short-term deposits (-2.5%, compared to the -2.7% registered in the previous month) and marketable instruments (-0.4%, in comparison to the -0.8% recorded in the previous month).

T 3. Eurozone monetary aggregates

Monetary aggregates	November 2017 Balance (Billion €)	% Year-on-year variation		
		September 2017	October 2017	November 2017
1. Currency in circulation	1,110	3.5	3.5	3.3
2. Overnight deposits	6,658	10.9	10.4	10.1
M1 (= 1 + 2)	**7,768**	**9.8**	**9.4**	**9.1**
3. Other short-term deposits (= 3.1. + 3.2.)	3,416	-3.2	-2.7	-2.5
3.1. Term deposits up to two years	1,200	-10.5	-9.9	-9.4
3.2. Deposits redeemable at notice up to three months	2,216	1.5	1.8	1.8
M2 (= M1 + 3)	**11,184**	**5.4**	**5.4**	**5.3**
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	680	1.1	-0.8	-0.4
4.1. Repurchase agreements	79	-13.2	-6.1	10.2
4.2. Money market funds shares/units	521	5.7	3.4	1.7
4.3. Securities other than shares up to two years	81	-12.1	-20.2	-19.9
M3 (= M2 + 4)	**11,864**	**5.2**	**5.0**	**4.9**

Source: European Central Bank.

...and financing to the private sector in the Eurozone maintains its y-o-y rate stable

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, rose 2.8% in November 2017, as in the previous month. This evolution is due to the stability in the growth rate of loans (2.6%, as in the previous month) and to the fact that the acceleration of shares and other equity (4.4%, compared to the 2.8% recorded in the previous month) offset the slowdown of securities other than shares (six tenths, to 3.8%). Within loans, those received by households rose by 3.1%, one tenth less than in the previous month, those received by non-financial corporations grew by 1.8%, a rate one tenth more versus the previous month, and those received by other financial intermediaries slowed down 0.6 points, to 2.9%.

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

	November 2017 Balance (Billion €)	% Year-on-year variation		
		September 2017	October 2017	November 2017
Credit to the private sector	**13,086**	**2.8**	**2.8**	**2.8**
Loans	**10,855**	**2.5**	**2.6**	**2.6**
Households	**5,549**	**3.1**	**3.2**	**3.1**
House purchases	*4,166*	*3.4*	*3.4*	*3.3*
Consumer credit	*651*	*6.8*	*6.7*	*7.0*
Other lending	*731*	*-1.2*	*-1.0*	*-0.8*
Non-financial corporations	**4,344**	**1.4**	**1.7**	**1.8**
Insurance companies & pension funds	**115**	**2.0**	**-1.6**	**0.1**
Other financial intermediaries	**846**	**3.6**	**3.5**	**2.9**
Securities other than shares	**1,426**	**5.6**	**4.4**	**3.8**
Shares and other equities	**805**	**2.6**	**2.8**	**4.4**

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

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

According to the data of financing to the non-financial sectors in Spain, published by the Bank of Spain on 2nd January, the financing stock to the private non-financial sector decreased by 0.4% y-o-y in November, one tenth less than in October. Financing received by firms recorded a null variation, versus the 0.2% fall recorded in the previous month, due to the acceleration of securities other than shares and the lower fall in foreign loans, partially offset by the greater fall of bank loans. On the other hand, financing received by households recorded a y-o-y rate of -0.9% in November, a figure one tenth higher in comparison to that registered in the previous month, due to the acceleration of bank loans for purposes other than housing, while bank loans for housing intensified the rate of decline.

New loan and credit operations to households and SMEs rise

According to data published by the Bank of Spain on 3rd January, the amount of new loan and credit operations to households, in cumulative terms for the last twelve months, increased by 6.7% y-o-y in November 2017, 1.1 points more in comparison to the figure registered in the previous month. This evolution is due to the acceleration in the loans for other purposes (5.8 points, up to 9.0%), partially offset by the slowdown in loans for consumption (15.7%, compared to the 16.6% registered in the previous month), while loans for housing maintained a steady pace of decline (-0.2%). 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 November 2017, by 7.1% y-o-y, as in the previous month. On the other hand, the amount of new loan and credit operations exceeding one million euros declined by 3.7% y-o-y, a drop 2.9 points lower than in October.

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

	November 2017 Balance (Billion €)	% Year-on-year variation		
		September 2017	October 2017	November 2017
Non-financial corporations and Households	**1,606**	**-0.5**	**-0.5**	**-0.4**
Non-financial corporations	**894**	**-0.3**	**-0.2**	**0.0**
Bank loans	*514*	*-0.7*	*-0.5*	*-0.6*
Securities(1)	*94*	*10.5*	*7.1*	*9.0*
External loans	*286*	*-2.5*	*-1.7*	*-1.6*
Households	**712**	**-0.9**	**-1.0**	**-0.9**
Bank loans. Housing	*529*	*-2.8*	*-2.8*	*-2.9*
Bank loans. Other	*182*	*5.7*	*5.1*	*5.6*
General Government	**-**	**2.5**	**2.5**	**-**
Total financing	**-**	**0.7**	**0.7**	**-**

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

Spanish economy

Domestic Demand and Production

The Bank of Spain foresees a real GDP growth of 3.1% in 2017 and a slowdown in 2018 and 2019

According to the macroeconomic forecasts prepared by the Bank of Spain (BoS), real GDP of the Spanish economy registered a 0.8% q-o-q growth in the last quarter of 2017, a figure identical to the one recorded in the previous quarter. The activity progress continued to be supported by domestic demand, contributing with 0.6 percentage points (p.p.) to q-o-q GDP growth, two tenths lower than the previous quarter, and a contribution of net external demand of 0.1 p.p., following the null contribution registered in the third quarter. On the other hand, the strong job creation continued in the labour market, recording a y-o-y increase of 3.2%, three tenths higher than the figure registered in the previous quarter.

Thus, real GDP ended 2017 with an average annual growth of 3.1%, equal to the figure estimated by the BoS in September 2017. For 2018 and 2019 it foresees a slightly more intense slowdown than estimated in September, with rates of 2.4% and 2.1%, respectively, both one tenth lower than those three months ago, as a result of an uncertainty increase linked to the political situation in Catalonia (it would subtract three tenths to growth in the accumulated period 2018-2019, assuming that the level of uncertainty registered in the last months of 2017 would decrease at the beginning of 2018), partially offset by the improvement in the outlook of foreign markets. For 2020, it expects a growth stabilisation at 2.1%.

Qualitative indicators point towards the continuation of the activity dynamism in the last quarter of 2017

Available qualitative indicators point towards the continuation of the expansionary trend of the global activity in the fourth quarter of 2017. Amongst them, the Economic Sentiment Indicator (ISE, by its Spanish abbreviation) prepared by the European Commission stands out, and even though it fell slightly in December 2017, eight tenths, down to the level 110 (average 1990-2016 = 100), it ended the fourth quarter of the year with an average value of 110.3 points, 1.3 points higher than the previous quarter. Likewise, the Composite PMI for Spain continued to show a strong activity growth in December, reaching a level of 55.4, two tenths higher in comparison to the figure recorded in the previous month and 2.7 points lower in comparison to the figure registered in the Eurozone (58.1). The last quarter of 2017 ended with an average level of 55.2 (57.2 in the Eurozone), nine tenths lower versus the third quarter (56.1).

On the other hand, the Composite Leading Indicator for Spain, published by the OECD, designed to anticipate the turning points in the economic activity with regards to its trend, rose one tenth in October in comparison to the previous month, reaching 100, matching its long-term average. This indicator was slightly below the one corresponding to the OECD countries as a whole (100.1) and the Eurozone (100.6).

The Spanish economy increased its net lending vis a vis the rest of the world in the third quarter of 2017

According to the Quarterly Non-Financial Accounts for the Institutional Sectors (QNFAIS) published by the INE, in the third quarter of 2017 the Spanish economy showed net lending vis a vis the rest of the world, amounting to € 8.6 billion, equal to 3% of the quarterly GDP and € 432 million higher in comparison to the figure estimated for the same quarter of last year (€ 8.2 billion, 3% of the GDP). The y-o-y improvement of the balance compared to the rest of the world is explained by the evolution of the income and current transfers balance, whose deficit fell by € 434 million in the third quarter of 2017, down to € 4.3 billion, and the foreign trade balance in goods and services, whose surplus increased by € 140 million, reaching € 12.7 billion, partially offset by the decrease in the surplus of the balance of capital transfers (€ 235 million in the third quarter of 2017, compared to the € 377 million registered a year earlier).

By institutional sectors, the net lending of the Spanish economy y-o-y increase in the period from July to September 2017 is explained by the greater net lending of the General Government, which increased two points, up to 2.8% of the quarterly GDP, and, to a lesser extent, of the financial institutions, whose balance grew by 9.3%, up to € 4.4 billion, equal to 1.5% of GDP. On the other hand, the net lending of non-financial corporations fell four tenths, down to 3.1% of GDP and households and Non-Profit Institutions Serving Households (NPISHs) increased their net borrowing by over 60%, from -2.9% of the quarterly GDP in the third quarter of 2016 to -4.5% in the same period of 2017.

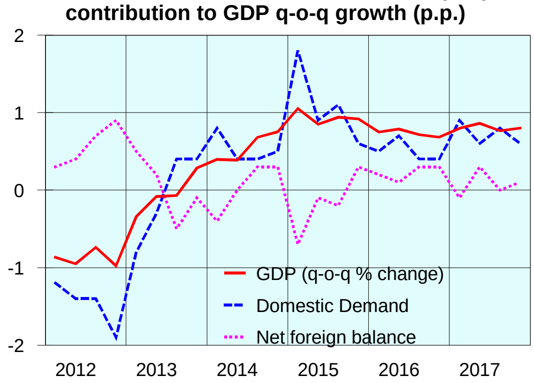
Private consumption indicators continue the expansionary trend at the end of 2017

Amongst the GDP components on the demand side, with regard to private consumption, the signals from available indicators generally point to a continuation of the expansionary trend in the last months of 2017.

Among the qualitative indicators, the Consumer Confidence Indicator (CCI) published by the Sociological Research Centre (known in Spanish as CIS) increased two points in December compared to the previous month, reaching 102.5, above the 100 threshold (indicative of a positive perception of consumers) for the second consecutive month, ending the fourth quarter of 2017 with an average level of 100.9 (106.8 in the third quarter). The improvement recorded in December was due to the evolution of its two components, the current situation component and the expectation component, which rose 1.7 and 2.3 points, respectively, up to the level 92.9 and 112. Likewise, the Consumer Confidence Indicator published by the European Commission rose two tenths in December in comparison to the previous month, up to -1.5, due to the better prospects of the general situation of the economy and unemployment, in comparison to the decrease of the trend components in the household and savings situation. The fourth quarter of 2017 ended with an average level of -1.5 (+0.2 in the previous quarter).

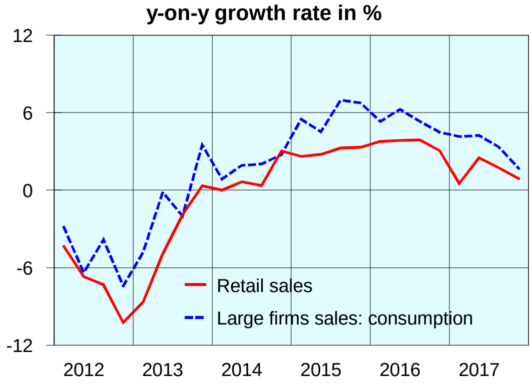
Among the quantitative indicators, retail sales, with work calendar and price adjusted data, registered a y-o-y rise of 2.9% in November in comparison to the 1.2% fall recorded in the previous month. By groups, the improvement was due to the food component, which accelerated two points, up to 2.1% y-o-y, and, to a greater extent, to the non-food component, whose y-o-y rate stood at 4.1%, 6.5 points higher in comparison to the figure registered in October. 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 4.3% in the fourth quarter of the year (the latest observed data corresponds to October and forecasts in November and December), almost six tenths higher when compared to the previous quarter, and passenger car registrations, according to the figures provided by the ANFAC (Spanish Association of Vehicles Manufacturers), accelerated 4.8 points in the last quarter of 2017, registering a y-o-y rate of 10.6%. On the other hand, domestic sales of consumer goods and services, with deflated, fixed-sample and calendar adjusted data, grew by 1.7% y-o-y in October, eight tenths less compared to the previous month.

G 2. GDP AND COMPONENTS, volume (sac) contribution to GDP q-o-q growth (p.p.)



Sources: INE and BE (forecast Q4-2017).

G 3. CONSUMPTION INDICATORS y-on-y growth rate in %



Sources: INE and AEAT.

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

In the third quarter of 2017, the Gross Disposable Income (GDI) of Households and NPISHs registered a 1.3% y-o-y increase. This GDI growth was due to the increase in both wage (3.4%) and non-wage income (2.6%), and current transfers received (0.6%), partially offset by the rise in current taxes on income and wealth (9.3%) and, to a lesser extent, to current transfers paid (3.8%).

As a result of an increase in the final consumption expenditure (3.5% y-o-y) higher than that of the households GDI (1.3%), the saving rate stood at -0.7% of the GDI, compared to the 1.5% recorded in the same period of 2016. The sector negative savings (€ 1.2 billion), compared to the savings registered in the same period of 2016 (€ 2.4 billion), as well as the greater amount of investment, which increased by 10.2% in y-o-y terms, and the rise in other net capital expenditures (from € 165 million in the period from July to September 2016, to € 464 million in the same period of 2017), resulted in a y-o-y increase in the net borrowing of households exceeding 60%.

The equipment investment indicators dynamism moderates

The available short-term information on equipment investment shows a certain moderation in the growth rate in the last quarter of the year. According to figures provided by the General Direction of Traffic, truck registrations registered a 12.5% y-o-y growth in November, 2.1 points lower than the figure recorded in the previous month, accumulating a growth of 9.9% in the first eleven months of 2017 (5.7% in the same period of 2016).

Additionally, domestic sales of equipment and software in large companies, with deflated, fixed-sample and calendar adjusted data, grew slightly in October, by 0.1%, following the 9.6% increase registered in the previous month. Likewise, the domestic availability of equipment goods indicator, with seasonally and deterministic effects (calendar and outliers) adjusted data, slowed down by 3.8 points in the fourth quarter (forecast in November and December), down to 0.8% y-o-y.

Non-financial corporations reduce their net lending in the third quarter of 2017

Non-financial corporations showed a net lending position of € 9.0 billion, equal to 3.1% of GDP in the third quarter of the year, € 791 million lower in comparison to a year earlier (3.5% of GDP). This lower net lending is explained by an increase in business investment (5.2% y-o-y) higher than the increase in disposable income of companies (3.2%), as well as by the 33.7% y-o-y drop in net capital transfers to be collected.

In turn, the higher savings experienced in the sector, in y-o-y terms, is explained by the growth of the gross operating surplus (4.5%) and the decrease in net current transfers paid (16.6%), partially offset by the increase in net property income paid (5.2%) and the 19.1% growth in the amount allocated to pay the corporate income tax. The rise of the Gross Value Added (GVA) of firms (4.3%) and the fall of taxes net of subsidies on production (6.4%) contributed to the gross operating surplus increase, while the compensation of employees recorded a 4.4% y-o-y increase.

Construction investment continues the expansionary phase

Short-term indicators point to an extension of the pace of progress of the residential investment. According to the INE Statistics based on the properties recorded in the Property Registers, housing sales rose sharply again in October, registering a high y-o-y increase, of 25.7%, almost fifteen points higher than the figure registered in the previous month (11%). This rebound was due to the higher dynamism of both used housing purchases, whose y-o-y variation rate stood at 24.8% (9.6% in September), and new housing purchases, which grew by 29.8%, 12.1 points more than in the previous month. Up to October, housing purchases accumulated an average annual increase of 14.7%, half a point higher than in the same period of 2016.

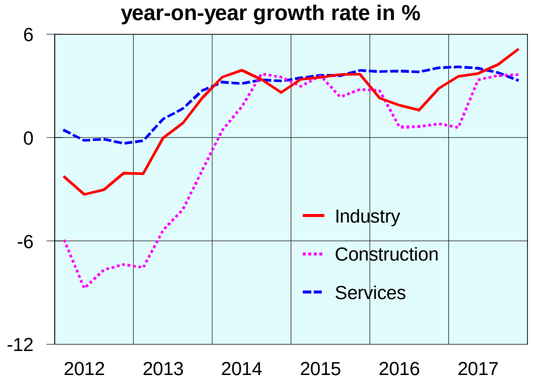
In parallel, the number of mortgages on housing continued to grow strongly in October, with its y-o-y rate reaching 8.2%, one point lower than the one registered in the previous month. The average amount per mortgaged house was of € 120,628, which implies an increase of 9.2%, four tenths below that registered in September, and the capital borrowed for mortgages on housing rose by 18.2%, a rate 1.5 points lower than in the previous month. In the first ten months of 2017, the number of mortgages on housing was 12% higher in comparison to the figure recorded in the same period of the previous year, a rate which is lower than the figure recorded in 2016 as a whole (14.6%).

The industrial activity remains strong

From the supply point of view, amongst the industrial activity quantitative indicators, the Industrial Production Index (IPI), with calendar and seasonally adjusted data, moderated the growth rate by two tenths in November 2017, to 4.2% y-o-y, due to the slowdown of all groups, except energy. Consumer, equipment and intermediate goods increased by 0.5%, 6.1% and 6.4%, rates, that are 1.9, 0.2 and 1.4 points lower in comparison to the ones registered in the previous month, respectively, while energy rose by 4.6% y-o-y, after the 1.7% fall recorded in the previous month. The IPI ended the January-November 2017 period with a y-o-y increase of 2.6%, seven tenths higher versus the same period of 2016.

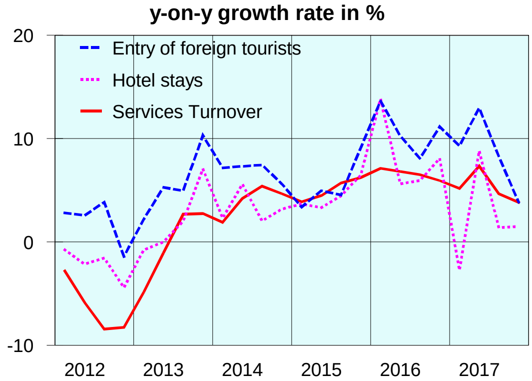
The Industry New Orders Index (INOI) and the Industry Turnover Index (ITI), adjusted for calendar effects, continued to show strong growth rates in October. The INOI registered a y-o-y increase of 4.1% and the ITI of 7.8%, although lower than those recorded in the previous month (15.4% and 11.1%, respectively). By components, the INOI slowdown was due to the less favourable evolution of all its components. Thus, the new orders for equipment goods fell by 5.3%, after the 25.8% increase recorded in the previous month, and that of energy slowed down 16.3 points, down to 11.6%. On the other hand, consumer goods moderated the growth rate by 3.2 points, to 2.7%, and intermediate goods grew by 11.7%, 1.6 points less than in September. Likewise, the less expansionary evolution of the ITI is explained by the more contained growth rate of all its components, where the energy loss of momentum stood out, as it slowed down 17.2 points, to 11.1%, followed by equipment goods, which registered a rate of 6.2%, 5.1 points lower than in September. Likewise, intermediate goods slowed down 1.5 points, down to 11.9%, and consumer goods, 1.4 points, to 3.5%.

G 4. COMPOSITE SUPPLY INDICATORS
year-on-year growth rate in %



Source: SGACPE.

G 5. TOURIST SECTOR INDICATORS
y-on-y growth rate in %



Source: INE.

The most recent qualitative indicators of the industry activity extend the dynamism during the last months of 2017, although with a slightly more moderate trend. Thus, the Industrial Confidence Index published by the European Commission registered a positive balance of 4.8 points in December 2017, seven tenths less than in the previous month, as a result of the decline in the order portfolio and the higher level of stocks, partially offset by the improvement in production expectations. On the other hand, the manufacturing industry PMI for Spain reached 55.8 in December, three tenths lower versus the previous month, as a result of the slowdown in new orders in the sector, although both new orders from abroad and production increased. In the last quarter of last year, the Manufacturing PMI for Spain registered an average balance of 55.9, 2.3 points higher than the previous quarter.

The construction production index falls in October...

The most recent activity data in the construction sector, corresponding to October 2017, show a slightly contractive trend, after the strong increases registered in the previous four months. Thus, the Construction Production Index (CPI), with deflated and calendar adjusted data, published by Eurostat, fell by 1.2% y-o-y in October, versus the 6.7% increase registered in the previous month. This result is explained by the evolution of the building component, whose y-o-y rate stood at -0.2% (6.8% in September) and, to a greater extent, by the evolution of the civil works component, which decreased by almost 6%, after the 7.5% increase recorded in the previous month. In the first ten months of 2017 as a whole, the CPI registered an average annual variation of -0.2%, compared to the 5.1% increase registered in 2016 as a whole.

...while the leading indicators of the sector intensify their growth rate

The construction activity leading indicators continued to show positive signs at the end of 2017. According to construction new permits of the Ministry of Public Works, floorage approvals in new construction registered a 59.3% y-o-y growth in October, almost 34 points higher versus the previous month, accumulating an annual average increase of 24.5% in the first ten months of the year, four points higher in comparison to the same period of 2016. The rebound experienced in October was mainly due to the non-residential component, which increased by 107.8% y-o-y, compared to the 31.2% increase registered in the previous month and, to a lesser extent, to the residential component, which increased by 47.6%, more than double that of the previous month (23.4%).

In parallel, the official tenders continued to grow strongly in October, registering a y-o-y rate of 101.7%, higher than that recorded in the previous month (66.9%), due to the evolution of the civil works component, which increased by 143.4% (60.7% in September), while the construction component increased by 31.2%, compared to the 76.8% rise registered in September.

On the other hand, among the most recent qualitative indicators, the confidence in the sector, according to the European Commission indicator, fell by 4.2 points in December 2017 compared to the previous month, registering a balance of -18.7 points, both due to the decline in the order portfolio component and the worsening of expectations related to employment component. However, in 2017 as a whole, the confidence indicator in construction improved 12.7 points in comparison to the previous year.

The services sector activity remains dynamic…

With regards to the services sector, the available short-term indicators continue the favourable evolution, although some of them with a more moderate trend. Thus, the Business Turnover Index (BTI), with work calendar adjusted data, slowed down by 2.8 points in October, down to 4.6% y-o-y. This BTI evolution is mainly explained, by the trade evolution, which recorded a 4.3% increase, almost four points lower than the previous month and, to a lesser extent, the other services evolution, whose growth, of 5.1%, was 1.1 points lower than in September.

Amongst the qualitative short-term indicators, the Services PMI reached 54.6 in December, two tenths higher in comparison to the figure registered in the previous month, due to the higher growth rate in both the trade and new orders activity, ending 2017 with an average balance of 56.4 points, 1.4 points higher than in 2016. On the other hand, the confidence indicator in the sector, prepared by the European Commission, fell by 2.8 points in December, to 17.9, although it registered a level of 22.4 points in 2017 as a whole, 4.6 points higher than in 2016.

…and the tourism sector continues the expansionary trend

The tourism sector indicators grew strongly again in November after the slowdown observed in October. Thus, in November 2017, tourist arrivals increased by 7.4% y-o-y, representing an acceleration of 5.6 points in comparison to the previous month (1.8%), and the total expenditure of tourists who visited Spain rose to € 4.6 billion, a figure that represents a y-o-y increase of 10.3%, 4.4 points higher than that registered in October. As a result of the evolution of the tourist inflow and the tourist expenditure, the average expenditure per tourist rose by 2.7%. Likewise, overnight stays in hotels increased by 2.1% y-o-y in November, one point more than in October, due to the increase in domestic overnight stays, of 3.5%, after the 2.2% fall registered in the previous month, partially offset by the lower dynamism of foreign overnight stays, which increased by 1.2%, a rate 1.4 points lower versus the figure registered in October.

Prices

Inflation rises one tenth in November 2017, up to 1.7%

The Consumer Price Index (CPI) rose by 1.7% in November, a rate one tenth higher in comparison to the one registered in the previous month. The higher inflation in November was mainly due to the higher growth rate of energy products prices and, to a lesser extent, the slight rebound in processed food prices, partially offset by the slowdown in services and non-processed food prices, and by the further fall in non-energy industrial goods prices (BINE).

Energy products prices grow by 6% y-o-y

Energy products prices rose by 6% y-o-y, 2.1 points more than in October, mainly due to the acceleration of the fuels and lubricants prices, which went from registering a 3.4% y-o-y rate in October to 6.7% in November, and, to a lesser extent, to electricity prices, which accelerated one tenth, up to 3.5%.

Non-processed food prices grew by 4.3%, six tenths less than in the previous month, mainly due to the slowdown of the fresh fruits prices, which moderated the growth rate by 2.1 points, to 8% and, to a lesser extent, to fresh vegetables and legumes prices, which went from growing by 8.8% in October, to 7.5% in November.

Core inflation moderates one tenth, to 0.8%

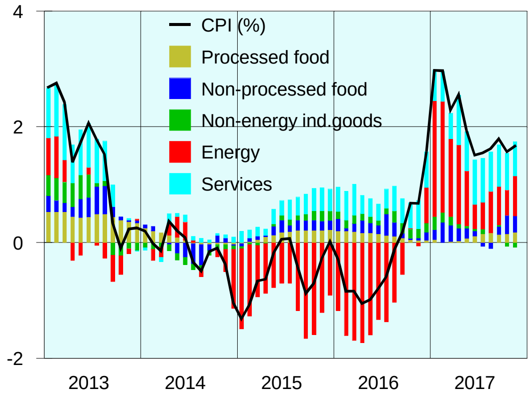
Core inflation, which excludes the most volatile elements from the CPI (non-processed food and energy products), fell by one tenth in November, down to 0.8%, due to the slowdown of services prices and the greater fall in BINE prices, an evolution that is partially offset by the slight rebound in the growth rate of processed food prices.

Services prices slowed down one tenth in November, to 1.5%, mainly due to the evolution of tourism and hospitality prices, which grew by 2.2%, four tenths less than in the previous month.

On the other hand, non-energy industrial goods prices fell by 0.3%, one tenth more than in the previous month, as a result of the slowdown of the clothing and footwear and car prices, of one and two tenths, respectively, to 0.4% and 1%.

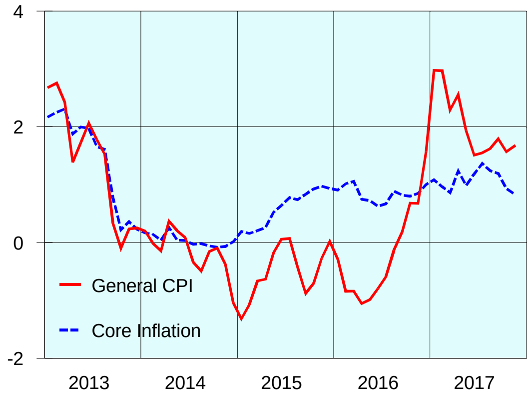
Lastly, processed food, beverages and tobacco prices increased by 1.2% in November, two tenths more than in October.

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.

According to the CPI flash estimate, inflation falls half a point in December 2017, down to 1.2%

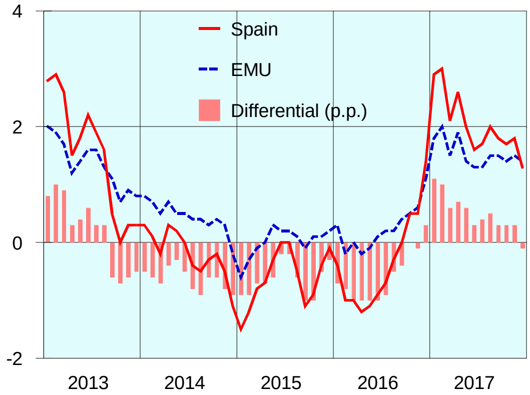
According to the flash estimate published by the INE, the y-o-y rate of the national CPI stood at 1.2% in December 2017, half a point less in comparison to the figure registered in November. According to the INE, the rise in fuel prices (diesel and petrol) stands out in this behaviour, lower than the one recorded in the same month of 2016.

The harmonised inflation, estimated by the Spanish HICP flash estimate, stood at 1.3% y-o-y in December, half a point lower than the figure registered in November. For its part, the Eurozone’s HICP flash estimate, published by the Eurostat, recorded a y-o-y variation of 1.4%, one tenth below compared to the figure registered in November, resulting in an inflation differential against the Eurozone favourable to Spain of 0.1 percentage points, after twelve consecutive months of unfavourable differentials (0.3 points in November 2017).

The PPI accelerates three tenths in November, up to 3.1% y-o-y

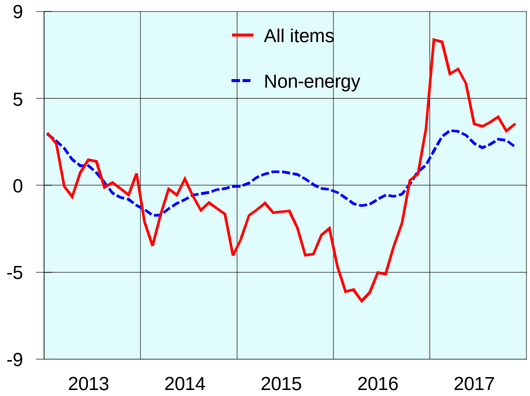
The Producer Price Index (PPI) registered a 0.5% rise in November 2017, in comparison to the previous month, versus the 0.2% recorded in November 2016. In y-o-y terms, the PPI variation rate stood at 3.1%, a rate three tenths higher when compared to the figure registered in October. This was due to the higher growth rate of energy prices and, to a lesser extent, of equipment goods prices, partially offset by the slowdown in the intermediate goods and consumer goods prices.

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



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

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



Source: INE.

Energy production prices accelerated by 2.4 points in November, up to 6.3% y-o-y. In this evolution of the energy component, and according to the NACE classification, the behaviour of coke and oil refining stands out, whose prices intensified their growth rate by almost 10 points, to 18%. On the other hand, the prices of electricity, gas, steam and air-conditioning supply slowed down their growth rate four tenths, to 2.2%.

The non-energy PPI slowed down three tenths in November, to 2% y-o-y, mainly due to the slowdown of intermediate goods prices, which went from growing by 4% y-o-y in October to 3.3%, mainly as a result of the moderation of almost six points in the growth rate of the metallurgy and manufacturing of iron, steel and ferroalloy products prices, up to 11.6%.

Consumer goods prices slowed down two tenths in November, to 1.4%. This lower growth rate is explained by non-durable consumer goods prices, which grew by 1.5%, three tenths less than in October. Durable consumer goods prices remained stable, as in the previous month.

Lastly, equipment goods prices grew two tenths more in November than in October, up to 0.7%, the eight tenths acceleration up to 1.4% in the prices of repair and installation of machinery and equipment standing out in its evolution.

Labour Market

The number of Social Security covered workers increased by 3.4% y-o-y in December 2017, two tenths less than in November, ending the fourth quarter of the year with a y-o-y increase of 3.5%, equal to that of the previous quarter. Registered unemployment fell by 7.8% y-o-y in December, after the 8.3% decrease registered in the previous month, and by 8% in the fourth quarter as a whole, a decrease eight tenths less intense than that of the previous quarter.

With regard to costs, the labour cost per worker increased by 0.3% y-o-y in the third quarter of 2017, with seasonally and calendar adjusted data (sca), while in terms of effective worked hour, the rate of decline increased two tenths, to -0.4% y-o-y, with sca data, according to the Labour Costs Quarterly Survey. Agreed wages in collective agreements with effects in 2017 grew by 1.4%, the increase reaching 1.8% among those signed in 2017.

Social Security covered workers rise by 3.4% y-o-y in December 2017

The average number of Social Security covered workers rose by 42,444 people in December 2017 compared to the previous month (68,531 Social Security covered workers in December 2016), reaching 18,460,201.

By branches, and with unadjusted data, the number of Social Security covered workers in services and agriculture rose by 36,890 and 31,498 people, respectively, in comparison to the previous month, while it decreased in the construction and industry branches, registering 18,463 and 7,481 fewer Social Security covered workers, respectively.

By NACE activity sections, with unadjusted 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 trade, with 28,933 covered workers more, and in health and social services activities, with an increase of 18,756 covered workers. On the other hand, the decreases in construction (18,484 covered workers less), the hotel business (16,213 covered workers less) and manufactures (7,820 covered workers less) should be noted.

With seasonally adjusted data, Social Security covered workers increased by 9,607 people in December, 0.1% m-o-m, a rate one tenth lower compared to the previous month, continuing the trend of more than four years of positive m-o-m rates (since December 2013), interrupted only in August 2017 (-0.1%, equivalent to 14,976 fewer Social Security covered workers).

In y-o-y terms, Social Security covered workers rose by 611,146 people in December, which represents a rate of 3.4%, two tenths lower in comparison to that registered in November. By branches, the slowdown of Social Security covered workers in y-o-y terms was due to services, which moderated the growth rate by one tenth, to 3.5% and agriculture, which went from growing by 0.4% in November to falling by 0.7% in December. On the other hand, Social Security covered workers in construction and industry accelerated three and one tenths respectively, up to 7.4% and 3.3%. Non-agricultural Social Security covered workers grew by 3.7% in December, a rate one tenth lower in comparison to the figure registered in the previous month.

By NACE activity sections, with unadjusted data and for the General (excluding Agrarian and Domestic Workers Special Systems) and Self-employed Regimes, in the services sector it is worth highlighting the slowdown of Social Security covered workers in trade, whose rate fell two tenths, to 1.7% and, to a lesser extent, in the public administration, defence and compulsory social security, whose rate decreased by three tenths, down to 5.5%.

According to the professional situation, the y-o-y variation rates of wage-earners and self-employed fell two tenths in both cases, down to 4.1% and 0.3%, respectively.

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 December was permanent and 48% temporary, with a y-o-y increase of 3.9% for the former, one tenth more than in November, and of 7.3% for the latter, a figure two tenths lower in comparison to the previous month.

In the fourth quarter of 2017 as a whole, the y-o-y variation rate of Social Security covered workers was of 3.5%, a rate identical to the one registered in the previous quarter, and in the year as a whole, of 3.6%, six tenths higher than in 2016.

Registered unemployment falls in December by 7.8% y-o-y

Registered unemployment fell by 61,500 people in December compared to the previous month (86,849 unemployed less in the same period of last year). As a result, the total number of registered unemployed stood at 3,412,781.

By branches, and with unadjusted data, registered unemployment fell in services (51,280 less people) and in agriculture (8,814 unemployed less) compared to the previous month. On the other hand, it increased in construction (10,532 more unemployed) and in industry (2,729 more people). In the group without a previous employment, unemployment decreased by 14,667 people in December.

With seasonally adjusted data, unemployment fell by 20,725 people, 0.6%, in comparison to the 0.7% fall recorded in November.

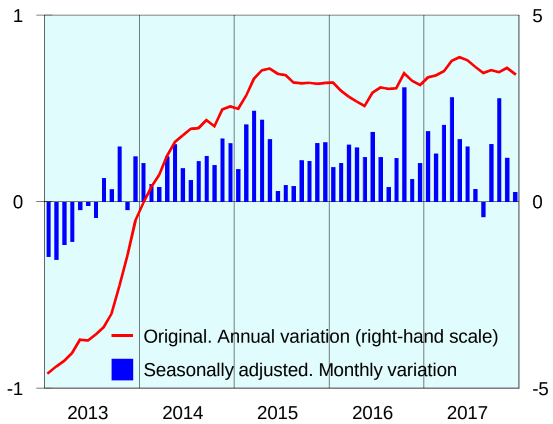
In y-o-y terms, unemployment dropped by 290,193 people in December, by 7.8%, a rate of decline half a point less pronounced than the figure registered in the previous month.

By branches, registered unemployment moderated the pace of decline in industry, where it fell by 11.3% (-11.4% in November); a 6.1% decrease was registered in services, four tenths less intense than in November; it fell by 8.4% in agriculture (-10.6% in November); and the rate of decline moderated one point in the construction sector, to 16.4%.

Youth unemployment (people below 25 years old) fell by 26,164 people in the last year, which represents a 8.9% y-o-y drop (-10.5% in November).

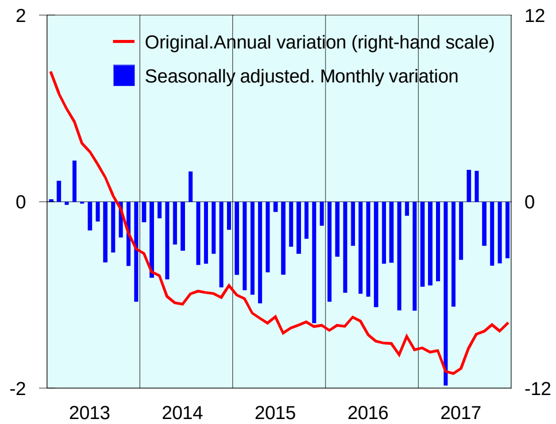
In the fourth quarter of 2017 as a whole, registered unemployment fell by 8%, which implies a fall eight tenths less intense than that of the previous quarter, and, in 2017 as a whole, it fell by 9.3% (-8.6% in 2016).

G 10. SOCIAL SECURITY-COVERED WORKERS
change in %



Source: MESS.

G 11. REGISTERED UNEMPLOYMENT
change in %



Source: MESS.

The average wage cost increases slightly in the third quarter of 2017 in y-o-y terms

According to the Quarterly Labour Cost Survey, in the third quarter of 2017 the average labour cost per worker and month stood at € 2,454, a figure 0.4% higher to the one registered in the same quarter of 2016 (€ 2,445), after the 0.2% fall registered in the previous quarter. This evolution was due both to the wage cost and the other costs, which increased by 0.3% and 0.7%, respectively, in the third quarter, following the 0.1% and 0.5% falls registered in the previous period.

Total wage cost grew by 0.3% y-o-y, up to € 1.809 (73.7% of total labour cost), versus the 0.1% fall registered in the previous quarter. In turn, this increase of total wage cost is explained both by the evolution of the ordinary salary cost, which rose by 0.5% in the third quarter, after falling by 0.1% in the second quarter, and of the payment of arrears, which grew by 3.1%, compared to the 14.3% decrease registered in the previous period, partially offset by the evolution of extraordinary payments, which fell by 2.4%, after the 2.1% rise recorded in the previous quarter.

With regard to the non-wage component, called "other costs", with original series (€ 645, 26.3% of the total labour cost), it registered an increase of 0.7% in the third quarter of 2017, compared to the 0.5% decrease recorded in the previous period. This rise was mainly the result of the strong moderation in the fall rate of non-wage payments and, to a lesser extent, the higher rate of increase in mandatory contributions. In particular, non-wage payments decreased by 4.8%, compared to the 12.6% drop registered in the previous quarter, almost entirely due to the dismissal cost, which moderated its rate of decline by 30.6 points, to -9.3%. Mandatory contributions increased by 1.1%, three tenths more than in the previous period. On the other hand, the Subsidies and bonuses of the Social Security grew by 9.2%, a rate similar to that registered in the second quarter (9.4%).

With work calendar and seasonally adjusted data, the labour cost per worker and month rose by 0.3% y-o-y in the third quarter of 2017 (-0.1% in the previous quarter). Both the wage and non-wage costs increased, by 0.2% and 0.6%, respectively, compared to the -0.1% rates recorded in the previous quarter for both cases.

From a sectorial point of view, labour costs rose in all sectors: by 0.1% y-o-y in construction (-1.2% in the previous quarter), 0.4% in services (-0.2% in the previous quarter) and 0.3% in industry (0.4 % in the second quarter). With regards to the wage cost, it fell by 0.1% in construction (-1.1% in the previous quarter), while it increased in the other two sectors: 0.3% in services (after the stabilisation registered in the second quarter) and 0.2% in industry (0.3% in the previous quarter).

With seasonally and calendar adjusted data, both the labour cost per effective worked hour and the wage cost per effective hour, intensified their rate of decline in the third quarter by two tenths, reaching both -0.4% y-o-y.

The average agreed wage increase in collective bargaining stands at 1.4% in 2017

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 December 2017), four tenths above the wage increase agreed in 2016, revised.

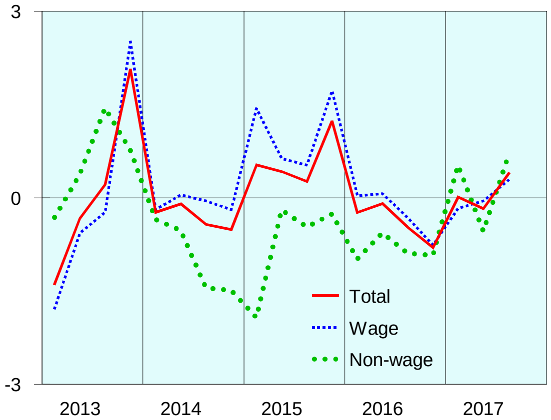
Of all the workers affected by the agreements signed up to December and with effects in 2017, 66.2% correspond to agreements signed before the aforementioned year (2,220 agreements) and the remaining 33.8% to new agreements signed in 2017 (1,029 agreements), with wage increases of 1.3% and 1.8%, respectively.

With regards to the coverage, the agreed wage variation in company agreements (1.1%) was lower than that signed in at a higher level (1.5%).

By sector, the agreed wage increase up to December is of 2% in construction, 1.5% in industry, 1.4% in services and 1% in agriculture.

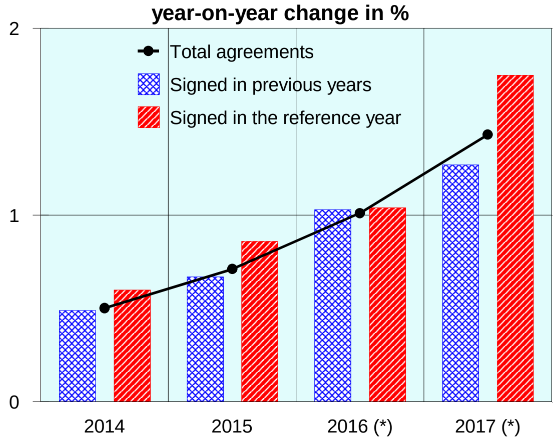
Up to December 2017, 1,076 opt-outs were registered affecting 23,625 workers, 26.3% less than in the same period of 2016. As usual, most of the opt-outs submitted (90.3%) relate to the wage amount agreed.

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



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

G 13. WAGE INCREASE IN COLLECTIVE AGREEMENTS (REVISED)
year-on-year change in %



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

External sector

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

According to the Balance of Payments data, in October 2017, the Spanish economy generated net lending to the rest of the world of € 1.8 billion, for the eighth consecutive month, below the one registered a year earlier (€ 1.9 billion).

The current account balance recorded a € 1.7 billion surplus in October, lower than the figure registered in the same month of 2016 (€ 1.8 billion), as a result of a 13.1% y-o-y decrease in the positive balance of goods and services, partly offset by the 18.5% decrease of the deficit of primary and secondary income. Meanwhile, the surplus in the capital account ended at € 150 million, versus the € 95 million of October last year.

The trade deficit increases in October

According to Customs data, the trade balance recorded a deficit of € 2.5 billion in October 2017, compared to a deficit of € 1.8 billion registered a year earlier. The trade deficit increase was both due to the non-energy component, whose deficit almost tripled, and to the energy component, whose deficit rose by 16%.

In cumulative terms for the last twelve months, the trade balance recorded a deficit of € 24.8 billion up to October 2017, compared with the € 18.7 billion deficit accumulated in the twelve months up to October 2016. The 32.4% worsening of the trade balance is explained by the energy component deficit increase, of 25.5%, and by the decrease in the non-energy surplus, of 48.7%.

Real exports of goods rebound in October…

According to Customs figures, goods exports increased in October by 11.2% y-o-y, and their prices, approximated by unit value indices, rose by 1.8% (2.6% in September), resulting in a 9.2% rise in real terms, after the 5.8% growth registered in September. The analysis by product groups in real terms and in y-o-y rates, shows generalised improvements in October, except for intermediate energy goods, which slowed down 5.8 points, to 34.6%. Exports of food and non-food consumer goods rose by 6.1% and 1.7%, versus the increase of 1.3% and the decrease of 0.9% registered in the previous month, respectively. On the other hand, exports of capital goods and non-energy intermediate goods accelerated by 7.3 and 3.1 points, up to 19.8% and 10.5%, respectively.

By geographical areas, exports in volume to the European Union increased by 5.7% in October, in comparison to the 3.6% rise registered in September and exports outside the Union accelerated 5.5 points, up to 15.9%.

…as so do imports

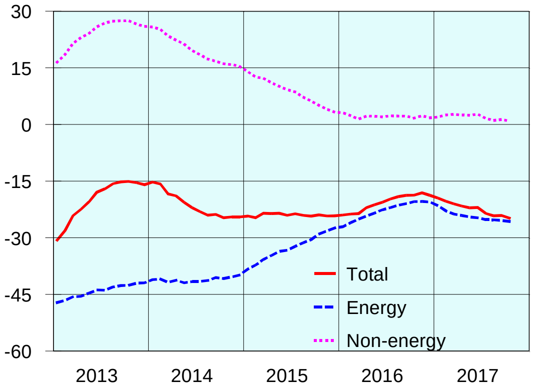
Goods imports increased by 13.2% y-o-y in nominal terms in October, and their prices rose by 3.5% (4.4% in September). Energy goods prices increased by 10.3%, while other products prices grew by 2.5%. As a result, imports in real terms, experienced a y-o-y increase of 9.3%, following the 2.8% increase registered in the previous month. The analysis by products of imports in real terms and in y-o-y rates registered growths in all categories. The purchases of food and non-food consumer goods rose by 4.9% and 11.7%, respectively (0% and 0.9% in the previous month) and those of intermediate energy and non-energy goods accelerated 0.8 and 5.5 points, respectively, up to 11.5% and 9.1%. Lastly, capital goods purchases increased by 4.9%, following the 4% drop registered in the previous month.

By geographical areas and in real terms, imports from the European Union rose by 5.9% y-o-y in October, following the 1.9% decrease registered in September. Real imports from the rest of the world accelerated 4.2 points, up to 14.1%.

The "momentum" of exports returnes to positive values

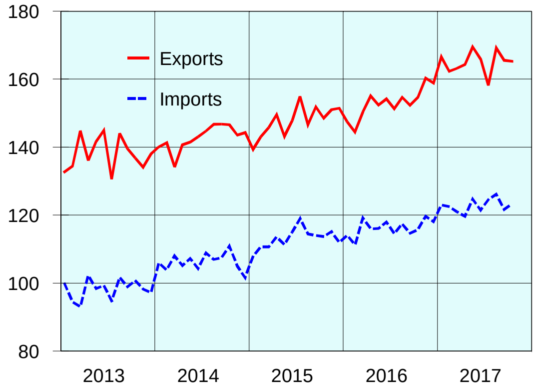
The "momentum" (change during the last three months in comparison to the previous three months) of exports, in real terms, registered a positive rate in October (1.3%) after two months being negative, due to the positive contribution of non-OECD countries and, to a lesser extent, of non-EU OECD countries. By products, the positive contribution of non-energy intermediate goods stands out. The "momentum" of imports remained positive in October (0.1%), for the fourth consecutive month, due to the positive contribution of non-EU OECD countries, almost fully offset by the negative contribution of EU countries. By products, the positive contribution of non-energy intermediate goods stands out.

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.

The financial balance generates net capital inflows in October

According to the Balance of Payments, in October 2017 the financial balance, excluding the Bank of Spain assets, generated net capital inflows of € 7.4 billion, versus the net inflows of € 6.1 billion recorded a year earlier. This result is explained by the net inflows registered by other investment (€ 15.2 billion), while portfolio investment (€ 6.3 billion), direct investment (€ 1.3 billion) and financial derivatives (€ 192 million) recorded net outflows.

The assets net variation recorded net capital outflows (investments) of € 12.9 billion in October, versus the net inflows of € 15.8 billion registered in the same month of 2016. On the other hand, the liabilities net variation generated net inflows (investments) of € 20.3 billion, versus the net outflows of € 9.6 billion recorded a year earlier.

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

The net debtor position of the Bank of Spain vis-à-vis the rest of the world decreased by € 13.1 billion in October, an amount that includes an improvement of € 11.1 billion in the net position vis-à- vis the Eurosystem, and increases of € 1.3 billion in the reserves and of € 674 million in the remaining net assets.

The Net International Investment Position decreases its debtor balance

On the other hand, the weight of the debtor balance of the Net International Investment Position on the GDP fell in the third quarter of 2017 by 4.5 points compared to the previous year, down to 83.2% (€ 957.1 billion, compared to the € 972.9 billion registered in third quarter of 2016).

This fall is due to the decrease of the net debtor position of direct investment, portfolio investment, other investment and financial derivatives, while the net debtor position of the Bank of Spain against the rest of the world was extended.

Furthermore, the gross external debt fell from 170.4% of GDP (€ 1.89 trillion) in the third quarter of 2016 down to 166.2% of GDP in the same period of 2017 (€ 1.91 trillion).

Public Sector

On 28th December, 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 third quarter of 2017, the non-financial transactions of the Central Government, the Regional Governments and the Social Security Funds, with consolidated data, for October 2017, and the State monthly budget execution data, in terms of both National Accounts and Cash, corresponding to November.

Furthermore, the Ministry of Employment and Social Security published the monthly budget execution data of the Social Security, in terms of Cash, corresponding to November.

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

The General Government deficit up to the third quarter of 2017 stands at 1.50% of GDP

Up to the third quarter of 2017, the General Government recorded a deficit, in terms of National Accounts, of € 17.5 billion (1.50% of GDP), 45.7% lower compared to the figure registered in the same period of 2016 (€ 32.2 billion). This deficit decrease is explained by an increase in non-financial resources (5.0% y-o-y) higher than the one registered by non-financial uses (0.2% y-o-y).

Excluding the support to financial institutions, the deficit up to the third quarter reached € 17.1 billion (1.46% of GDP), compared to the € 30 billion (2.68%) registered a year earlier.

Within the non-financial resources of the General Government, tax revenues rose by 6.6% up to the third quarter compared to the same period of the previous year, mainly due to the increase of the Corporate Income Tax (23.1%) and VAT (5.6%). On the other hand, social contributions rose by 5.1%.

Non-financial uses of the General Government sector as a whole increased by 0.2% y-o-y up to the third quarter, mainly due to the increase in social benefits (1.7%), despite the fall of interest expenditure (-7.0%), support to financial institutions (-81.5%) and the contribution to the EU based on VAT and GNI resources (-13.3%).

By subsectors, the Central Government has reduced its deficit by 1.12 percentage points compared to September 2016, down to 1.50% of GDP; the Regional Government has registered a surplus of 0.09% of GDP, in comparison to the deficit of 0.18% registered in the same period of the previous year; the Local Government has raised its surplus by 0.03 percentage points, up to 0.51% of GDP; and the Social Security Funds subsector has increased its deficit by 0.04 percentage points, up to 0.59% of GDP.

The General Government consolidated deficit, excluding Local Governments, stands at 1.65% of GDP up to October

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded up to October 2017 a deficit of € 19.3 billion (1.65% of GDP), 40.9% lower in comparison to the same period of 2016 (2.91% of GDP). This deficit decrease is explained by a y-o-y increase of non-financial resources (4.4%) higher than the one recorded by non-financial uses (0.2%).

The increase in revenue was mainly due to the y-o-y rise in taxes (4.9%) and social contributions (5.2%). Regarding non-financial uses, almost all items rose, more than offsetting the falls registered by interest (-6.5%), the contributions to the EU General Budget (-13.1%) and the support provided to financial institutions (-82.3%).

The Central Government ended the first ten months of 2017 with a deficit of € 13.7 billion, equal to 1.17% of GDP, 0.87 points below the one recorded in the same period of 2016 (€ 22.8 billion, 2.04% of GDP). This deficit decrease in comparison to the one recorded in the same period of 2016 is due to the fall of non-financial uses, which fell by 3.2%, down to € 174.2 billion, and the increase in non-financial resources (2.1%, up to € 160.5 billion).

The increase of resources is due to the rise of tax revenues (3.3%), and, in particular, to the growth of the VAT (5.4%) and the Corporate Income Tax (2.3%).

On the other hand, the decrease in uses is explained by the fall of its main items, among which the following stood out: interest (-7.0%), transfers to other general government units (-1.3%), 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 (FROB), to the Management Company for Assets from the Banking Sector Reorganisation (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 6.0% y-o-y, with an amount of € 73.4 billion in comparison to the € 78.1 billion registered in the first ten months of 2016.

Up to October 2017, the Regional Government accumulated a surplus of € 1.3 billion (equivalent to 0.11% of GDP), improving by € 4.7 billion the balance recorded in the same period of 2016. This balance improvement is explained by a y-o-y increase of non-financial resources (5.9%) higher than that of non-financial uses (2.3%). The increase in revenue is mainly explained by the upward trend in resources obtained from the financing system (higher net advanced payments, which imply € 4 billion more versus the previous year and the result of the final settlement for 2015, which improved by € 983 million the settlement registered in the previous year), as well as the transfer received from the SEPE, € 950 million, with no correspondence in 2016, up to December. The uses growth is mainly due to an increase in compensation of employees (2.1%) and intermediate consumption (3.3%).

The expenditure of the Regional Government eligible to be included in the calculation of the expenditure benchmark in the analysed period increased by 2.3% y-o-y, reaching € 114.6 billion.

As for Social Security Funds, these ended the first ten months of 2017 with a deficit of € 6.9 billion, equal to 0.59% of GDP, two hundredths higher than in the same period of 2016 (€ 6.4 billion, equivalent to 0.57% of GDP). This higher deficit is due to an increase of non-financial resources (2.0%) lower than the one registered by non-financial uses (2.3%). Social contributions increased by 5.8%, more than offsetting the decrease experienced by transfers received from the State (-18.6%) and interest generated by the Social Security Reserve Fund (-52.7%). On the other hand, the rise in uses is mainly due to the evolution of expenditure on social benefits, which increased by 1.8%, despite the fall in both unemployment benefits and in those granted by the Wage Guarantee Fund (known in Spanish as FOGASA), as well as to the current transfers allocated by the SEPE to the Regional Governments (€ 950 million in October 2017), which in 2016 did not become effective until December.

The State's deficit in terms of National Accounts falls by 35.1% y-o-y up to November

Up to November 2017, the budget execution of the State ended with a deficit, in terms of National Accounts, of € 18.2 billion (1.56% of GDP), 35.1% lower than the deficit accumulated in the same period of 2016. This deficit improvement was due to a y-o-y increase in non-financial resources (3.7%) and a decrease registered by non-financial uses (-2.1%).

The rise in non-financial resources is mainly due to the increase of tax revenues (4.7%), in particular to the growth of the VAT (5.7%) and current taxes on income and wealth (4.7%). On the other hand, the decrease in uses is due to the fall recorded by almost all its groups, where the interest fall (-5.9%) and the contribution to the EU based on VAT and GNI resources (-12.9%) should be noted.

In terms of Cash, the State recorded a deficit of € 12.8 billion up to November 2017, equal to 1.10% of GDP, three hundredths higher in comparison to the deficit of € 12 billion recorded in the same period of 2016 (1.07% of GDP). Non-financial revenues registered a y-o-y decrease of 1.4%, reaching € 120.8 billion, while non-financial payments decreased by 0.6%, down to € 133.6 billion. Since August, revenues have been affected by the implementation of the new Immediate Delivery of Information System (SII) in the VAT, which caused that part of the tax collection of the month to be moved to the following month, implying, according to the estimate provided by the Central Tax Agency, a reduction in VAT revenue in November of € 4 billion.

Tax revenue up to November increases by 6.6% in homogeneous terms, on Cash basis

Total tax revenue (including the Regional and Local Governments' share) recorded a y-o-y increase of 4.3% up to November. 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 6.6%. The remaining non-financial revenue decreased by 11.0%. Without including the Regional and Local Governments, and in non-homogeneous terms, tax revenues rose by 1.0%.

Within total taxes, revenue from Personal Income Tax, including the Regional and Local Governments' share, increased by 6.4% up to November, mainly due to the rise of labour income withholdings (3.3%) and the revenue from the annual return, that has increased by € 1.2 billion euros in comparison to the previous year. 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 7.2%.

Revenue from Corporate Income Tax rose by 5.4% y-o-y, up to € 19.5 billion up to November. The total collection for instalment payments stood at € 16.9 billion, 5.7% higher compared to the figure registered in the same period of 2016, partly due to the change in the percentage applicable in the compensation of negative tax bases (RDL 3/2016). In homogeneous terms, the Corporate Income Tax increase reached 3.1%.

VAT revenue, including the Regional and Local Governments' share, increased by 1.6% y-o-y up to November. This result is affected by the implementation of the SII. Correcting the impact related to the SII, the impact of tax refunds in both years and the effect of the new deferral regulation, the net VAT collection in homogeneous terms increased by 7.5% when compared to the same period of 2016, as a result of the increase in the final expenditure subject to the tax (7.2%).

Excise duties collection, including the Regional and Local Governments' share, was 2.7% higher compared to the figure registered in the same period of 2016, mainly due to the increase in the Tax on Hydrocarbons (4.6%, which in homogeneous terms, stood at 3.0%).

The State non-financial expenditure decreases by 0.6% up to November

With regard to expenditure, total non-financial payments decreased by 0.6% up to November in comparison to the amount accumulated in the same period of 2016. The fall in interest (-5.5%), staff expenses (-2.4%) and current expenses on goods and services (-8.4%) stood out. On the other hand, current transfers (0.9%), real investments (24.0%) and capital transfers (0.2%) increased.

With regard to the borrowing requirement of the State, it rose by 15.3% up to November compared to the same period of the previous year, reaching € 35.4 billion, versus the € 30.7 billion registered in the same period of 2016. This increase is due to the rise in the net variation in financial assets (€ 22.6 billion, compared to the € 18.8 billion registered in the same period of 2016) and, to a lesser extent, to the higher cash deficit, which increased by 7.4%. The borrowing requirement was mainly financed through mid and long term domestic debt (€ 43.9 billion).

The Social Security reduces the deficit by 29.5% up to November

On the other hand, up to November 2017, the Social Security System (Managing Entities, General Treasury and Mutual Insurers) recorded a deficit of € 6.8 billion in terms of Cash up to November 2017 (0.59% of GDP), 29.5% below the figure recorded in the same period of 2016 (€ 9.7 billion). Revenues increased by 3.6% mainly due to the evolution of social contributions (5.3%, up to € 99.9 billion), and current transfers (1.7%). On the other hand, payments rose by 1.0%, mainly due to the increase recorded by pensions (0.7%, up to € 107.3 billion).

The General Government debt-to-GDP ratio decreases in the third quarter of 2017 in y-o-y terms

The General Government Debt-to-GDP ratio, according to the Excessive Deficit Procedure (EDP) methodology reached 98.7% of GDP in the third quarter of 2017, 1.2 percentage points lower than the figure registered in the same period of last year (99.9% of GDP).

By subsectors, the Central Government Debt stood at 86.9% of GDP in the third quarter of 2017, four tenths lower in comparison to that registered in the same period of 2016 (87.3%). On the other hand, the Regional Government EDP Debt reached 24.7%, versus the 24.6% registered in the third quarter of 2016. In the third quarter of 2017, the Local Government registered an EDP Debt equivalent to 2.7% 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 subsector stood at 2.0% in the third quarter of 2017, compared to the 1.5% registered in 2016.

The General Government EDP Debt maintains its y-o-y growth rate stable in October 2017

In October, the General Government Debt, according to the EDP methodology, reached € 1,133.8 billion, 2.5% higher than in the same period of the previous year, maintaining the same growth rate as that registered in September.

By subsectors, the State EDP Debt stood at € 976.0 billion, 3.9% higher when compared to a year earlier. The Debt of Other Entities belonging to the Central Government reached € 35 billion, which implies a 13.4% decrease in comparison to October last year. On the other hand, the Regional Government EDP Debt reached € 286.3 billion, 4.4% more in comparison to the figure registered in the same month of 2016. The Local Government subsector registered an EDP Debt of € 29.9 billion in October, 13.8% lower as compared to the previous year. Finally, the EDP Debt of the Social Security subsector reached € 23.2 billion, a figure 35.0% higher to the one registered in October 2016 (€ 17.2 billion). This increase is due to the loan received from the State in July 2017.

The State EDP Debt accelerates in November in y-o-y terms

At the end of November, the State Debt, according to the EDP methodology, reached € 987.2 billion, compared to the € 944 billion registered a year earlier, which represents a y-o-y increase of 4.6%, seven tenths higher compared to the figure registered in the previous month (3.9%).

January 2018