January 2018

SPANISH ECONOMY REPORT

GOBIERNO
DE ESPAÑA

MINISTERIO DE
ECONOMÍA, INDUSTRIA
Y COMPETITIVIDAD

The Spanish Economy: recent developments and prospects: January 2018
Elaboración y coordinación, Dirección General de Análisis Macroeconómico y Economía Internacional.
Madrid: Ministerio de Economía, Industria y Competitividad, Centro de Publicaciones, 2017
V; 26 cm.

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

NIPO: 057-17-029-5
e-NIPO: 057-17-030-8

DEPÓSITO LEGAL: M-8493-2014

Elaboración y coordinación: Secretaría de Estado de Economía y Apoyo a la Empresa
Dirección General de Análisis Macroeconómico y Economía Internacional
Subdirección General de Análisis Coyuntural y Previsiones Económicas

Impresión: Centro de impresión digital y diseño.
Ministerio de Economía, Industria y Competitividad.

RECENT EVOLUTION OF THE ECONOMIC INDICATORS

Financial markets

Since the beginning of this year, the financial markets evolution has been conditioned by the expectations of monetary policy normalisation on both sides of the Atlantic and by the negotiations for the formation of a coalition government in Germany. The publication of macroeconomic references and business results also had an impact on this evolution. In this context, the main stock indices registered a mixed behaviour, with a predominance of losses, the yields of the public debt in central Europe increased strongly, and the euro appreciated against the dollar.

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

The Governing Council of the European Central Bank (ECB), on its meeting held on 25th January, 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.

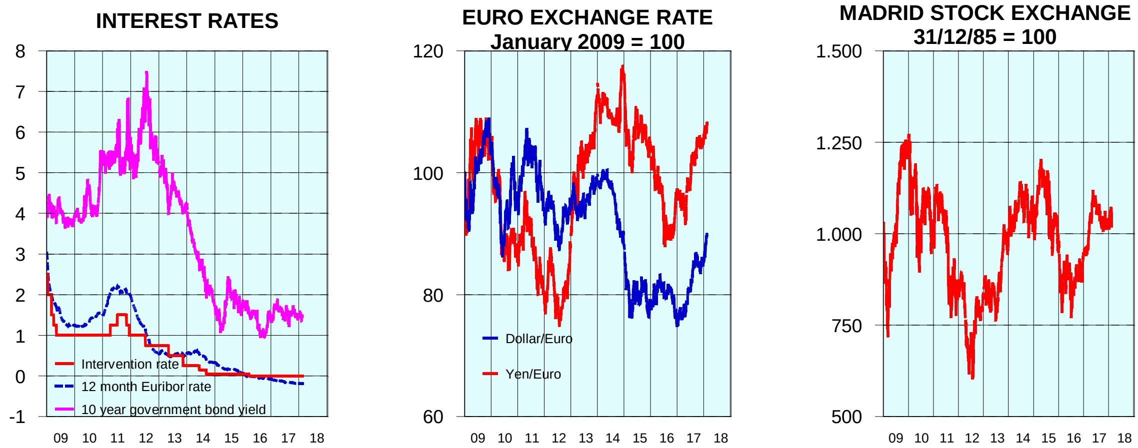
Regarding non-standard monetary policy measures, the Governing Council expects monthly net purchases of assets amounting to € 30 billion will continue until the end of September 2018, or beyond, if necessary, and in any case, until the Governing Council sees a sustained adjustment in the path of inflation 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 Asset Purchase Program (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.

The monetary policy guide of the ECB remains unchanged, except for the entity’s statement introducing the explicit recognition of the "recent volatility of the exchange rate" as a source of uncertainty for price stability in the mid-term which, therefore, must be closely supervised.

The Fed maintains the interest rates, but foresees new increases this year

The Federal Open Market Committee (FOMC) of the Federal Reserve (Fed), in its two day meeting held on 30th and 31st January, decided to maintain the Federal Funds interest rates within the target range of 1.25% and 1.50%, after the 25 b.p. increase recorded on 13th December 2017. The decision was unanimously supported by all its members. During the last meeting held, with Janet Yellen as the Federal Reserve Chair, a position taken over by Jerome Powell since February, the FOMC stated that the monetary policy continues to be accommodative, supported by the strength of the labour market and the strong economic growth, but with inflationary pressures in the forecast horizon. Thus, the Committee foresees gradual increases of the interest rates throughout 2018, the first one expected in March, rising by a quarter of a point, up to a range between 1.5% and 1.75%. In addition, the FOMC continues to reduce gradually the bond portfolio and mortgage-backed assets.

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 22nd and 23rd January, 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 BoJ expects the economy to grow at a moderate pace, supported by stimulating measures, favourable financial conditions and the expansion of the world economy.

The 12-month Euribor remains stable with negative values

In the interbank market of the Eurozone, interest rates registered minor changes during January and early February and remained negative, in a context where the ECB maintained an accommodative monetary policy. Thus, on 5th February, the one, six and twelve-month Euribor stood at -0.369%, -0.278% and -0.191%, respectively, versus the -0.368%, -0.271% and -0.186% recorded at the end of December 2017. The evolution of the 12 month Euribor in this period is due to the expectations of practical stability in interest rates (the twelve-month OIS decreased one b.p.) and the stability of the risk premiums required in the market (the Euribor-OIS differential did not change during this period).

European public debt yields increase strongly

In the secondary public debt market, the expectations of the central banks' monetary policy normalisation, with a possible increase of the interest rates in the United States in March and a possible withdrawal of the monetary stimuli ahead of schedule in the Eurozone, have boosted the yields of the American bond and the Eurozone debt upwards, with the exception of some countries in the peripheral area (Spain and Greece). Thus, the 10-year Spanish bond yield stood at 1.48% on 5th February, 9 b.p. below the figure recorded on 29th December 2017, to which Fitch's rating increase has contributed. On the other hand, the German bond yield rose by 30 b.p. in that period, up to 0.73%, the Spain-Germany differential standing at 75 b.p., 39 b.p. below the level recorded in late December last year and at record lows since 2010. Meanwhile, the Spain-Italy differential stood at -54 b.p., rising by 11 b.p. in comparison to that of 29th December. The yields decrease in Greece (-40 basis points), and the increase in Ireland and the United States (47 and 41 basis points, respectively) registered in this period should be noted.

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

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-29-17	Jan-31-18	Feb-05-18	Variation in spreads		Dec-29-17	Jan-31-18	Feb-05-18	Variation in spreads	
				Period	Annual				Period	Annual
	(1)	(2)	(3)	(3)-(2)	(3)-(1)	(4)	(5)	(6)	(6)-(5)	(6)-(4)
Germany	0.43	0.70	0.73	3	30					
Holland	0.53	0.75	0.77	2	24	10	5	4	-1	-6
Austria	0.58	0.81	0.84	3	26	15	11	11	0	-4
Finland	0.60	0.81	0.85	4	25	17	11	12	1	-5
Belgium	0.64	0.84	0.87	3	23	21	14	14	0	-7
France	0.78	0.98	0.99	1	21	35	28	26	-2	-9
Ireland	0.67	1.14	1.14	0	47	24	44	41	-3	17
Spain	1.57	1.45	1.48	3	-9	114	75	75	0	-39
Italy	2.00	2.02	2.02	0	2	157	132	129	-3	-28
Portugal	1.94	1.95	2.03	8	9	151	125	130	5	-21
Greece	4.12	3.73	3.72	-1	-40	369	303	299	-4	-70

Source: Financial Times.

The stock indices show mixed results

In the stock markets, the main indices recorded mixed results in the period between late December 2017 and early February this year. During the first twenty days of January, indices increased strongly, boosted by the financial and energy sectors, due to the expectations of a less gradual withdrawal of monetary stimuli by the ECB, the increase in oil prices and the positive macroeconomic references. However, since the last weeks of January and, especially, on the first week of February, there has been a generalised correction of the indices, registering important losses, in a context of greater inflationary pressures. This could reflect the reaction of investors expecting a less gradual than initially anticipated interest rate increase in the United States. In Europe, the Eurostoxx 50 index fell by 0.7% in the period between 29th December 2017 and 5th February this year. On the other hand, in Spain, the IBEX 35 rose by 0.2% during that period, reaching 10,064.50 points. In the US market, the S&P 500 index decreased by 0.9% during that period, registering a 6.2% fall between 31st January and 5th February 2018.

The euro appreciates against the dollar

With respect to the currency market, the expectations of monetary policy normalisation in the Eurozone and the progress in the negotiations for the formation of a government coalition in Germany have strengthened the euro exchange rate against the dollar in January and early February this year, despite the expectations of rate increases in the United States. Thus, in the period between late December 2017 and early February this year, the euro appreciated by 3.7% against the dollar and by 1.2% against the yen, and depreciated by 0.2% against the pound, trading at the end of the 5th February session at 1.244 dollars, 136.67 yen and 0.8857 pounds. In the same period, the euro appreciated by 0.9% in nominal effective exchange rate terms vis-à-vis the group of industrialised countries.

T 2. International stock exchange

Countries	Index	Level Feb-05-18	% Variation Jan-31-18	% Variation Dec-29-17
Germany	DAX	12,687.49	-3.8	-1.8
France	CAC 40	5,285.83	-3.6	-0.5
Italy	FTSE MIB	22,821.63	-2.9	4.4
Spain	IBEX 35	10,064.50	-3.7	0.2
Eurozone	EUROSTOXX 50	3,478.77	-3.6	-0.7
United Kingdom	FTSE 100	7,334.98	-2.6	-4.6
United States	S&P 500	2,648.49	-6.2	-0.9
Japan	NIKKEI 225	22,682.08	-1.8	-0.4
China	SHANGHAI COMP	3,487.50	0.2	5.5
Mexico	IPC	50,395.83	-0.1	2.1
Brazil	BOVESPA	81,861.09	-3.6	7.1
Argentina	MERVAL	31,145.60	-10.9	3.6

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

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

The M3 broad aggregate moderated the rate of advance by three tenths in December 2017, to 4.6% y-o-y, mainly due to the slowdown of overnight deposits (six tenths, to 9.5%) and the higher fall in marketable instruments (-3%, compared to the -0.5% registered in the previous month), partially offset by the two tenths acceleration of currency in circulation (3.5%) and the lower fall in other short-term deposits (-2.1%, compared to the -2.5% recorded in the previous month).

T 3. Eurozone monetary aggregates

Monetary aggregates	December 2017 Balance (Billion €)	% Year-on-year variation October 2017	November 2017	December 2017
1. Currency in circulation	1,112	3.5	3.3	3.5
2. Overnight deposits	6,676	10.4	10.1	9.5
M1 (= 1 + 2)	7,789	9.4	9.1	8.6
3. Other short-term deposits (= 3.1. + 3.2.)	3,411	-2.7	-2.5	-2.1
3.1. Term deposits up to two years	1,193	-9.8	-9.4	-8.5
3.2. Deposits redeemable at notice up to three months	2,218	1.8	1.8	1.8
M2 (= M1 + 3)	11,200	5.4	5.3	5.1
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	670	-0.8	-0.5	-3.0
4.1. Repurchase agreements	76	-6.1	10.2	10.0
4.2. Money market funds shares/units	514	3.4	1.5	-1.7
4.3. Securities other than shares up to two years	80	-20.1	-18.9	-19.8
M3 (= M2 + 4)	11,870	5.0	4.9	4.6

Source: European Central Bank.

...and financing to the private sector in the Eurozone maintains the growth rate stable

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, rose by 2.8% in December 2017, as in the previous two months. This evolution is due to the stability in the growth rate of loans (2.5% y-o-y) and to the fact that the acceleration of securities other than shares (5%, compared to the 3.9% recorded in the previous month) offset the slowdown of shares and other equity (3.3%, versus 4.4% in the previous month). Within loans, those received by households rose by 3.2%, one tenth more than in the previous month, those received by non-financial corporations grew by 1.8%, a rate one tenth higher than that of the previous month, and those received by other financial intermediaries slowed down four tenths, to 2.8%.

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

	December 2017 Balance (Billion €)	% Year-on-year variation		
		October 2017	November 2017	December 2017
Credit to the private sector	**13,107**	**2.8**	**2.8**	**2.8**
Loans	**10,866**	**2.6**	**2.5**	**2.5**
Households	**5,595**	**3.2**	**3.1**	**3.2**
House purchases	*4,214*	*3.4*	*3.3*	*3.3*
Consumer credit	*652*	*6.7*	*7.1*	*6.9*
Other lending	*730*	*-0.9*	*-0.8*	*-0.7*
Non-financial corporations	**4,321**	**1.7**	**1.7**	**1.8**
Insurance companies & pension funds	**109**	**-1.6**	**0.1**	**-3.4**
Other financial intermediaries	**841**	**3.5**	**3.2**	**2.8**
Securities other than shares	**1,439**	**4.4**	**3.9**	**5.0**
Shares and other equities	**802**	**2.8**	**4.4**	**3.3**

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

The stock of financing to the private sector in Spain rises in December 2017

The stock of financing to the private non-financial sector in Spain rose by 0.2% y-o-y in December 2017, compared with the decrease of the same magnitude registered in November. This y-o-y increase represents the second increase since May 2017, after a period of negative rates that began in October 2009. Financing received by firms accelerated six tenths, up to 0.9%, due to the increase in foreign loans, after the fall recorded in the previous month, partially offset by the lower rise of the securities other than shares and the greater decrease in bank loans. On the other hand, financing received by households recorded a y-o-y rate of -0.8% in December, a figure one tenth higher in comparison to that registered in the previous month (-0.9%), due to the lower decrease registered by bank loans for housing, while bank loans for purposes other than housing maintained the same growth rate as in the previous month (5.6%).

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 8.7% y-o-y in December 2017, two points more in comparison to the figure registered in the previous month. This evolution is due to the acceleration of its three components: the loans for housing (3.9 points, up to 3.6% y-o-y), loans for consumption (two tenths, up to 15.9%) and loans for other purposes (0.2 points, up to 9.3%). The amount of new loan and credit operations to SMEs (using as a proxy for these credits those under one million euros) rose by 8.2% y-o-y, in cumulative terms for the last twelve months up to December last year, 1.2 points more compared to the previous month. On the other hand, the amount of new loan and credit operations exceeding one million euros increased by 1.6% y-o-y, a rate 5.4 points higher than that of November (-3.8%) and positive for the first time since the beginning of 2016.

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

	December 2017 Balance (Billion €)	% Year-on-year variation		
		October 2017	November 2017	December 2017
Non-financial corporations and Households	**1,599**	**-0.5**	**-0.2**	**0.2**
Non-financial corporations	**894**	**-0.2**	**0.3**	**0.9**
Bank loans	*511*	*-0.5*	*-0.6*	*-0.8*
Securities(1)	*94*	*7.2*	*9.1*	*7.6*
External loans	*289*	*-1.6*	*-0.6*	*2.0*
Households	**704**	**-1.0**	**-0.9**	**-0.8**
Bank loans. Housing	*529*	*-2.8*	*-2.9*	*-2.7*
Bank loans. Other	*176*	*5.1*	*5.6*	*5.6*
General Government	**-**	**2.5**	**3.9**	**-**
Total financing	**-**	**0.7**	**1.4**	**-**

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

Spanish economy

Domestic Demand and Production

The Spanish economy grows by 3.1% in the fourth quarter of 2017, according to the flash estimate

According to the Quarterly National Accounts (QNA) flash estimate, published by the National Statistics Institute (INE, by its Spanish abbreviation), GDP in volume, with calendar and seasonally adjusted data, recorded a q-o-q growth of 0.7% in the fourth quarter of 2017, one tenth lower than the figure registered in the previous quarter, accumulating more than four years of positive rates. In y-o-y terms, GDP increased by 3.1%, as in the third quarter, ending 2017 as a whole with an average annual growth of 3.1%, two tenths lower than in 2016.

The European Commission revises its growth forecast for the Spanish economy upwards in 2018, up to 2.6%

The European Commission (EC), in its Winter Forecasts for 2018, has revised one tenth upwards, the 2018 Spanish real GDP growth estimate, up to 2.6%, versus last autumn estimates. This was due to a more favourable evolution of the economic activity in the second half of 2017 than was expected in November 2017. For 2019, the expected real GDP growth remains at 2.1%, with no changes from previous forecasts. According to the EC, although the impact on economic growth of the political uncertainty in Catalonia has been contained, future events could still have effects whose magnitude cannot be foreseen at present.

On the other hand, in its January 2018 update of the World Economic Outlook, the IMF sets the real GDP growth forecast for the Spanish economy for this year at 2.4%, one tenth below the figure forecasted in the previous estimate, due to the effects of increased political uncertainty in confidence and demand. However, for 2019, the IMF revises the growth forecast one tenth upwards, up to 2.1%.

Qualitative indicators of global activity improve in January

Qualitative indicators point towards a higher dynamism of the global activity in early 2018. Amongst them, the Economic Sentiment Indicator (ISE, by its Spanish abbreviation) of Spain, published by the EC, stands out, as it rose by almost one point in January 2018 versus the previous month, reaching 110.9 (average 1990-2017 = 100), the second highest value since March 2001 (111.5 in December 2015). Meanwhile, the ISE of the Eurozone fell six tenths in January, down to 114.7, so the unfavourable differential for Spain fell by 1.5 points, from -5.3 points in December 2017 down to -3.8 in January 2018.

Likewise, the Composite PMI for Spain registered a level of 56.7 in January, 1.3 points higher in comparison to the figure recorded in December, pointing to an acceleration of global activity, and the PMI of the Eurozone rose seven tenths, up to 58.8, so the unfavourable differential for Spain fell six tenths, down to 2.1 points.

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 December 2017 for the third consecutive month, reaching 100.3, above its long-term average (100). The indicator stood slightly above the one registered for the OECD countries as a whole (100.2), and slightly below that recorded in the Eurozone (100.6).

The Spanish economy net lending position vis-à-vis the rest of the world is maintained

According to the Spanish Economy Financial Accounts published by the Bank of Spain, the Spanish economy recorded net lending vis-à-vis the rest of the world in the third quarter of 2017, equivalent to 3% of the quarterly GDP, equal to the figure registered a year earlier. This stability was due to the fact that the two-point y-o-y increase in the net financial transactions balance of the General Government, up to 2.8% of quarterly GDP, offset the two-point drop in the balance of the net financial transactions of households and NPISHs, to 3.9% of quarterly GDP. On the other hand, the net lending of non-financial corporations and financial institutions remained stable at 2.6% and 1.5% of GDP, respectively.

Private consumption indicators extend the dynamism

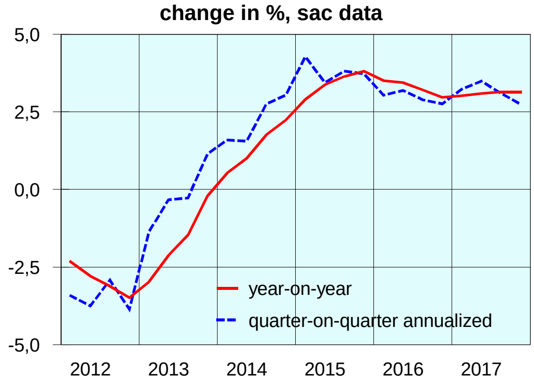
With regard to private consumption, available indicators point to the continuation of the expansionary path, driven by the favourable evolution of the labour market, the financing conditions and the net financial wealth of households, in a continued deleveraging process context.

With regards to qualitative indicators, the Consumer Confidence Indicator (CCI), published by the European Commission, rose by 2.8 points in January in comparison to the previous month, reaching a positive balance of 1.3, due to the improvement of the outlook on the general situation of the economy, households and unemployment component, in contrast with the fall recorded by the savings trend component. However, the Consumer Confidence Indicator published by the Sociological Research Centre (known in Spanish as CIS) fell two tenths in January 2018 in comparison to the previous month, reaching 102.3, still above the 100 threshold (indicative of a positive perception of consumers) for the third consecutive month. This slight fall, was due to the worsening of the expectations component, which fell nine tenths, partially offset by the six tenths improvement of the current situation indicator.

Among the quantitative indicators, retail sales, with work calendar and price adjusted data, slowed down in December last year by 2.7 points, registering a 0.5% y-o-y rate. By groups, the less expansionary trend of retail sales is explained by the lower growth rate of both the food component (0.6% y-o-y, a rate 1.5 points lower than the previous month) and the non-food component, registering a 0.7% y-o-y increase in December 2017 compared to the 4,6% growth in November 2017.

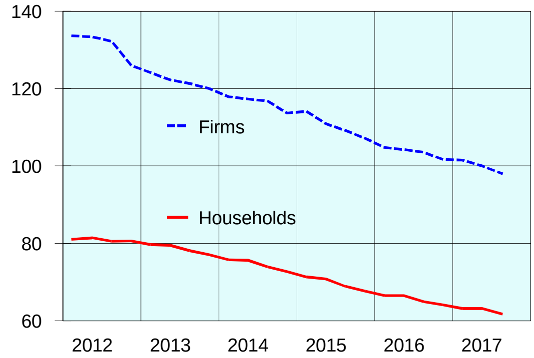
On the other hand, passenger car registrations, according to the figures provided by ANFAC (Spanish Association of Vehicles Manufacturers), accelerated more than fourteen points in January 2018, up to 20.3% y-o-y, the largest increase since May 2016. All sales channels showed a strong expansionary trend, particularly the business channel as it increased its purchases by 26.4% y-o-y, followed by those of tenants and private individuals, with y-o-y increases of 24% and 15.6%, respectively. Domestic sales in large companies of consumer goods and services, with deflated, fixed-sample and calendar adjusted data, registered a y-o-y increase of 4.7% in December, one point lower than the figure registered in the previous month, with consumer goods standing out, as they rose by 6.2% y-o-y.

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



Source: INE.

G 3. HOUSEHOLDS AND FIRMS DEBT % GDP



Sources: BE and INE.

Financial wealth of households increases

Net financial wealth of households increased by 4.3% y-o-y in the third quarter of 2017, reaching 115.8% of GDP, as a consequence of an increase in financial assets (2.8%) higher than that experienced by liabilities (0.2% y-o-y). By instruments, in the balance assets for households and NPISHs, equity and investment fund shares and other assets gained relative weight compared to a year earlier, at the expense of the rest of assets, especially currency and deposits. In liabilities, the weight of loans decreased and that of other liabilities increased.

In parallel, the deleveraging process of households started in 2010 continued. Thus, the debt of households and NPISH reached 61.8% of GDP in the third quarter of 2017, more than three points lower than that registered a year earlier (64.9%)

Equipment investment indicators show mixed results,…

Recently published equipment investment indicators showed mixed results. Thus, domestic sales of equipment and software in large companies, with deflated, fixed-sample and calendar adjusted data, grew in December by 7.7% y-o-y, 6.3 points more than in the previous month, while according to figures provided by the General Direction of Traffic, truck registrations registered a 4.9% y-o-y fall in December, compared to the 12.5% rise registered in the previous quarter.

On the other hand, the use of productive capacity in the Spanish industry stood at 79.7% in the first quarter of 2018 (data for January), six tenths above the figure recorded in the previous quarter and 4.7 points lower than that registered in the Eurozone.

…and business confidence moderates the fall rate in the first quarter of the year

The Business Confidence Indicator, published by INE, moderated the q-o-q fall rate in the first quarter of 2018, seven tenths, to 0.4%. By components, the balance of expectations stood at 1.9 points, 3.3 points lower compared to the last quarter of 2017, while the balance of the current situation reached 7.1 points (5.3 points in the previous quarter), almost two points above the expectations previously stated for that quarter (5.2 points).

The firms deleveraging process continues

In the third quarter of 2017, the Spanish companies' debt, in the form of loans and debt securities stood at 98.1% of GDP, versus the 103.5% of GDP recorded in the same period of the previous year, standing below 100% of GDP for the first time since late 2005. As far as the non-financial corporations are concerned, in the third quarter of last year, their balance reflected a y-o-y increase in financial assets of 2.5% and of 0.9% in liabilities, so the net financial liabilities of the sector fell by 1.9%, reaching € 1,315 billion.

Residential construction investment indicators moderate the expansionary trend

Construction investment indicators moderate the expansionary trend, mainly in residential investment. According to INE statistics, based on the Property Registers, the number of housing sales experienced a y-o-y growth of 9.2% in December 2017, 8.9 points lower than the figure registered in the previous month. This was due to the lower dynamism of used housing purchases, whose y-o-y rate stood at 8.8%, seven points below that of November, and new housing purchases, which grew by 11%, compared to the 29.8% registered in the previous month.

On the other hand, the number of mortgages on housing registered a y-o-y decrease of 3.7% in November 2017, after the 8.2% increase recorded in the previous month. The average amount per mortgaged house grew by 10.7%, a rate 1.5 points higher compared to the one recorded in October, and the capital borrowed for mortgages on housing rose by 6.7%, 11.5 points less than in the previous month. The average interest rate for mortgages on housing reached 2.71%, 0.45 points lower versus November 2016, and the average term was 24 years.

Industrial activity remains strong

From the supply point of view, amongst the industrial activity indicators, the Industrial Production Index (IPI), with calendar adjusted data, registered a strong y-o-y increase in December 2017, of 6.6%, 1.7 points higher compared to the figure registered in November and the highest since June 2000. By destination groups, the higher IPI y-o-y dynamism is explained by the acceleration of its main components, except for intermediate goods, whose y-o-y rate moderated half a point, to 6.6%. The intensification of the energy growth rate stands out, which reached 10.3%, 5.3 points higher than in the previous month. Likewise, equipment and consumer goods accelerated, 2.7 and 0.9 points, respectively, up to 9.7% and 1.7% y-o-y.

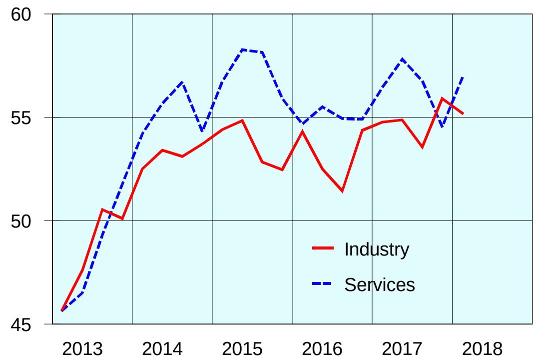
The Industry Turnover Index (ITI) and the Industry New Orders Index (INOI), adjusted for calendar effects, continued to grow at high rates in November 2017, registering y-o-y increases of 7.5% and 9.2%, respectively, compared to the 7.7% and 3.8% variation rates recorded in the previous month. By components, the slight moderation in the ITI growth rate is explained by the slowdown of intermediate goods and consumer goods, 1.1 and 0.1 points, respectively, down to 10.5% and 3.4% y-o-y respectively, while energy accelerated 3.5 points, up to 14.6%, and equipment goods grew by 6.4%, three tenths more than in October. In the case of the INOI, the strong momentum was due to the more favourable evolution of all its components, with equipment goods standing out, as they registered a 9% increase, after the 5.6% decline recorded in the previous month. Energy accelerated 3.3 points, up to 14.9%, and consumer goods and intermediate goods accelerated two and one point, respectively, up to 4.8% and 12% y-o-y.

On the other hand, qualitative indicators point to a slight moderation in the growth rate of activity in the sector. The manufacturing PMI for Spain registered in January 2018 a level of 55.2, six tenths lower than in the previous month, even though the manufacturing production increased abruptly again due to the rise in new orders, especially those for exports, and the rate of employment creation continued to grow sharply. Likewise, the confidence indicator in the industry fell 0.6 points in January, due to the drop in the production expectations component and the order portfolio, partially offset by the decrease in stocks.

The construction sector activity leading indicators continue to grow sharply

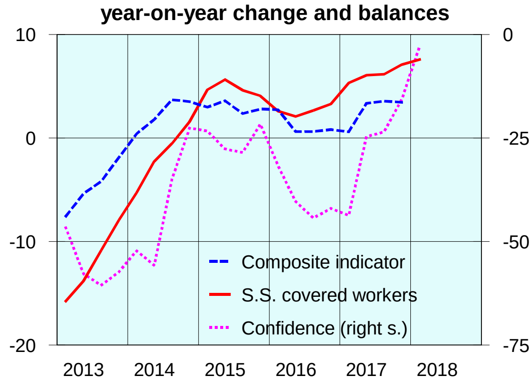
In the construction sector, the activity data in November 2017 showed a favourable evolution. Thus, the Production Index in the Construction Industry (PICI), with calendar adjusted data, published by Eurostat, rose by 0.4% y-o-y in November 2017, compared to the 1.2% decline registered in October. By sub-sector, this slight rise in the CPI is explained by the evolution of the civil works component, which grew by 1.5% y-o-y, following the 5.9% decrease registered in the previous month, as well as by the building component, which went from registering a rate of -0.1% in October 2017 to increase by 0.3% in November.

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.

On the other hand, construction activity leading indicators continued to grow sharply, although they registered a slightly more moderate trend. The figures referring to the official tenders stand out, as they registered a y-o-y increase of 97.6% in November 2017, 8.3 points lower than in the previous month, due to the evolution of the civil works component, which registered a 101.9% growth compared to a rate of 152.5% recorded in the previous month. This was partially offset by the building component, which accelerated more than 63 points, up to

90.2% y-o-y. In parallel, according to new construction permits, the surface to be constructed registered a y-o-y growth of 10% in November 2017, thus significantly moderating its rate, by almost 50 points, compared to the previous month, due both to the non-residential component, which registered a slight increase, of 0.3% (107.8% in the previous month), and to the residential component, which went from increasing by 47.6% in October 2017 to registering a y-o-y increase of 13% in November.

With regards to qualitative indicators, the construction confidence indicator, published by the European Commission, rose 15.7 points in January compared to the previous month, reaching a level of -3, due to improvements in both the order portfolio and employment expectations components.

The activity dynamism in the service sector continues

According to the available information, activity in the services sector showed a higher growth rate at the end of last year. Thus, the Services Sector Turnover Index (SSTI), with work calendar adjusted data, accelerated 3.1 points in November 2017, up to 7.7% y-o-y, mainly due to the trade evolution, which increased its pace by 3.7 points, up to 8%, and, to a lesser extent, to other services, whose 7% growth was 1.8 points higher than in October.

Moreover, among the qualitative indicators, confidence in the services sector, after edging downwards in the last months of last year, turned slightly upwards in January, up to 20.1 (19.8 in December 2017). In the same vein, the Services PMI rose sharply in January, reaching 56.9, 2.3 points higher compared to the previous month, and the highest figure in the last six months.

Tourism sector indicators end 2017 at record highs

The latest published indicators related to tourism show a continuation of the dynamism, ending 2017 at record highs. According to the Survey on Tourist Movements on Border, published by INE, almost four million international tourists visited Spain in December 2017, a figure that represents a decrease of 0.2% in y-o-y terms, compared to the 7.4% increase recorded in the previous month. Thus, 2017 ended with a total of 81.8 million foreign tourist visits, a record high, which implies an average annual increase of 8.6%, 1.5 points lower than in 2016. Likewise, the total expenditure by foreign tourists who visited Spain in December last year registered a slight increase of 0.1%, after the strong growth recorded in the previous month (10.3%), although in 2017 as a whole, the total tourist expenditure of foreigners reached € 86.8 billion, which represents a new record high, and an average annual growth of 12.2%, three points higher than in 2016.

The rest of the indicators related to tourism also showed an expansionary trend. Thus, overnight stays in hotels increased by 1% y-o-y in December 2017, 1.1 points less than in November, due to the contractionary trend of foreign overnight stays, whose stays fell by 2.5%, compared to the 1.2% increase registered in the previous month, partially offset by the acceleration of domestic overnight stays, of 2.6 points, up to 6.1%. On the other hand, air traffic rose by 8.9% in December (9.3% in November), due to the lower dynamism of international traffic, which slowed down two points, to 5.4% y-o-y, while domestic traffic showed a greater growth rate, of 16%, 3.1 points higher than in the previous month.

Prices

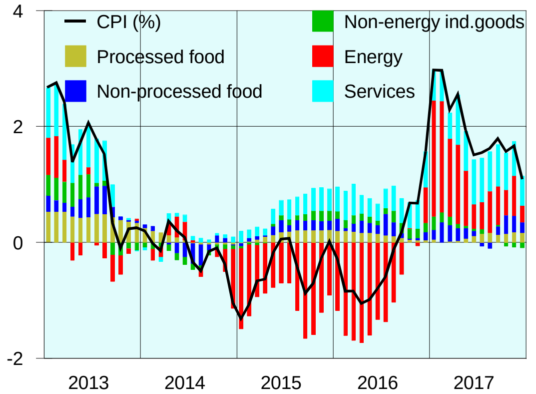
Inflation moderates six tenths in December 2017, to 1.1%

The Consumer Price Index (CPI) rose by 1.1% y-o-y in December 2017, a rate one tenth lower in comparison to INE's flash estimate published late December (1.2%) and six tenths lower compared to the one registered in November (1.7%). This evolution is mainly explained by the slowdown of energy products prices and, to a lesser extent, of non-processed food and services prices.

Energy products prices slow down in December 2017

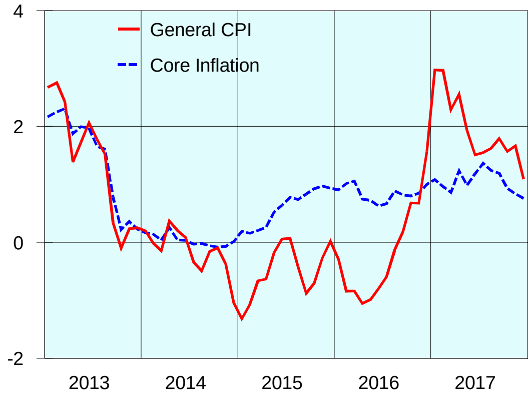
Energy products prices rose by 2.6% y-o-y in December 2017, 3.4 points less than in November, due to a base effect associated with the strong m-o-m rebound rise registered in the same month of 2016. This slowdown is mainly due to the evolution of fuels and lubricants prices, which went from registering a 6.7% y-o-y rate in November to 3% in December, and, to a lesser extent, to the 0.2% fall in electricity prices, after increasing by 3.5% in November. For its part, gas prices moderated their growth rate three tenths, to 6.8%.

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.

Non-processed food prices grew by 2.8% y-o-y in December, 1.5 points less than in the previous month, due to the 3.9 points slowdown of the fresh fruits prices, to 4.1%, and fresh vegetables and legumes prices, which went from growing by 7.5% in November, to 3.3% in December.

Core inflation remains at 0.8%

Core inflation, which excludes the most volatile elements from the CPI (non-processed food and energy products), remained at 0.8% y-o-y in December 2017.

Services prices slowed down two tenths in December, to 1.3% y-o-y, due to tourism and hospitality and, specifically, to tourist packages, whose prices went from growing by 5.8% in November to falling by 1.2% in December, an evolution in turn explained by a base effect associated with the sharp m-o-m rebound recorded in the same month of 2016.

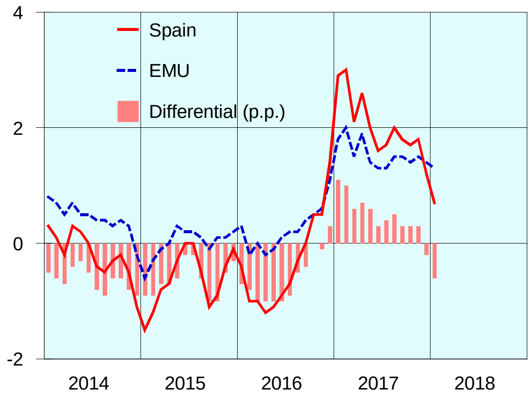
For its part, the y-o-y variation rates of the prices of non-energy industrial goods (BINE) and processed food prices remained at -0.3% and 1.2% respectively.

According to the CPI flash estimate, inflation moderates six tenths in January 2018, to 0.5%

According to the flash estimate published by the INE, the y-o-y rate of the national CPI stood at 0.5% in January 2018, a rate six tenths lower in comparison to the figure registered in December 2017. According to INE, the evolution in electricity prices stands out in this behaviour.

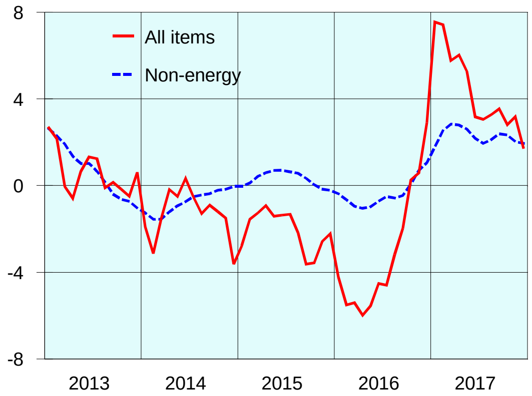
The harmonised inflation, estimated by the Spanish HICP flash estimate, stood at 0.7% y-o-y in January 2018, a rate half a point lower than the figure registered in December 2017. For its part, the Eurozone's HICP flash estimate, published by Eurostat, recorded a y-o-y variation of 1.3% in January 2018, one tenth below the figure registered in December 2017, so the inflation differential against the Eurozone favourable to Spain rose four tenths, up to 0.6 percentage points.

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



Sources: INE and Eurostat. Jan. 2018 data are prov.

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



Source: INE.

The PPI slows down almost one point and a half in December 2017, to 1.8%

The Producer Price Index (PPI) y-o-y variation rate reached 1.8% in December 2017, 1.4 points lower compared to November, due to the lower growth rate of energy prices and, to a lesser extent, of consumer goods, partially offset by the slight acceleration of equipment goods prices, while the rate of increase of intermediate goods prices remained stable.

Energy production prices slowed down by 5.2 points in December, to 1.2% y-o-y, due to the base effect associated with the strong m-o-m rebound registered in the same month of 2016. In this evolution of the energy component, and according to the NACE classification, the behaviour of coke and oil refining stands out, whose prices moderated their growth rate by 10.5 points, to 7.4%, as well as the behaviour of prices of electricity, gas, steam and air-conditioning supply, which fell by 1%, the first y-o-y decline since November 2016, compared to the 2.4% growth recorded in November 2017.

The non-energy PPI slowed down one tenth in December 2017, to 1.9% y-o-y, a rate higher than the general PPI for the first time since November 2016. This slight slowdown was mainly due to the evolution of consumer goods prices, which went from growing by 1.3% y-o-y in November to 1.1% in December, as a result of the three tenths moderation of the growth rate of non-durable consumer goods prices, to 1.2%. Durable consumer goods prices rose by 0.2%, compared to the stability they registered in November.

For its part, intermediate goods prices remained at 3.3% in December 2017, and equipment goods prices grew by 0.8%, one tenth more than in the previous month.

Labour Market

According to the Labour Force Survey (LFS), employment rose by 2.6% in y-o-y terms in the fourth quarter of 2017, two tenths less than in the previous quarter, while unemployment decreased by 11.1% y-o-y, 2.5 points less than in the third quarter. For its part, the number of Social Security covered workers rose by 3.4% y-o-y in January, a rate equal to that registered in December 2017, and registered unemployment fell by 7.5%, which implies a rate of decrease three tenths less pronounced than in December. With regard to costs, the average wage variation agreed in collective bargaining for 2018, with information up to the end of January this year, stood at 1.5%.

Employment increases in the fourth quarter of 2017 by 490,300 people, in y-o-y terms

According to LFS data, published by INE, the number of employed people decreased by 50,800 in the fourth quarter of 2017 (-19,400 in the same quarter of 2016). Total employment amounted to 18,998,400 people, a figure lower, by 0.3%, than the one of the previous quarter. With seasonally adjusted data, the q-o-q variation rate stood at 0.4%, a rate three tenths lower in comparison to the one registered in the previous quarter.

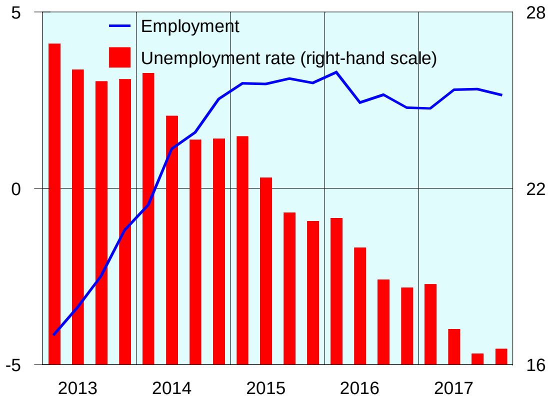
In y-o-y terms, employment increased by 490,300 people (2.6%, a rate two tenths lower than the one registered in the previous quarter). The employment rate fell two tenths during the quarter, reaching 49.1%, 1.1 points higher than a year earlier.

By main activity branches, employment fell by 124,200 people in services and by 10,900 people in construction, while it increased in agriculture and industry, with 43,700 and 40,600 more people, respectively. In y-o-y terms, employment growth affected all sectors, particularly the services one, where it increased by 289,800 people (2.1% y-o-y), followed by industry, with 132,200 more (5.1%), construction with 64,400 (6%) and agriculture with 4,000 (0.5%).

The two tenths y-o-y slowdown of total employment is due to the lower employment growth in agriculture and, to a lesser extent, in industry, partially offset by an acceleration in construction employment, while services maintained the pace of job creation virtually unchanged. By NACE sections, it is worth noting, mainly, the employment drop in trade, by 1.5% y-o-y, after the 0.3% rise recorded in the previous quarter, and the 3.4 points slowdown in professional, scientific and technical activities, to 2.5%. On the other hand, the most significant accelerations were registered in education (0.7%, after a 2.9% decrease recorded in the previous quarter) and hospitality (increased by 5.6%, double that of the previous quarter).

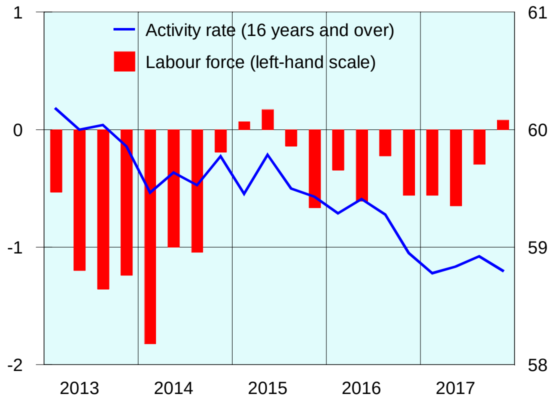
In the fourth quarter of 2017, employment fell in the private sector by 63,600 people, while it increased by 12,600 in the public sector. In the last twelve months as a whole, 81.9% of the employment created has been private, increasing by 401,600 people (2.6% y-o-y, a rate four tenths lower when compared to the previous quarter), and public employment has increased by 88,600 (3% y-o-y, after the 1.9% rise registered in the previous quarter).

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



Source: INE (LFS).

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



Source: INE (LFS).

Focusing on the professional status of workers, the quarterly increase in employment fully corresponded to employees, with 15,900 more employed, while the number of self-employed workers fell by 66,800, affecting all economic sectors and representing the largest fall in the series since the fourth quarter of 2009 (-68,900). Compared to a year earlier, the number of employees increased by 537,200, registering a y-o-y variation rate of 3.5%, two tenths higher than in the previous quarter, and self-employed workers decreased by 46,900, 1.5%, compared to the 0.6% increase registered in the previous quarter.

By type of contract, the increase of employees in the fourth quarter of 2017 fully corresponded to permanent employees, increasing by 118,800 people in that period, compared to the fall of 102,900 in temporary employment. In y-o-y terms, 66.6% of the employees increase corresponded to open-ended contracts (357,900), with the temporary rate reaching 26.7%, two tenths higher compared to a year earlier. This is the smallest y-o-y increase of the temporary rate since the third quarter of 2013.

Regarding working hours, all employment created in the fourth quarter of 2017 was part-time employment, with 79,600 employed people more, while full-time employment decreased by 130,400. Compared to the same quarter of 2016, full-time employment increased by 3.3%, a rate two tenths higher compared to that of the previous quarter, and part-time workers fell by 1%, after the 1.1% increase registered in the previous quarter. As a result, the weight of part-time workers in total employment increased half a point in the quarter, but decreased by the same amount in comparison to a year earlier, standing the partiality rate at 14.8%. The share of those who work part-time because they could not find a full-time job ("involuntary") stood at 8.5% of the total employed people, which is two tenths higher than in the previous quarter and eight tenths less compared to the fourth quarter of 2016.

Considering the workers nationality, the employment creation in the fourth quarter of 2017 fully affected foreign workers, who increased by 14,600 compared to the previous quarter, versus the 65,500 less Spanish workers. In y-o-y terms, Spanish workers increased by 2.3% and foreign workers by 5.8%.

By age groups, it is worth noting the increase in youth employment (people aged between 16 and 24), 14.1% y-o-y, a growth rate nine tenths lower compared to that of the previous quarter.

LFS unemployment falls by 11.1% y-o-y

Unemployment rose by 35,000 people in the fourth quarter of 2017, compared to the decrease of 83,000 people in the same period of 2016. Thus, the total number of unemployed people stood at 3,766,700. With data seasonally adjusted by INE, the number of unemployed people decreased by 1.6% q-o-q (-2.2% in the previous quarter). In y-o-y terms, unemployment has decreased by 471,100 people, representing a rate of decline of 11.1%, 2.5 points lower compared to that of the previous quarter (-13.6%).

By activity branches, compared to the previous quarter, unemployment increased mainly in services (71,800 more people), industry (18,400) and construction (7,700), while it decreased in agriculture (36,100 unemployed less). The group of unemployed looking for their first job, or that have quit their last job more than a year ago, decreased by 26,800 people.

The unemployment rate increased by 16 hundredths in the quarter and fell by 2.09 points compared to the figure registered a year earlier, reaching 16.55% of the labour force.

By age groups, it is worth noting the fall in youth unemployment (people aged between 16 and 24), by 9.1% y-o-y, with the youth unemployment rate standing at 37.5%, 5.4 points lower than a year earlier.

The labour force grows for the first time in ten quarters, by 0.1% y-o-y

The labour force fell by 15,900 people in the fourth quarter of 2017 compared to the third one, while it has increased by 19,100 during the last year, the first y-o-y increase in ten quarters, accumulating 22,765,000 people. In y-o-y terms, it increased by 0.1% (-0.3% in the previous period). For its part, the activity rate stood at 58.8%, one tenth lower compared to the figure registered in the previous quarter and two tenths lower versus that of the fourth quarter of 2016.

The y-o-y increase of Social Security covered workers remains stable at 3.4% in January

The average number of Social Security covered workers decreased by 178,170 people in January 2018 compared to the previous month (174,880 fewer Social Security covered workers in January 2017), reaching 18,282,031.

By branches of activity, with unadjusted data, the number of Social Security covered workers decreased in January compared to the previous month in all sectors, mainly in services, with 157,445 fewer Social Security covered workers, while in industry, construction and agriculture 8,770, 7,840 and 4,116 fewer Social Security covered workers were accounted, 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 drops in trade, with 42,108 fewer covered workers, hospitality, with a total of 40,963 fewer covered workers and administrative activities and auxiliary services, with a drop of 31,227 covered workers. The reductions in the three cases were more pronounced than those registered in the same month of the previous year (41,802, 35,882 and 28,945 fewer covered workers, respectively).

With seasonally adjusted data, Social Security covered workers increased by 66,578 people in January, 0.4% m-o-m, three tenths more than in the previous month.

In y-o-y terms, Social Security covered workers rose by 607,856 people in January, 3.4%, a rate identical to that registered in December 2017. By activity branches, the stability of the Social Security covered workers y-o-y rate was due to the fact that the greatest fall in covered workers in agriculture (-0.8%, a fall one tenth more intense than in the previous month) has been offset by the acceleration in construction (two tenths, up to 7.6%), while services and industry have maintained a stable y-o-y growth rate (3.5% and 3.3%, respectively).

By NACE activity sections, with unadjusted data and for the General (excluding Agrarian and Domestic Workers Special Systems) and Self-employed Regimes, within services it is worth highlighting the slowdown of Social Security covered workers in the public administration, defence and compulsory social security, whose y-o-y rate decreases half a point, down to 5%, and in hospitality, whose rate drops three tenths, down to 3.5%. On the other hand, it is worth noting the acceleration in financial and insurance activities, in which Social Security covered workers grew for the first time since the beginning of the series in 2009, by 0.2% (-0.5% in the previous month), as well as in construction and in information and communications, whose rates rebounded in January two and four tenths, respectively, up to 7.6% and 5.9%.

The Special System of Domestic Employees should be noted, as it was the one that most boosted the growth rate of all covered workers, since its fall moderated eight tenths, to 1% y-o-y, due to the base effect associated with the strong m-o-m decrease registered in the same month of 2017.

According to the professional situation, the y-o-y variation rate of employees remained at 4.1%, while in the case of self-employed it increased two tenths, up to 0.5%.

In the General Regime and for the total of 12.8 million covered workers whose type of contract is specified in the statistic, 53% of the y-o-y job creation in January was permanent and 47% temporary, with a y-o-y increase of 3.9% for the former, as in December 2017, and of 7.2% for the latter, a figure one tenth lower in comparison to that of the previous month.

Registered unemployment falls in January by 7.5% y-o-y

Registered unemployment rose by 63,747 people in January compared to the previous month (57,257 unemployed more in the same period of last year). As a result, the total number of registered unemployed stood at 3,476,528.

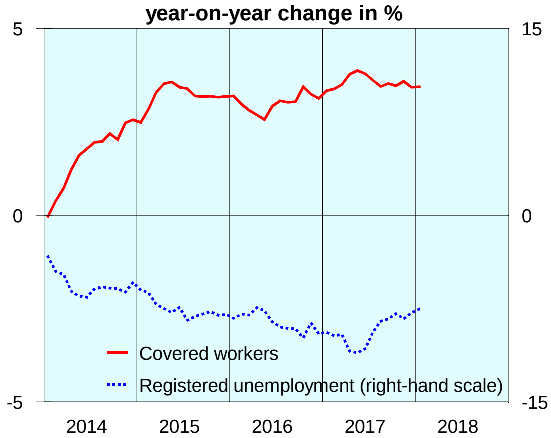
By branches, and with unadjusted data, registered unemployment rose when compared to the previous month in services (72,468 more people), in agriculture (2,417 unemployed more) and in industry (775 more people). On the other hand, it decreased in construction (5,154 unemployed less). In the group without a previous employment, unemployment decreased by 6,759 people in January 2018.

With seasonally adjusted data, unemployment fell by 24,161 people (0.7%), a fall rate one tenth more intense than that registered in December 2017.

In y-o-y terms, unemployment dropped by 283,703 people in January, by 7.5%, a rate of decline three tenths less intense than the one registered in the previous month. By branches, the registered unemployment moderated its rate of decline in services, where it fell by 5.8% (-6.1% in December); in construction, where it decreased by 16% (-16.4% in December); and in industry, with a fall of 10.8% (-11.3% in December). On the other hand, agriculture registered a decrease of 9.2%, eight tenths more intense than in December.

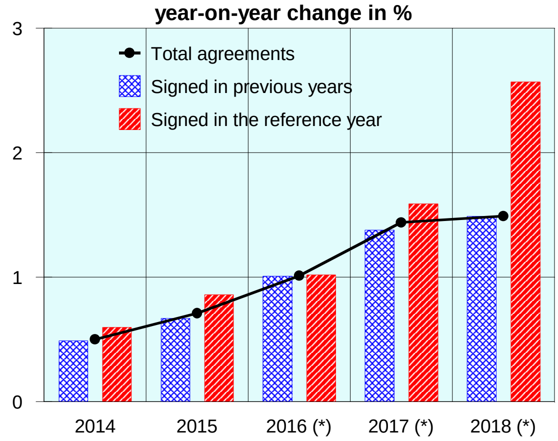
Youth unemployment (people below 25 years old) fell by 28,810 people last year, which represents a 9.7% y-o-y drop (-8.9% in December).

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



Source: MESS.

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



(*) Provisional data. 2018 data refers up to january.
Source: MESS.

The 2018 agreed wage increase in collective bargaining stands at 1.5%

According to the Collective Bargaining Statistics published by the Ministry of Employment and Social Security, the average agreed wage rise stood at 1.5% (with the information available up to the end of January 2018), one tenth above the wage increase agreed in 2017, revised.

The number of workers affected by all the agreements signed up to January and with effects in 2018 reached 3,667,007, 14.9% higher than in the same period of 2017. Of all the workers affected by the agreements signed up to January and with effects in 2018, 99.8% correspond to agreements signed before the aforementioned year (3,659,753 workers, 1,666 agreements) and the remaining 0.2% to new agreements signed in 2018 (7,254 workers, 6 agreements), with wage increases of 1.5% and 2.6%, respectively.

With regards to the coverage, the agreed wage variation in firms´ agreements (1.2%) was lower than that signed at a higher level (1.5%).

By sector, the agreed wage increase up to January is of 1.7% in construction, 1.6% in services, 1.4% in industry and 1.1% in agriculture.

Up to January 2018, 84 opt-outs were registered affecting 1,891 workers, 2.3% more than in the same period of 2017. 90.5% of the opt-outs submitted refer to the wage amount agreed.

External sector

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

According to the Balance of Payments data, in November 2017, the Spanish economy generated net lending to the rest of the world of € 3.2 billion, below the one registered a year earlier (€ 3.6 billion).

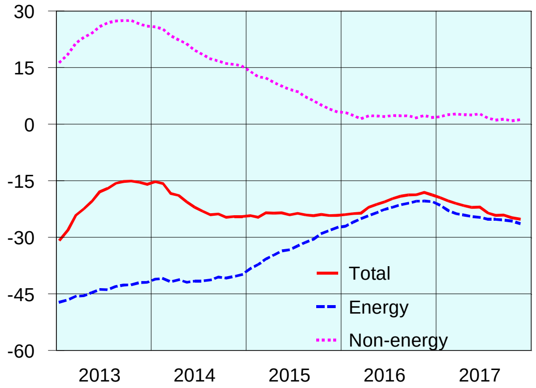
The current account balance recorded a € 3.0 billion surplus in November last year, € 288 million lower than the figure registered in the same month of 2016 (€ 3.3 billion), as a result of a 18.2% y-o-y decrease in the positive balance of goods and services, partly offset by the 25.9% increase of the surplus of primary and secondary income. On the other hand, the surplus in the capital account ended at € 141 million, versus the € 233 million of November last year.

The trade surplus of the non-energy component increases in November 2017

According to Customs data, the trade balance recorded a deficit of € 1.6 billion in November 2017, compared to a deficit of € 1.2 billion registered a year earlier. The trade deficit increase was due to the energy component deficit increase, of 34.4%, partially offset by the rise in the non-energy component surplus, of 43.5%.

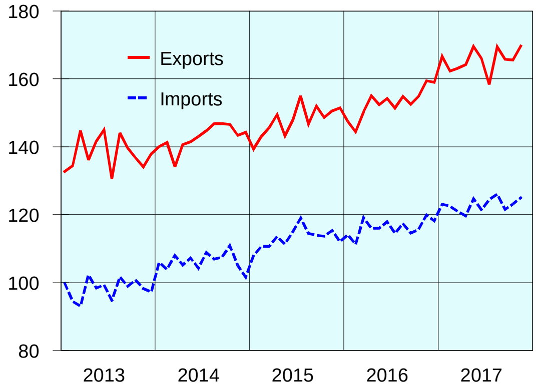
In cumulative terms for the last twelve months, the trade balance recorded a deficit of € 25.1 billion up to November 2017, compared with the € 18.1 billion deficit accumulated in the twelve months up to November 2016. The 38.9% worsening of the trade balance is explained by the energy component deficit increase, of 29%, and to a lesser extent, by the decrease in the non-energy surplus, of 49.7%.

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 dynamism of real exports of goods continues,...

According to Customs figures, goods exports increased in November by 7.9% y-o-y, and their prices, approximated by unit value indices, rose by 1% (1.8% in October), resulting in a 6.8% rise in real terms, after the 9.2% growth registered in the previous month. The analysis by product groups in real terms and in y-o-y rates, shows a generalised slowdown in November, except for non-food consumer goods exports, which accelerated 3.9 points, up to 5.6%. Exports of capital goods slowed down 16.1 points, to 3.7%. On the other hand, exports of food consumer goods and energy and non-energy intermediate goods slowed down 3.3, 1.5 and 3.2 points, to 2.8%, 33.1% and 7.3%, respectively.

By geographical areas, exports in volume to the European Union increased by 2.6% y-o-y in November, in comparison to the 5.7% rise registered in October, and exports outside the Union accelerated by 16% (15.9% in the previous month).

...and, to a lesser extent, that of real imports

Goods imports increased by 9% y-o-y in nominal terms in November, and their prices rose by 4.6% (3.5% in October). Energy goods prices increased by 9.1%, while other products prices grew by 4%. As a result, imports in real terms, experienced a y-o-y increase of 4.2%, following the 9.3% increase registered in the previous month. The analysis by products of imports in real terms and in y-o-y rates registered an uneven performance in the different categories. Imports of capital and energy intermediates goods accelerated up to 6.7% and 25.3%, respectively (4.9% and 11.5% in the previous month), and non-food consumer goods and non-energy intermediate goods imports slowed down 7.8 and 8.9 points, respectively, to 3.9% and 0.2%. Lastly, food consumer goods fell by 3.2%, following the 4.8% rise registered in October.

By geographical areas and in real terms, imports from the European Union rose by 3.8% y-o-y in November, following the 5.9% registered in October. Real imports from the rest of the world slowed down 9.4 points, down to 4.7%.

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 November (1.4%) for the second consecutive month, due to the positive contribution of EU and non-OECD countries. By products, the positive contribution of energy and non-energy intermediate goods stands out. The "momentum" of imports became negative in November (-0.6%), after fourth months registering positive values, due to the negative contribution of EU countries. By products, the negative contribution of non-energy intermediate goods stands out.

The financial balance generates net capital outflows in November

According to the Balance of Payments, in November 2017 the financial balance, excluding the Bank of Spain assets, generated net capital outflows of € 5.8 billion, versus the net outflows of 23.3 billion recorded a year earlier. This result is explained by the net outflows registered by direct investment (€ 931 million) and other investment (€ 7.0 billion), higher than the net inflows registered by portfolio investment (€ 2.1 billion) and financial derivatives (€ 55 million).

The assets net variation recorded net capital outflows (investments) of € 11.1 billion in November, versus the net outflows of € 12 billion registered in the same month of 2016. On the other hand, the liabilities net variation generated net inflows (investments) of € 5.2 billion, versus the net outflows of € 11.4 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 € 3.4 billion in November 2017, with the € 2.7 billion increase of the net debtor position vis-à-vis the Eurosystem standing out.

Public Sector

On 30th January, the Ministry of Finance and Civil Service published the data of non-financial transactions of the Central Government, the Regional Government and the Social Security Funds, with consolidated data, for November 2017. On the other hand, the Bank of Spain (BoS) published the General Government Debt data, following the Excessive Deficit Procedure (EDP) methodology, for November 2017, as well as the Debt data for the State, corresponding to December.

The General Government consolidated deficit, excluding Local Government, stands at 2.10% of GDP up to November 2017

On a consolidated basis, the Central Government, the Regional Government and the Social Security Funds recorded up to November 2017 a deficit of € 24.5 billion (2.10% of GDP), 39.0% lower compared to the same period of 2016 (3.59% of GDP). This deficit decrease is explained by a y-o-y increase of non-financial resources (5.0%) higher than the one recorded by non-financial uses (0.4%).

The increase in revenue was mainly due to the y-o-y rise in taxes (5.8%) and social contributions (5.2%). Regarding non-financial uses, almost all items rose, more than offsetting the falls registered by interest (-6.1%), the contributions to the EU General Budget (-12.9%) and the support provided to financial institutions (-81.2%).

The Central Government ended the first eleven months of 2017 with a deficit of € 17.7 billion, equal to 1.51% of GDP, 1.01 points below the one recorded in the same period of 2016 (€ 28.2 billion, 2.52% of GDP). This deficit decrease compared to the one recorded in the same period of 2016 is due to the rise of non-financial resources, (3.2%, up to € 173.9 billion), and the decrease in non-financial uses, which fell by 2.6%, down to € 191.5 billion.

The increase of resources is due to the rise of tax revenues (4.4%), and, in particular, to the growth of the VAT (6.3%), the Corporate Income Tax (4.0%) and the Personal Income Tax (3.5%). On the other hand, the decrease in uses is explained by the fall of its main items, among which the following stood out: interest (-6.5%), the lower contributions to the EU 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 4.9% y-o-y, registering an amount of € 81.3 billion in comparison to the € 85.5 billion registered in the first eleven months of 2016.

Up to November last year, the Regional Government accumulated a surplus of € 1.3 billion (equivalent to 0.11% of GDP), which implies a € 6.1 billion improvement of the balance in comparison to the same period of 2016. This balance improvement is explained by a y-o-y increase of non-financial resources (6.8%) higher than that of non-financial uses (2.4%). The following factors explain the resources rise: the higher net advanced payments from the financing system (they represent € 4.8 billion more than in 2016), the result of the final settlement for 2015, favourable to the Regional Government (improving the settlement of the previous year by € 983) as well as the transfer received from the State Public Employment Service (SEPE), amounting to € 1.4 billion, 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 (3.6%). The expenditure of the Regional Government eligible to be included in the calculation of the expenditure benchmark increased by 1.8% y-o-y, reaching € 125.7 billion.

As for Social Security Funds, these ended the first eleven months of 2017 with a deficit of 8.1 billion, equal to 0.70% of GDP, five hundredths higher than in the same period of 2016 (€ 7.2 billion, equivalent to 0.65% of GDP). This higher deficit is due to an increase of non-financial resources (2.2%) lower than the one registered by non-financial uses (2.7%). Social contributions increased by 5.8%, more than offsetting the decrease experienced by transfers received from the State (-18.2%) and interest generated by the Social Security Reserve Fund (-53.0%). 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 (€ 1.4 billion up to November 2017), which in 2016 did not become effective until December. Leaving this last factor aside, the deficit would have been 7.2% lower than in the previous year.

The General Government EDP Debt accelerates in November 2017 in y-o-y terms,…

In November 2017 and according to the Bank of Spain, the General Government EDP Debt, according to the EDP methodology, reached 1,142.8 billion, 3.8% higher than in the same period of the previous year (2.5% y-o-y in October).

By subsectors, the State EDP Debt stood at € 987.2 billion, 4.6% higher when compared to a year earlier. The Debt of Other Entities belonging to the Central Government reached € 35.6 billion, which implies a 12.3% decrease in comparison to November last year. On the other hand, the Regional Government EDP Debt reached € 286.7 billion, 5.9% more in comparison to the figure registered in the same month of 2016. The Local Government subsector registered an EDP Debt of € 29.6 billion in November, 5.1% lower as compared to the previous year. Finally, the EDP Debt of the Social Security subsector reached € 27.4 billion, a figure 59.3% higher than the one registered in November 2016 (€ 17.2 billion). This increase is due to the loans received from the State in July and November 2017.

…and the State EDP Debt accelerates in December

At the end of December 2017, the State Debt, according to the EDP methodology, reached € 996.5 billion, compared to the € 950.8 billion registered a year earlier, which represents a y-o-y increase of 4.8%, two tenths higher compared to the figure registered in the previous month (4.6%).

February 2018