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SPANISH ECONOMY REPORT

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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

1. - FINANCIAL MARKETS

The financial markets evolution in the first two month period of the year was conditioned by the expectations of a tightening of the monetary policies by the main central banks, in particular due to the prospects of an interest rate increase in the United States, as well as by the negotiations for the formation of a government coalition in Germany. . In a context where uncertainty and volatility have prevailed in the markets , there has been a significant correction in the stock markets, with setbacks of the main indices, the European public debt yields have increased, except for the Spanish bond, and the euro has 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 8th March, 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 it expects the net asset purchases 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. The Eurosystem will reinvest the principal payments from maturing securities purchased under the Asset Purchase Program (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.

Thus, the ECB’s monetary policy guide remains unchanged, but the difference of this statement with the previous one lies in the complete withdrawal of the sentence: "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", which increases the expectations of normalisation of the monetary policy.

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.

Table 1.1. **Financial and monetary indicators**

			2017			2018		
	2016	2017	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
A) Interest rates (percentages)(1)								
Official rates (2)								
Eurozone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	0.75	1.50	1.25	1.25	1.50	1.50	1.50	1.50
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euribor rates								
3 months	-0.26	-0.33	-0.33	-0.33	-0.33	-0.33	-0.33	-0.33
12 months	-0.03	-0.15	-0.18	-0.19	-0.19	-0.19	-0.19	-0.19
Debt market (3)								
3 years	0.07	-0.08	-0.03	-0.09	-0.10	-0.06	0.01	0.01
5 years	0.40	0.36	0.42	0.37	0.32	0.36	0.40	0.39
10 years	1.39	1.56	1.62	1.49	1.44	1.47	1.52	1.48
Bank rates (3)								
Loans and credit. Synthetic rate	2.67	2.55	2.73	2.54	2.28	2.48	-	-
Mortgage loans (households)	2.32	2.20	2.21	2.20	2.05	2.11	-	-
Deposits. Synthetic rate	0.15	0.08	0.08	0.08	0.06	0.07	-	-
B) Spreads (basis points)(1)								
Spain-Germany 10 years	125	118	119	112	110	93	80	86
USA-Germany 10 years	169	197	194	200	210	196	215	222
C) Eurozone monetary aggregates(4)								
M1	8.80	8.70	9.50	9.20	8.70	8.90	-	-
M2	4.80	5.10	5.40	5.30	5.10	5.30	-	-
M3	5.00	4.60	5.00	4.90	4.60	4.60	-	-
D) Exchange rates(1)								
Dollar/euro	1.107	1.129	1.176	1.174	1.184	1.220	1.235	1.224
% (4)	-3.1	12.3	6.6	8.7	12.3	14.9	16.0	14.6
Yen/euro	120.3	126.7	132.8	132.4	133.6	135.3	133.3	129.9
% (4)	-7.5	9.2	16.0	13.2	9.2	10.7	10.9	7.6
Yen/dollar	108.8	112.2	112.9	112.8	112.9	110.9	107.9	106.1
%(4)	-4.6	-2.8	8.8	4.1	-2.8	-3.6	-4.4	-6.1
Effective nominal euro rate	94.4	96.6	98.6	98.5	98.8	99.4	99.6	99.4
% (4)	2.0	5.4	3.7	4.2	5.4	5.9	6.6	5.8
E) Stock market indexes % (5)								
Madrid General Index	-2.2	7.6	12.5	9.5	7.6	4.3	-1.4	-4.5
IBEX 35	-2.0	7.4	12.5	9.2	7.4	4.1	-2.0	-5.1
Eurostoxx – 50	0.7	6.5	11.7	8.5	6.5	3.0	-1.9	-5.1
Dow Jones	13.4	25.1	18.3	22.8	25.1	5.8	1.3	-0.7
Standard & Poors 500	9.5	19.4	15.0	18.3	19.4	5.6	1.5	0.7
Nikkei 225	0.4	19.1	15.2	18.9	19.1	1.5	-3.1	-7.0

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

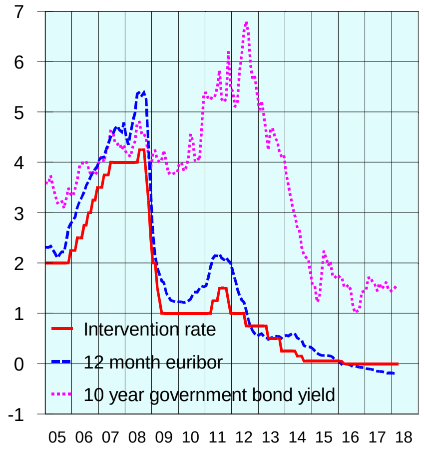
The BoJ maintains the interest rates and the monetary stimulus plans

In the meeting held on 8th and 9th March, 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, boosted by stimulating measures, favourable financial conditions and the expansion of the world economy, even though it considers that there are risks derived from the economic policies in the United States and the effects of Brexit.

The BoE maintains the interest rates and the asset purchase programme

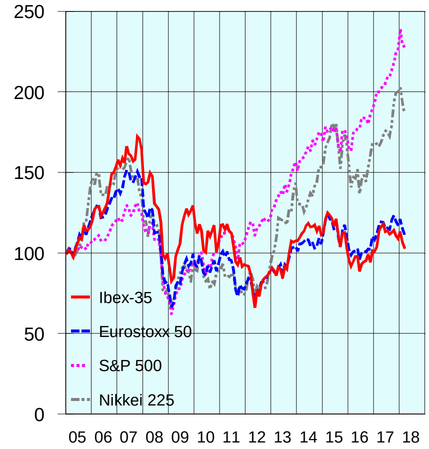
The Monetary Policy Committee of the Bank of England (BoE), in its meeting held on 8th February, unanimously decided to maintain the Official Bank Rate at 0.50% (in force since 2nd November 2017) and to continue with the public debt and corporate debt purchase programmes, which stand at 435 billion and 10 billion pounds, respectively. According to the BoE, given the upward revision of inflation and the GDP growth in the United Kingdom this year, and the expectation that inflation will remain above the target, it will probably be necessary to tighten the monetary policy further and earlier than expected in the meeting held in November.

G 1.1 INTEREST RATES
monthly averages (a)



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

G 1.2 STOCK EXCHANGE
last day of the month. January 2005 = 100



Source: Bolsa de Madrid, Nasdaq and Stoxx.

The 12-month Euribor remains stable, with negative values

In the interbank market of the Eurozone, interest rates registered minor changes in the first two month period of the year and remained negative, in a context where the ECB maintained an accommodative monetary policy. Thus, on 2nd March, the one, six and twelve-month Euribor stood at -0.370%, -0.271% and -0.191%, respectively, versus the -0.368%, -0.271% and -0.186% recorded at the end of December 2017. The stability in this period is due to the expectations of practical stability in interest rates and in the risk premiums required in the market (the OIS and the Euribor-OIS differential almost did not change during this period).

Public debt yields increase in the first two month period of the year

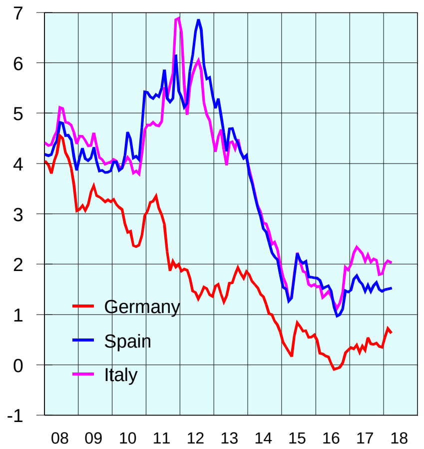
In the secondary public debt market, the expectations of the central banks' monetary policy normalisation, with a possible increase of the interest rates in the United States in March and a possible withdrawal of the monetary stimuli ahead of schedule in the Eurozone, have boosted the yields of the American bond and the Eurozone debt upwards, with the exception of Spain. The 10-year Spanish bond yield stood at 1.54% on 2nd March, 3 b.p. below the figure recorded on 29th December 2017. On the other hand, the German bond yield rose by 22 b.p. in that period, up to 0.65%, the Spain-Germany differential standing at 89 b.p., 25 b.p. below the level recorded in late December last year and at record lows since 2010. Meanwhile, the Spain-Italy differential stood at -52 b.p., in comparison to the -43 b.p. registered in 29th December. In the United States, the 10-year bond yield rose 45 b.p. in this period, up to 2.86%.

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

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-29-17	Jan-31-18	Mar-02-18	Variation in bp		Dec-29-17	Jan-31-18	Mar-02-18	Variation in bp	
	(1)	(2)	(3)	Period (3)-(2)	Annual (3)-(1)	(4)	(5)	(6)	Period (6)-(5)	Annual (6)-(4)
Germany	0.43	0.70	0.65	-5	22					
Holland	0.53	0.75	0.70	-5	17	10	5	5	0	-5
Finland	0.60	0.81	0.77	-4	17	17	11	12	1	-5
Austria	0.58	0.81	0.87	6	29	15	11	22	11	7
France	0.78	0.98	0.91	-7	13	35	28	26	-2	-9
Belgium	0.64	0.84	0.94	10	30	21	14	29	15	8
Ireland	0.67	1.14	1.09	-5	42	24	44	44	0	20
Spain	1.57	1.45	1.54	9	-3	114	75	89	14	-25
Portugal	1.94	1.95	2.01	6	7	151	125	136	11	-15
Italy	2.00	2.02	2.06	4	6	157	132	141	9	-16
Greece	4.12	3.73	4.35	62	23	369	303	370	67	1

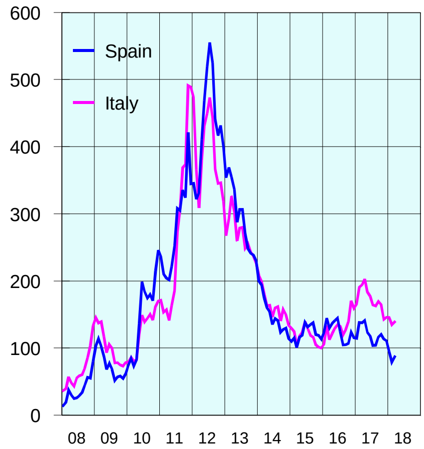
Source: Financial Times.

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



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

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



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

The stock indices decrease

During the first weeks of January, stock indices increased strongly, boosted by the bank and energy sectors, due to the expectations of a less gradual withdrawal of monetary stimuli by the ECB and to the increase in oil prices. However, since the last weeks of January volatility rose and, in early February, there has been a generalised correction of the indices on both sides of the Atlantic, registering important losses, in a context of expectations of higher inflation in the United States and the United Kingdom and possible interest rate increases earlier than expected. Even though stock indices rebounded in mid-February and recovered part of the lost ground, the majority of stock indices ended the period between late December last year and early March with falls. In Europe, the Eurostoxx 50 index fell by 5.1% in the period between 29th December 2017 and 2nd March this year. In Spain, the IBEX 35 presented a similar profile to that observed in the rest of European indices, registering a fall of also 5.1% in that period. On the other hand, in the US market, the S&P 500 index registered a slight increase during the period (0.7%).

The euro appreciates against the dollar

With respect to the currency market, the expectations of monetary policy normalisation in the Eurozone, the progress in the negotiations for the formation of a government coalition in Germany and the favourable evolution of the European macroeconomic indicators, have strengthened the euro exchange rate against the dollar in the first two months of the year, despite the expectations of rate increases in the United States. As a result, in the period between late December 2017 and early March this year, the euro appreciated by 2.7% and 0.7% against the dollar and the pound, respectively, and depreciated by 3.9% against the yen, trading at the end of the 2nd March session at 1.2312 dollars, 0.8932 pounds and 129.77 yen. In the same period, the euro appreciated by 0.7% in nominal effective terms.

Table 1.3. **International stock exchanges**

Countries	Indexes	Level Mar-02-18	% Variation Jan-31-18	% Variation Dec-29-17
Germany	DAX	11,913.71	-9.7	-7.8
France	CAC 40	5,136.58	-6.3	-3.3
Italy	FTSE MIB	21,912.14	-6.8	0.3
Spain	IBEX 35	9,531.10	-8.8	-5.1
Eurozone	EUROSTOXX 50	3,324.75	-7.9	-5.1
United Kingdom	FTSE 100	7,069.90	-6.2	-8.0
United States	S&P 500	2,691.25	-4.7	0.7
Japan	NIKKEI 225	21,181.64	-8.3	-7.0
China	SHANGHAI COMP	3,254.53	-6.5	-1.6
Mexico	IPC	47,548.10	-5.8	-3.7
Brazil	BOVESPA	85,761.33	1.0	12.2
Argentina	MERVAL	31,900.70	-8.7	6.1

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

The M3 broad monetary aggregate maintains the growth rate stable in January 2018...

The M3 broad aggregate rose by 4.6% in January, as in December 2017. This evolution is due to the acceleration of overnight deposits (two tenths, up to 9.9%) and the lower fall rate of other short-term deposits (-1.9%, compared to the -2.1% registered in the previous month), which offset the slowdown of currency in circulation (three tenths, to 3.1%) and the higher fall in marketable instruments (-6.6%, compared to the -4.3% recorded in the previous month).

Table 1.4. **Eurozone monetary aggregates**

Monetary aggregates	January 2018 Balance (Billions €)	% Year-on-year variation November 2017	December 2017	January 2018
1. Currency in circulation	1,114	3.3	3.4	3.1
2. Overnight deposits	6,683	10.2	9.7	9.9
M1 (= 1 + 2)	**7,798**	**9.2**	**8.7**	**8.9**
3. Other short-term deposits (= 3.1. + 3.2.)	3,463	-2.5	-2.1	-1.9
3.1. Term deposits up to two years	1,199	-9.4	-8.5	-7.9
3.2. Deposits redeemable at notice up to three months	2,264	1.7	1.6	1.7
M2 (= M1 + 3)	**11,261**	**5.3**	**5.1**	**5.3**
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	644	-1.2	-4.3	-6.6
4.1. Repurchase agreements	72	10.0	9.8	-4.7
4.2. Money market funds shares units	513	1.4	-2.6	-1.2
4.3. Securities other than shares up to two years	59	-23.2	-24.0	-37.8
M3 (= M2 + 4)	**11,905**	**4.9**	**4.6**	**4.6**

Source: European Central Bank.

…and financing to the private sector in the Eurozone accelerates

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, accelerated two tenths in January 2018, standing at 3.1%, compared to the 2.9% registered in December 2017. This evolution is mainly due to the acceleration of loans (four tenths, up to 3%), partially offset by the slowdown of shares and other equity (2.5%, versus 3.2% in December) and securities other than shares (one tenth, to 4.5%). Within the loans, those received by households fell by one tenth, down to 3.2%, those received by non-financial corporations grew by 2.2%, a rate three tenths higher than that of the previous month, and those received by other financial intermediaries accelerated by 2.8 points, up to 5.5%.

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

	January 2018 Balance (Billions €)	%Year-on-year variation November 2017	December 2017	January 2018
Financing to the private sector	**13,184**	**2.8**	**2.9**	**3.1**
Loans	**10,931**	**2.6**	**2.6**	**3.0**
Households	**5,604**	**3.2**	**3.3**	**3.2**
House purchases	*4,223*	*3.3*	*3.5*	*3.3*
Consumer credit	*656*	*7.2*	*7.1*	*7.3*
Other lending	*725*	*-0.8*	*-0.6*	*-0.6*
Non-financial corporations	**4,353**	**1.8**	**1.9**	**2.2**
Insurance companies & pension funds	**113**	**0.1**	**-3.2**	**-1.0**
Other financial intermediaries	**862**	**3.2**	**2.7**	**5.5**
Securities other than shares	**1,450**	**3.9**	**4.6**	**4.5**
Shares and other equities	**803**	**4.4**	**3.2**	**2.5**

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

The stock of financing to the private sector in Spain falls by 0.4% y-o-y in January

The stock of financing to the private non-financial sector in Spain fell by 0.4% y-o-y in January, three tenths more in comparison to December 2017. Financing received by firms fell by 0.1%, in comparison to the 0.4% rise registered in the previous month, due to the higher fall registered by foreign loans and the slowdown of securities other than shares, partially offset by the lower rate of decline registered by bank loans. On the other hand, financing received by households recorded a y-o-y rate of -0.7% in January, a figure one tenth higher in comparison to the one registered in the previous month (-0.8), due to the lower rate of decline in bank loans for housing, while loans for other purposes slowed down.

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

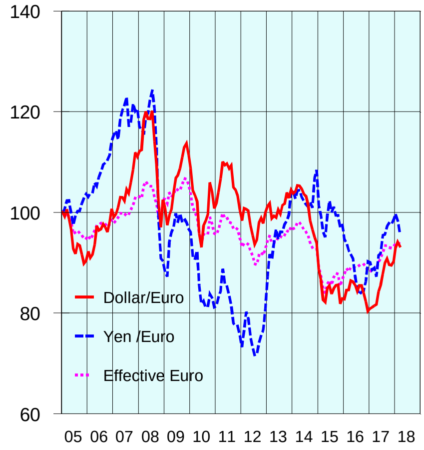
	January 2018 Balance (Billions €)	% Year-on-year variation November 2017	December 2017	January 2018
Non-financial corporations and households	**1,589**	**-0.1**	**-0.1**	**-0.4**
Non-financial corporations	**886**	**0.4**	**0.4**	**-0.1**
Bank loans	*511*	*-0.5*	*-0.6*	*-0.3*
Securities (1)	*93*	*9.1*	*7.6*	*4.2*
External loans	*282*	*-0.6*	*-0.1*	*-1.2*
Households	**702**	**-0.7**	**-0.8**	**-0.7**
Bank loans. Housing	*535*	*-2.8*	*-2.8*	*-2.7*
Bank loans. Other	*168*	*5.9*	*6.4*	*5.7*
General Government	**-**	**3.5**	**3.4**	**-**
Total financing	**-**	**1.3**	**1.3**	**-**

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

New loan and credit operations to households and SMEs rise

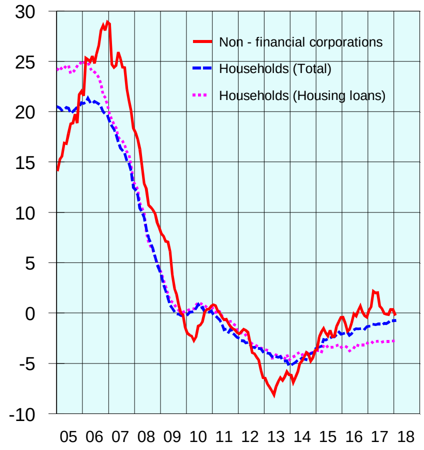
The amount of new loan and credit operations to households, in cumulative terms for the last twelve months, increased by 8.9% y-o-y in January 2018, two tenths more in comparison to the figure registered in the previous month. This evolution is due to the acceleration of the loans for housing (one tenth, up to 3.7% y-o-y) and loans for other purposes (three tenths, up to 9.6%), while the increase in loans for consumption remained at 15.9%. The amount of new loan and credit operations to SMEs (using as a proxy for these credits those under one million euros) rose by 9.6% y-o-y, in cumulative terms for the last twelve months up to January this year, 1.4 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 2.8% y-o-y, a rate 1.2 points higher than that of December of last year.

G 1.5 EXCHANGE RATES
monthly averages. January 2005 = 100



Source: European Central Bank (ECB).

G 1.6 CREDIT IN SPAIN
year on year percentage change



Source: Banco de España (BE).

2. - DEMAND AND PRODUCTION

In the fourth quarter of 2017, the Spanish economy extended the expansionary trend initiated at the end of 2013, registering a significant growth characterised by the private consumption dynamism and the rebound of investment in equipment. Economic growth has been intensive in job creation, with more than half a million full-time equivalent jobs generated between the end of 2016 and the end of 2017.

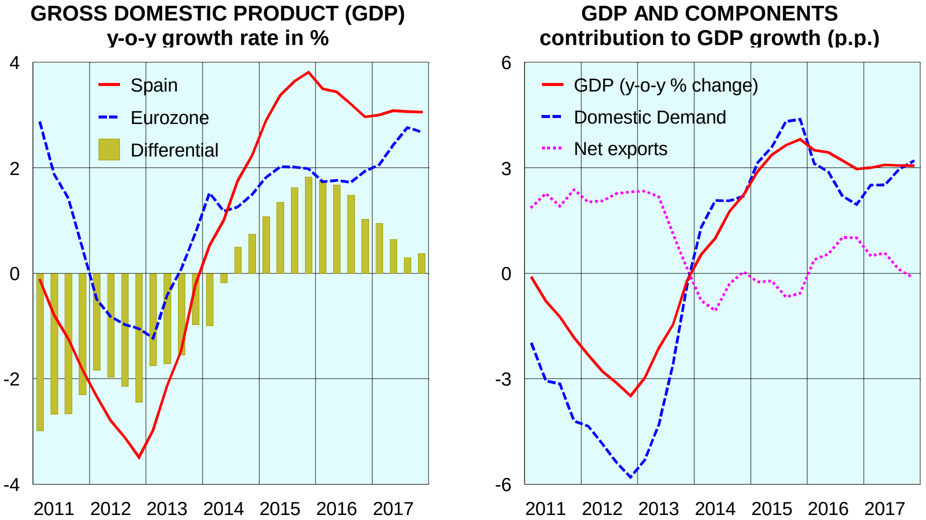
The Spanish economy ends 2017 with an average annual growth of 3.1%

According to the Quarterly National Accounts (QNA) figures, published by the National Statistics Institute (INE, by its Spanish abbreviation), GDP, in volume and with calendar and seasonally adjusted data, recorded a q-o-q growth of 0.7% in the fourth quarter of 2017, equal to that of the previous quarter and to the one foreseen by the INE at the end of January, accumulating more than four years of uninterrupted positive rates. In y-o-y terms, GDP increased by 3.1% in the last quarter of last year, as in the previous two quarters.

Economic growth continued to be supported by domestic demand, which increased by two tenths its contribution to the GDP y-o-y in the fourth quarter of 2017, up to 3.2 percentage points (p.p.), while the net external demand subtracted one tenth to growth, after contributing the same amount in the previous quarter. In line with the GDP evolution, the employment growth rate in terms of full-time equivalent employment remained unchanged at 2.9% for the third consecutive quarter, creating a total of 505,633 net jobs between the end of 2016 and the end of 2017.

With these figures, the real GDP ended 2017 with an average annual growth of 3.1%, a rate two tenths lower in comparison to the one recorded in 2016, in line with the Government's forecasts, and more than half a point higher than that of the Eurozone (2.5% with seasonally and calendar adjusted data and 2.3% with unadjusted data). Domestic demand consolidated as a growth driver, contributing with 2.8 percentage points to the GDP growth, three tenths more than in 2016, mainly boosted by the investment dynamism, while net external demand contributed three tenths to growth, four tenths less than in 2016, due to an acceleration of goods and services imports, higher than that of exports.

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



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

The indicators of global activity for Spain point to the extension of the activity dynamism in the first quarter of 2018

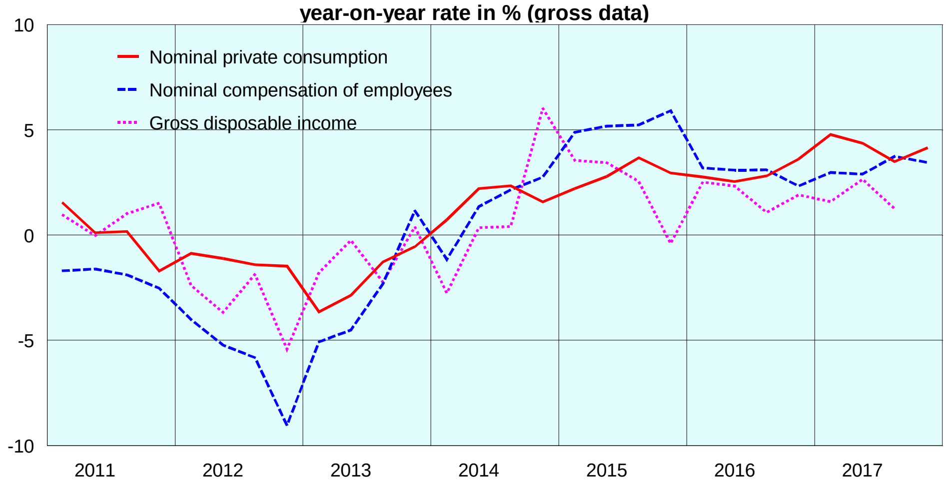
The most recent global activity short-term qualitative indicators point to the extension of the expansionary trend in early 2018. Thus, the Composite PMI for Spain published by IHS Markit, reached 57.1 in February, four tenths higher than the previous month, due to the acceleration of industrial activity and, to a lesser extent, in services. Likewise, the Economic Sentiment Index (ISE) published by the European Commission, remained in February at high levels, reaching 110.2 points (1990-2017 average= 100), seven tenths below the one recorded in January. The results by sectors were diverse, as industry, construction and consumer confidence registered setbacks, while retail and services advanced. In the Eurozone, the Economic Sentiment Indicator fell 0.8 points in February in comparison to the previous month, reaching the level of 114,1, so the unfavourable differential for Spain fell one tenth, from -4 points in January down to -3.9 points in February.

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 January, 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 stood six tenths below that of the Eurozone (100.6).

2.1. - Domestic demand

Among the domestic demand components, the good performance of private consumption and the more expansionary trend of equipment goods investment stand out, driven by the job creation as well as by the favourable expectations and financing conditions.

G 2.2 PRIVATE CONSUMPTION
year-on-year rate in % (gross data)



Sources: INE (QNA-2010).

Private consumption grew by 2.4% in 2017,...

The final consumption expenditure of households and non-profit institutions serving households (NPISHs), in volume and with seasonally and calendar adjusted data, registered a 2.5% y-o-y increase in the fourth quarter, compared to the 2.4% registered in third quarter, contributing 1.4 points to GDP growth and ending 2017 with an annual average growth of 2.4%, six tenths less than in 2016. In q-o-q terms, private consumption moderated its growth pace by one tenth, to 0.6%.

...and the most recent short-term indicators maintain the expansionary trend in the first quarter of 2018

Among the private consumption quantitative indicators, passenger car registrations, according to the figures provided by the ANFAC (Spanish Association of Vehicles Manufacturers), ended the period between January and February 2018 with an average y-o-y increase of 16.4%, 5.8 points higher than in the fourth quarter of 2017 (10.6%). Likewise, among the qualitative indicators, the Consumer Confidence Indicator (CCI), published by the CIS, reached 101 in the first two month period of the year, one tenth higher in comparison to the last quarter of 2017 and above the 100 threshold (indicative of a positive perception of consumers), as a result of the improvement of the expectations component. In the same vein, the consumer confidence indicator, published by the European Commission, rose 2.4 points in the period between January and February compared to the last quarter of 2017, registering a positive balance of 0.9 points.

As for the Final Consumption Expenditure of the General Government, in volume and with seasonally and calendar adjusted data, it accelerated one point in the fourth quarter of last year, up to 2.4% y-o-y, ending 2017 with an average annual increase of 1.6%. In q-o-q terms, the growth rate of public consumption remained at 0.4% in the fourth quarter.

Table 2.1. **Quarterly National Accounts**

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

				year-on-year change				q-o-q change	
	2015	**2016**	**2017**	**I-17**	**II-17**	**III-17**	**IV-17**	**III-17**	**IV-17**
DEMAND									
Domestic consumption	2.8	2.5	2.2	1.9	2.2	2.1	2.5	0.6	0.5
- Private consumption	3.0	3.0	2.4	2.2	2.4	2.4	2.5	0.7	0.6
- Public consumption	2.1	0.8	1.6	1.0	1.5	1.4	2.4	0.4	0.4
Gross fixed capital investment	6.5	3.3	5.0	4.9	3.9	5.6	5.6	1.4	0.7
- Equipment (1)	11.6	4.9	6.1	6.1	3.9	6.6	7.7	2.8	0.9
- Construction	3.8	2.4	4.6	4.5	4.3	5.1	4.8	0.2	1.0
- Intelectual Property Products	4.4	2.7	3.7	3.5	2.9	5.0	3.3	1.7	-0.5
Change in inventories (2)	0.4	0.0	0.1	0.1	0.0	0.2	0.1	0.0	0.0
Domestic demand (2)	3.9	2.5	2.8	2.5	2.5	3.0	3.2	0.8	0.6
Exports of goods and services	4.2	4.8	5.0	5.6	4.5	5.6	4.4	0.6	0.3
- Goods (fob)	3.9	3.1	5.0	5.9	3.1	5.7	5.3	1.0	0.6
- Services	4.9	8.8	5.1	4.9	7.8	5.5	2.3	-0.4	-0.4
Imports of goods and services	5.9	2.7	4.7	4.5	3.1	5.9	5.2	1.0	0.0
- Goods (fob)	6.1	1.3	5.0	4.7	2.9	6.5	6.2	0.6	0.3
- Services	5.2	9.3	3.0	3.8	3.7	3.3	1.4	2.7	-1.3
Net foreign balance (2)	-0.4	0.7	0.3	0.5	0.6	0.1	-0.1	-0.1	0.1
GROSS VALUE ADDED									
Agriculture (3)	-2.4	6.9	3.7	5.0	3.7	4.2	2.0	1.1	-1.1
Industry. Total	5.4	3.6	3.7	3.0	3.4	3.9	4.6	0.6	1.8
- Manufacturing	7.8	3.5	3.8	2.6	3.5	4.3	4.7	1.0	1.7
Construction	2.4	1.9	4.9	4.5	4.9	4.9	5.4	1.1	1.5
Services	2.6	3.0	2.6	2.7	2.6	2.5	2.5	0.7	0.4
GDP m.p.	**3.4**	**3.3**	**3.1**	**3.0**	**3.1**	**3.1**	**3.1**	**0.7**	**0.7**
GDP at current prices	4.1	3.6	4.0	3.8	4.1	4.1	4.3	0.9	1.4

(1) Equipment and cultivated assets. (2) Contribution to GDP growth (percentage points). (3) Agriculture, forestry and fishing.
Source: INE *(CNE-2010).*

Fixed capital investment accelerates 1.7 points in 2017, up to a rate of 5%

With regard to investment, Gross Fixed Capital Formation (GFCF) recorded a y-o-y increase of 5.6% in the fourth quarter of 2017, as in the previous quarter, the highest rate since the beginning of 2016, and a contribution of more than one percentage point to the GDP annual growth. By components, the investment in equipment goods and cultivated assets accelerates by 1.1 points, up to 7.7%, while investment in construction and intellectual property products slows down 0.3 and 1.7 points, respectively, to 4.8% and 3.3%.

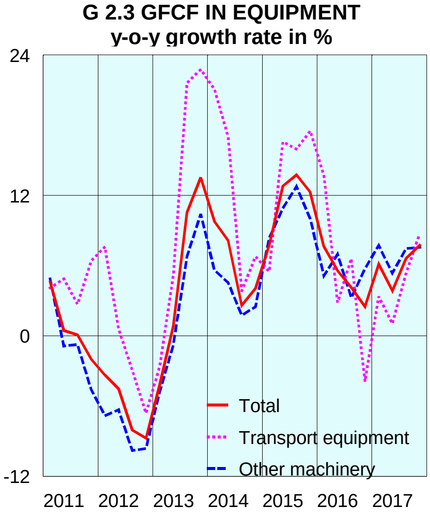
Table 2.2 **Domestic demand indicators**
Year-on-year change or balances in %

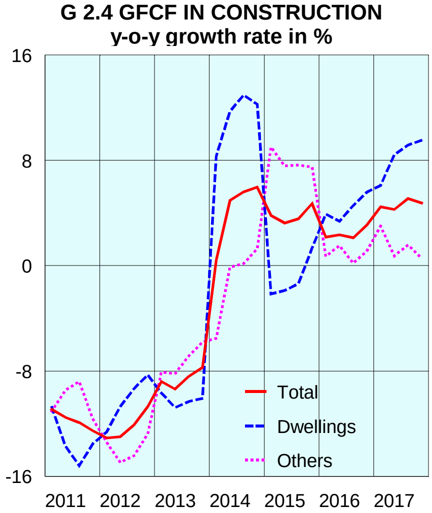
			2017				2018	Latest
	2016	**2017**	**I**	**II**	**III**	**IV**	**I(1)**	**Data**
Households & bussiness financing (2)	-2.4	-3.3	-3.8	-2.8	-3.4	-3.0	-2.3	Jan.18
Private Consumption								
Composite Consumption Indicator (3)	3.0	2.2	1.9	2.1	2.2	2.5	-	Q.IV.17
Consumer Goods. Apparent cons. (3)	2.6	1.5	-1.5	1.3	3.1	3.4	-	Dec.17
IPI consumer goods (adjusted)	1.8	0.9	-0.3	1.7	0.3	2.1	0.6	Jan.18
Consumer goods imports (vol.)	7.1	2.5	3.0	0.8	2.5	3.7	-	Dec.17
Retail sales index (4)	3.6	1.4	0.5	2.5	1.7	0.9	-	Dec.17
Passenger car registrations	10.9	7.7	7.9	6.5	5.8	10.6	16.4	Feb.18
Real wages (5)	3.0	1.5	0.9	1.0	1.9	2.1	-	Q.IV.17
Consumer goods. Capacity utiliz. (%)	75.6	72.2	73.6	72.5	74.4	68.1	75.6	Q.I.18
Consumer confide. indicator (balances)	-3.8	-0.7	-2.8	1.5	0.2	-1.5	0.9	Feb.18
Large firms sales. Consumption (6)	5.3	3.9	4.1	4.2	3.3	4.0	-	Dec.17
Households financing (2)	-2.1	-3.4	-4.2	-3.4	-3.1	-2.6	-1.7	Jan.18
Equipment Investment								
Composite Equipment Indicator (3)	5.1	6.8	7.5	5.7	6.3	7.7	-	Q.IV.17
Capital Goods. Apparent cons.(3)	3.0	3.0	0.9	0.7	6.8	3.7	-	Dec.17
IPI consumer goods (adjusted)	4.0	4.1	1.3	1.3	5.7	8.5	4.4	Jan.18
Capital goods imports (vol.)	4.1	6.4	13.1	4.4	4.1	4.3	-	Dec.17
Corporations financing (2)	0.4	-5.4	-7.3	-5.0	-5.1	-4.4	-2.3	Jan.18
Truck registrations	11.4	13.6	20.8	8.7	15.1	11.1	14.9	Jan.18
Capital goods. Capacity utilization (%)	81.7	83.7	82.9	83.0	84.2	84.7	87.1	Q.I.18
Large firms sales. Capital (6)	3.3	3.6	2.6	3.9	5.1	3.2	-	Dec.17

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

In q-o-q terms, gross fixed capital formation rose by 0.7% in the fourth quarter of last year, half the growth registered in the previous quarter, due to the 0.5% decrease of investment in intellectual property products, after the 1.7% growth registered in the previous quarter, as well as the slowdown in equipment goods investment, which went from registering an increase of 2.8% in the third quarter to a 0.9% growth in the fourth. On the other hand, investment in construction grew by 1%, eight tenths more than in the previous quarter.

In 2017 as a whole, fixed capital investment accelerated 1.7 points, up to 5%, all its components registering a favourable performance. Thus, investment in equipment increased by 6.1%, 1.2 points more than in 2016, investment in construction increased by 4.6%, 2.2 points more in comparison to the figure recorded in the previous year, and the growth of intellectual property products stood at 3.7%, one point above that registered in 2016.





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

Short-term indicators of investment in equipment point towards the continuation of the dynamism in the first months of 2018

The available short-term information on equipment investment shows the favourable behaviour of this investment component at the beginning of 2018. The Industrial Climate Indicator of Investment Goods showed a balance of 19.2 points in the period from January to February, 3.2 points higher than in the fourth quarter of last year, and the capital goods productive capacity utilisation rose 2.4 points, reaching 87.1% in the first quarter of the year (data for January). Likewise, truck registrations, according to the figures provided by the ANFAC, rebounded in January, registering a y-o-y growth of 14.9%, compared to the 2.2% fall in the previous month.

With regards to residential investment, and according to the INE Statistics, based on the properties recorded in the Property Registers, the number of housing sales recorded a 9.2% y-o-y increase in December 2017, almost half the growth registered in the previous month (18.1%), as a result of the lower dynamism of purchases of new housing, whose y-o-y variation rate stood at 11% (29.8% in November 2017), as well as the used housing purchases, which rose by 8.8%, 7 points less than in the previous month. In 2017 as a whole, the number of housing purchases accelerated six tenths, up to 14.6%. On the other hand, the number of mortgages on housing reached 20,681 in December of last year, which implies a null variation in comparison to the same month of 2016, ending 2017 with an average annual increase of 9.7%, almost five points lower than the figure registered in 2016 (14.6%).

In parallel, the average price of private housing per square meter, according to the Ministry of Public Works and Transport statistics of the appraised value of housing, accelerated four tenths in the fourth quarter of 2017 for the second consecutive quarter, up to 3.1% y-o-y. In real terms, the price of private housing rose 1.6% y-o-y in this period, six tenths more than in the previous quarter, ending 2017 with an average increase of 0.4% (2.1% in 2016). Since the record high in early 2007, the average real price of housing per square meter has fallen by almost 35%, and since the minimum value recorded in the second quarter of 2014, it has recovered by 5%.

2.2. - Foreign demand

The external sector contributes with three tenths to GDP growth in 2017

In the fourth quarter of 2017, according to QNA figures, the external sector contributed with one tenth to the GDP q-o-q variation, after a negative contribution of one tenth in the previous quarter, as a result of a slowdown in goods and services exports (three tenths, to 0.3% q-o-q) below that of imports (one point, until registering a stabilisation). In y-o-y terms, the net external demand subtracted one tenth to the GDP variation in the fourth quarter of 2017, after contributing the same amount in the third quarter, because exports slowed down more than imports (1.2 and 0.7 points respectively, to 4.4% and 5.2%).

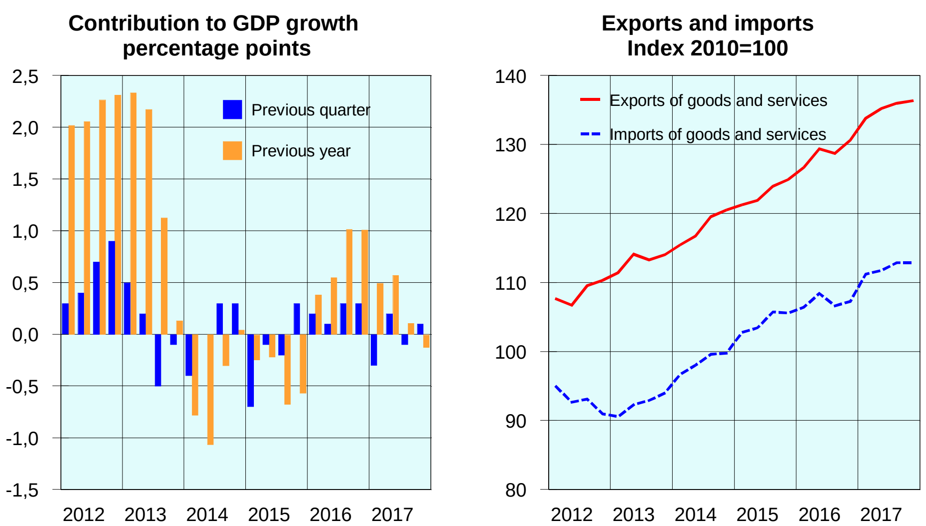
The year 2017 ended with net external demand contributing with 0.3 points to the average GDP growth, compared to the contribution of 0.7 points recorded in 2016, due to an acceleration in exports of goods and services (0.2 points, to 5%) lower than the figure registered by imports (2 points, to 4.7%). Thus, both domestic and external demand recorded positive contributions to GDP growth in 2017, for the second consecutive year.

Compared with the major economies of the European Union, the q-o-q rate of Spanish real exports (0.3%) was higher than that of the United Kingdom (-0.2%), and lower than that of Italy (2%), France (2.4%) and Germany (2.7%), while the y-o-y rate of exports from Spain (4.4%) was higher than that of the United Kingdom (1.7%) and lower than that of France (5%), Italy (6.2%) and Germany (7.4%).

Real exports of goods and services slowed down in the fourth quarter

Real exports of goods and services slowed down in the fourth quarter of 2017, in a context of a slight slowdown in the activity of the main trading partners.

G 2.5 EXTERNAL SECTOR



Source: INE.

In y-o-y terms, exports of goods and services increased by 4.4% in the fourth quarter, compared to the 5.6% rise registered in the third quarter, with increases of 5.3% in goods and of 2.3% in services, rates 0.4 and 3.3 points lower than those registered in the previous period. In q-o-q terms, exports rose by 0.3%, half the growth registered in the third quarter, due to the 0.6% rise of goods exports (1% in the third quarter) and the 0.4% fall in services exports (similar to the figure registered in the previous quarter).

In the fourth quarter of 2017, the evolution of the activity of Spain's main trading partners moderated slightly. The GDP q-o-q growth rate moderated one tenth in Germany (0.6%), Italy (0.3%), the United Kingdom (0.4%) and the European Union as a whole (0.6%), two tenths in the United States (0.6%) and half a point in Japan (0.1%), while it intensified by one tenth in France (0.6%). In the major emerging economies, a general slowdown was also observed in the fourth quarter.

Competitiveness improves slightly against the European Union

On the other hand, in the fourth quarter of 2017, the competitiveness trend index based on consumer prices against the developed countries, prepared by the Secretary of State for Trade, reported a loss of competitiveness of 3.3% y-o-y, due to a 3.8% appreciation of the nominal effective exchange rate, partially offset by the evolution of relative prices, which fell by 0.4%. Against the European Union, a competitiveness gain of 0.2% was recorded, after five consecutive quarters of losses, due to the slight fall in the nominal effective exchange rate (-0.1%) and the relative consumer prices index (-0.1%). A competitiveness loss of 4.6% was registered for the second consecutive month with regard to the BRICS countries, resulting from an appreciation of the nominal exchange rate index (5.2%), partially offset by the fall in the relative prices index (-0.6%).

Real exports of goods gain market share in 2017

In this context, the real exports of goods y-o-y growth rate in the fourth quarter of 2017 (5.3%) has been higher than that registered by the world trade of goods (4.6% according to the Central Planning Bureau of the Netherlands), resulting in a real market share gain in 2017 as a whole for the fifth consecutive year, reaching 1.91%.

According to Customs figures, deflated by unit value indices, which are more volatile than the QNA figures, the "momentum" of exports (variation in volume in the last three months compared to the previous three months) recorded a positive rate in December 2017 (2.3%), due to the positive contribution from the member countries of the European Union, which account for two thirds of the total exports.

According to Customs figures, in y-o-y terms, real exports of goods grew by 6.9% in the fourth quarter of 2017, five tenths more in comparison to the figure registered in the third quarter. By type of product, the higher dynamism of exports in volume of consumer goods stood out, both food consumer goods, which accelerated four tenths, up to 2.1%, and non-food consumer goods, which went from recording a slight decline in the previous quarter (-0.3%) to a 5.4% increase. Exports of intermediate energy goods also accelerated, almost five points, up to 35.7%. On the other hand, exports of capital goods and non-energy intermediate goods slowed down by 3.4 and 1.9 points, to 7.5% and 6.9%, respectively.

Within the non-food consumer goods group, car exports decreased by 0.2% y-o-y, after the 12.1% fall registered in the third quarter. Its contribution to the growth of total exports was null, after the negative contribution of 1.3 points registered in the previous quarter.

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

	Weight in Total	**Year-on-year change (%)**					**Contribution to growth**		
	2016	**2016**	**2017**				**2017**		
		IV	**I**	**II**	**III**	**IV**	**II**	**III**	**IV**
Total exports	**100.0**	**4.3**	**13.3**	**6.3**	**6.4**	**6.9**	**6.3**	**6.4**	**6.9**
Consumer goods	*39.7*	*3.3*	*9.5*	*-0.1*	*0.4*	*4.3*	*-0.2*	*0.1*	*1.5*
Foods	14.2	2.3	5.1	3.6	1.7	2.1	0.4	0.2	0.3
Others goods	25.4	3.8	11.9	-2.1	-0.3	5.4	-0.6	-0.1	1.2
Cars	12.6	0.8	9.3	-9.8	-12.1	-0.2	-1.1	-1.3	0.0
Capital goods	*8.9*	*-5.0*	*13.5*	*5.8*	*10.9*	*7.5*	*0.6*	*1.0*	*0.7*
Excl. heavy trans. equipment	8.7	-7.5	12.8	2.8	10.1	11.6	0.3	1.0	1.1
Intermediate goods	*51.4*	*6.6*	*16.2*	*11.3*	*10.1*	*8.9*	*5.9*	*5.4*	*4.9*
Energy	2.8	12.4	63.4	78.5	30.8	35.7	1.9	1.0	1.3
Non-energy	48.6	6.2	14.2	8.1	8.8	6.9	4.0	4.7	3.5
Total imports	**100.0**	**2.9**	**8.0**	**3.0**	**6.0**	**5.1**	**3.0**	**6.0**	**5.1**
Consumer goods	*29.5*	*6.2*	*3.0*	*0.8*	*2.5*	*3.7*	*0.2*	*0.7*	*0.9*
Foods	7.5	6.5	6.2	0.1	2.1	0.0	0.0	0.1	0.0
Others goods	22.0	6.2	2.0	1.1	2.7	5.0	0.2	0.5	0.9
Cars	6.0	5.5	2.3	-1.4	6.1	13.4	-0.1	0.3	0.6
Capital goods	*8.8*	*2.1*	*13.1*	*4.4*	*4.1*	*4.3*	*0.4*	*0.4*	*0.5*
Excl. heavy trans. equipment	8.7	2.2	9.9	1.2	4.5	4.5	0.1	0.4	0.5
Intermediate goods	*61.8*	*1.4*	*9.7*	*3.7*	*7.9*	*5.7*	*2.4*	*5.0*	*3.7*
Energy	10.8	-1.8	23.5	19.3	13.3	13.2	2.1	1.6	1.6
Non- energy	51.0	2.1	6.6	0.6	6.7	4.0	0.3	3.5	2.1

Sources: Customs and SGACPE.

Exports of goods to the European Union accelerate in the fourth quarter

According to Customs data, in the fourth quarter of 2017, exports in volume to the European Union (EU) grew by 4.9% in y-o-y terms, 1.7 points more than in the previous quarter, while those addressed to the Eurozone slowed down by half a point, down to 3.4%. The nominal sale growths to the new partners of the European Union and Portugal and the continuous moderation of those to the United Kingdom stood out. Exports to the rest of the world maintained their dynamism, recording a 10.9% increase (12.6% in the previous quarter). The breakdown by geographic destination outside the European Union reveals a significant growth of nominal sales to Argentina, China, Turkey and Russia, while those to Venezuela and sub-Saharan Africa register falls. Consequently, contributions to the total increase in exports to the EU and the rest of the world were of 3.3 and 3.7 points, respectively, in the fourth quarter of 2017, following the contributions of 2.1 and 4.3 points registered in the third quarter.

Final consumption expenditure of non-residents in the economic territory falls

According to QNA figures, the expenditure of non-resident households in the economic territory, in volume, decreased by 1.3% q-o-q in the fourth quarter of 2017, versus the 1.7% fall recorded in the previous quarter, and increased by 4.2% y-o-y, 5.9 points less than in the previous quarter. For the first quarter of 2018, the main indicators of foreign tourism, among them inbound tourists and foreign overnight stays in domestic hotels, show favourable signals, with y-o-y growth rates in January of 5.2% and 0.8% respectively.

For the fourth quarter of last year, real exports of non-tourism services grew by 0.2% q-o-q, following the 1.8% fall registered in the third quarter. In y-o-y terms, they registered an increase of 1%, 1.5 points lower than the figure recorded in the previous quarter. According to the International Trade in Services Survey published by the INE, referring to the third quarter of 2017, the services with greater contribution to the nominal growth of exports were transport (1.1 p.p.); goods transformation without transfer of ownership (1 p.p.) and intellectual property (1 p.p.); while business services (-1.5 p.p.) and maintenance and repair services (-0.2 p.p.) contributed negatively.

Real imports of goods slow down in the fourth quarter

Furthermore, goods and services imports, in real terms and according to QNA figures, remained stable in the fourth quarter of 2017 compared to the previous quarter, versus the 1% increase registered in the third quarter. By components, goods imports rose by 0.3% q-o-q and services imports fell by 1.3% in comparison to the rates of 0.6% and 2.7% of the previous quarter. In y-o-y terms, imports of goods and services grew by 5.2%, seven tenths less than in the third quarter, with imports of goods increasing by 6.2% and those of services by 1.4%.

According to Customs figures, deflated by unit value indices, the "momentum" of goods imports (change in imports of goods in volume during the last three months versus the previous three months) became negative in December (-0.4%), following the 1.7% increase recorded in September, reflecting a negative contribution of non-OECD countries, higher than the positive contribution of imports from the EU.

In y-o-y terms and according to Customs figures, imports of goods in volume, deflated by unit value indices, rose by 5.1% in the fourth quarter of 2017, nine tenths less than in the third quarter. By type of product and in volume, the positive contribution of consumer goods rose two tenths (up to 0.9 points) and that of capital goods by one tenth (0.5 points), while the positive contribution of intermediate goods imports fell 1.3 points (down to 3.7 points). Within non-food consumer goods, imports of the most important component, i.e. passenger cars, grew by 13.4% y-o-y, after the 6.1% increase registered in the third quarter.

By geographical areas, real imports of goods from the European Union and the Eurozone rose by 4.5% y-o-y, both, in the fourth quarter of 2017, 3.4 and 3.1 points more than in the previous quarter, where the increase in purchases from France and Italy and the drop in purchases from the United Kingdom should be noted in nominal terms. On the other hand, imports from the rest of the world slowed down 6.7 points, to 5.9%, and in nominal terms, the growth of purchases from Brazil, Maghreb, Turkey and the Near East are remarkable. On the other hand, those from Venezuela and, to a lesser extent, those from the United States fell sharply.

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

	Weight in Total	Year-on-year change (%)					Contribution to growth		
	2016	2016	2017				2017		
		IV	I	II	III	IV	II	III	IV
Total exports	**100.0**	**4.3**	**13.3**	**6.3**	**6.4**	**6.9**	**6.3**	**6.4**	**6.9**
EU	*66.3*	*5.9*	*11.6*	*5.9*	*3.2*	*4.9*	*3.9*	*2.1*	*3.3*
Euro-area	51.8	7.8	11.5	6.0	3.9	3.4	3.1	2.0	1.8
Non-EU	*33.7*	*1.2*	*16.9*	*7.0*	*12.6*	*10.9*	*2.4*	*4.3*	*3.7*
USA	4.5	4.5	17.9	-1.1	17.0	9.1	-0.1	0.7	0.4
Latin America	5.4	-6.4	14.9	13.4	17.0	13.8	0.7	1.0	0.8
China	2.0	18.7	37.1	19.9	18.9	27.7	0.4	0.4	0.5
Other countries (1)	10.8	0.7	9.7	2.2	14.6	8.7	0.2	1.5	1.9
Total imports	**100.0**	**2.9**	**8.0**	**3.0**	**6.0**	**5.1**	**3.0**	**6.0**	**5.1**
EU	*57.0*	*-0.3*	*9.5*	*-1.1*	*1.1*	*4.5*	*-0.6*	*0.7*	*2.6*
Euro-area	45.7	1.0	9.5	0.8	1.4	4.5	0.4	0.6	2.0
Non-EU	*43.0*	*7.7*	*5.9*	*8.9*	*12.6*	*5.9*	*3.6*	*5.4*	*2.5*
USA	4.8	28.1	2.9	-1.8	26.7	-9.4	-0.1	1.3	-0.6
Latin America	5.1	9.2	34.1	10.0	9.6	16.2	0.5	0.5	0.8
China	8.7	2.6	-10.7	4.1	7.1	2.8	0.3	0.7	0.2
Other countries (1)	10.1	4.1	7.3	7.3	6.8	11.1	0.7	0.6	1.0

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

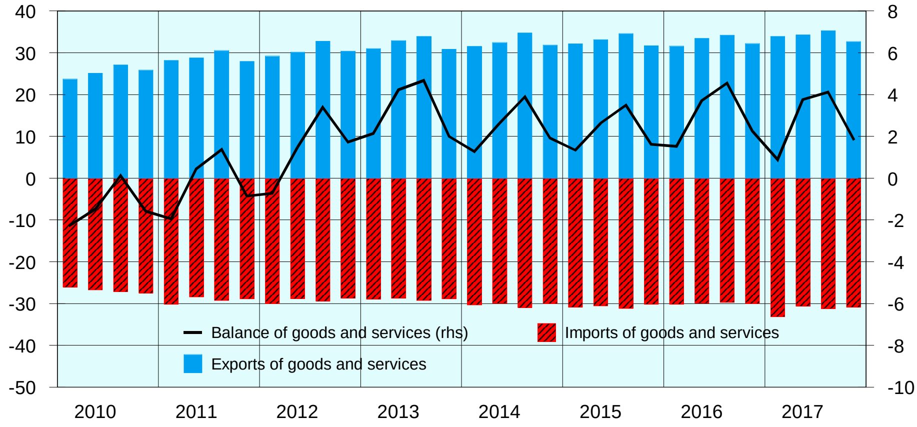
Tourism services imports accelerate

According to QNA figures, in the fourth quarter of 2017, real spending of households resident abroad rose by 3.5% q-o-q, following the 1.9% rise observed in the third quarter. On the other hand, imports of non-tourism services fell by 3% q-o-q, following the 3% rise registered in the previous quarter. According to the latest data released by the INE, the services with the highest positive contribution to this rate were business services (1.8%) and insurances and pensions (1.6%).

The surplus of the balance of goods and services moderates

In the fourth quarter of 2017, the surplus of the goods and services balance, in terms of QNA data, calculated with nominal unadjusted data, stood at 1.9% of quarterly GDP, four tenths less than in the same period of the previous year, due to the higher deficit of goods (-1.9% of GDP compared to the -1.7% registered a year earlier), and to the decrease in the surplus of services (3.8% of GDP, two tenths lower than in the same period of 2016). Within the services sector, both the tourism net revenue surplus and the tourism services decreased their weight on GDP by one tenth in comparison to the fourth quarter of 2016, down to 1.8% and 2% of GDP, respectively.

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



Source: INE.

2.3. - Productive activity

Higher activity dynamism in industry and construction

From the supply point of view, the acceleration of activity in the industrial sector and in construction stands out. Thus, with calendar and seasonally adjusted data and in y-o-y terms, the Gross Value Added (GVA) of the industrial sector accelerated seven tenths in the fourth quarter of 2017, up to 4.6%, and the GVA of the construction sector rose half a point, up to 5.4%. On the other hand, the GVA of the services sector increased by 2.5%, as in the previous quarter, and that of agriculture, farming, forestry and fishing recorded a 2% growth, 2.2 points lower than the figure recorded in the third trimester.

Table 2.5 **Employment and productivity**

Year-on-year change (%)

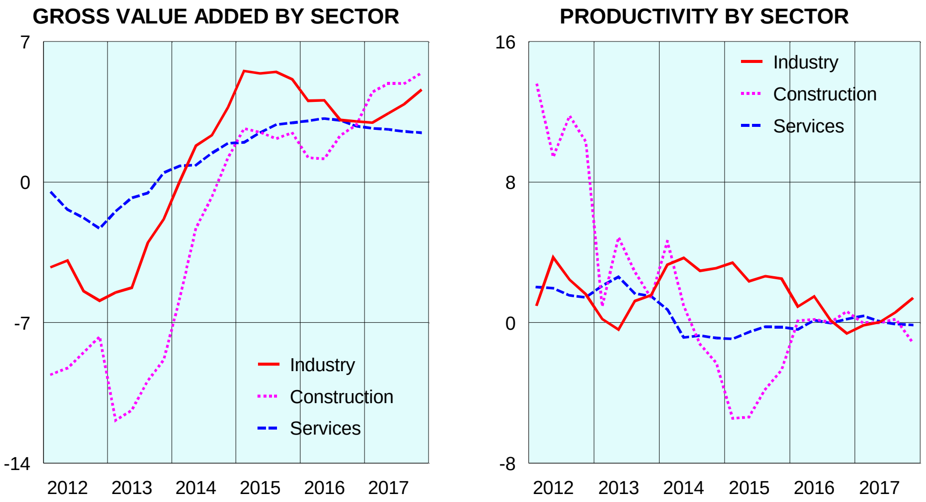
				2016		2017			
	2015	**2016**	**2017**	**III**	**IV**	**I**	**II**	**III**	**IV**
EMPLOYMENT (1)									
Agriculture (2)	1.2	3.8	3.7	3.6	3.3	4.5	5.0	3.4	2.0
Industry total	2.6	3.1	3.2	3.0	3.7	3.1	3.4	3.3	3.2
Manufacturing	2.8	3.3	3.3	3.1	3.8	3.1	3.4	3.3	3.3
Construction	7.1	1.6	5.2	2.3	2.2	4.5	4.9	4.7	6.6
Services	3.1	3.0	2.5	3.1	2.6	2.3	2.5	2.6	2.6
Total	**3.2**	**3.0**	**2.8**	**3.1**	**2.7**	**2.6**	**2.9**	**2.9**	**2.9**
PRODUCTIVITY (3)									
Agriculture (2)	-3.6	3.0	0.0	3.7	1.9	0.4	-1.3	0.8	0.0
Industry total	2.7	0.5	0.5	0.1	-0.6	-0.2	0.0	0.6	1.4
Manufacturing	4.8	0.2	0.5	-0.3	-1.4	-0.5	0.1	1.0	1.4
Construction	-4.3	0.2	-0.2	0.0	0.6	0.0	0.0	0.2	-1.1
Services	-0.5	0.0	0.1	0.0	0.2	0.4	0.1	-0.1	-0.1
GDP per employee	**0.3**	**0.3**	**0.2**	**0.1**	**0.2**	**0.4**	**0.2**	**0.2**	**0.2**

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

In q-o-q terms, the most favourable evolution of the GVA in the period between October and December 2017 corresponded to the industry sector (1.8%, a rate 1.2 points higher in comparison to the figure recorded in the previous quarter), followed by the construction sector, whose GVA accelerated four tenths, up to 1.5%. In the services sector, the GVA moderated its growth rate by three tenths, to 0.4%, while in the primary sector it went from growing by 1.1% in the third quarter of 2017 to decrease by the same amount in the fourth quarter.

The greater dynamism of the activity in 2017 as a whole corresponded to the construction sector, whose GVA registered an acceleration of three points, up to 4.9%, followed by the industry sector, which registered a 3.7% growth, one tenth higher than in 2016. On the other hand, a slowdown is observed in the GVA of agriculture, farming, forestry and fishing and the services sector, by 3.2 and 0.4 points, respectively, down to 3.7% and 2.6%.

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



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

The expansionary trend of the industrial production index moderates in January

From the supply point of view, amongst the industrial activity indicators, the Industrial Production Index (IPI), with seasonal and calendar adjusted data, rose by 1.2% in January, a rate 4.6 points lower compared to the figure registered in the previous month, after recording the second highest rate in December 2017 since May 2000. By destination groups, the lower IPI y-o-y dynamism is mainly explained by the 5.9% fall in the energy component, after the 8.6% increase registered in the previous month, and, to a lesser extent, by the slowdown of equipment and intermediate goods, 6 and 1.1 points, respectively, to 4.8% and 4.3%. On the other hand, consumer goods maintained the y-o-y growth rate unchanged at 1.1%.

Amongst the industrial activity indicators, the continuation of the expansionary trend in December of last year experienced by the Industry New Orders Index (INOI) and the Industry Turnover Index (ITI) stands out, as they ended 2017 with the highest growth rates in the last eleven years. Thus, the Industry Turnover Index (ITI), with calendar adjusted data, registered a y-o-y increase of 9.2% in December, 1.7 points higher than in the previous month, as a result of the greater dynamism of most of its components, with the exception of energy, which slowed down 5.8 points, to 8.8%. The sharp growth recorded by equipment goods stood out, as it reached

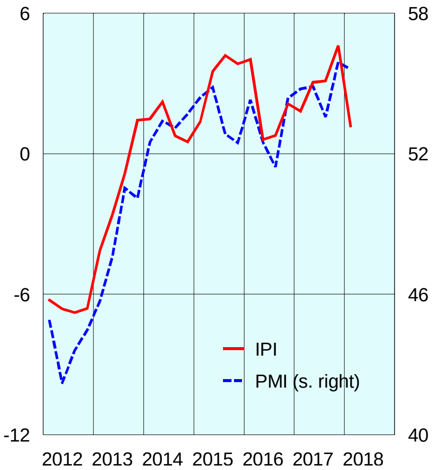
13.7%, more than double that of November (6.4%), followed by intermediate and consumer goods, which increased by 11.4% and 3.7%, respectively, nine and three tenths more than in November. On the other hand, the Industry New Orders Index (INOI), with calendar adjusted data, moderated the growth rate 2.3 points in December, to 6.7% y-o-y. Among its components, equipment and energy goods slowed down by 8.8 and 6.4 points, to 0.2% and 8.6%, respectively, while intermediate goods registered a rate of 14.9%, 3.1 points higher in comparison to the figure registered in November, and consumer goods rose by 5.2%, seven tenths more than in the previous month.

Among the qualitative indicators, the manufacturing PMI registered an eight tenth rise in February compared to the previous month, reaching the level 56, due to the higher expansionary rate of both production and new orders, which in turn resulted in a strong growth in employment and buying activity. On the other hand, the industrial confidence indicator, published by the European Commission fell 1.8 points in February 2018 compared to the previous month, reaching 2.4, as a result of the worsening of the production expectations and stock of finished products components, partially offset by the improvement of the order portfolio component.

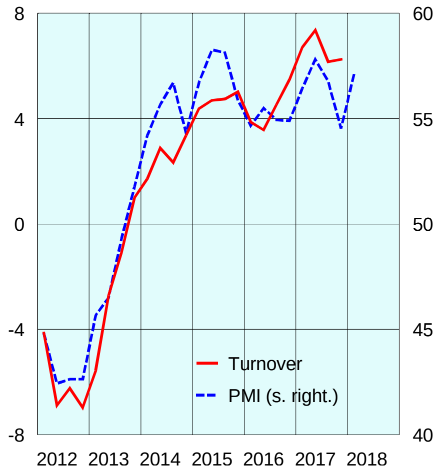
The Production Index in the Construction Industry falls in 2017…

With regards to the construction sector, the Production Index in the Construction Industry (PICI) in Spain, published by Eurostat, with deflated and calendar adjusted data, experienced a 13.4% y-o-y decrease in December last year, compared to the 0.9% increase recorded in the previous month. The PICI contractionary trend is explained by the evolution of the building component, whose y-o-y rate reached -10.6% (0.8% in November), and, to a greater extent, by the civil works component, which fell by 25.5%, after the 2.6% increase registered in the previous month. Thus, 2017 ended with an annual average drop of the PICI of 1.7%, compared to the 5.1% increase registered in 2016, due to the decrease 1.9% recorded by the building component, after the 3.4% increase registered in the previous year, and the moderation in the rate of progress of the civil works component, of 13.7 points, up to 0.5%.

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



G 2.9 SERVICES ACTIVITY INDICATORS
y-o-y growth rate in % and index



Sources: INE and Markit Group.

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

INDICATORS	2016	2017	2017 I	2017 II	2017 III	2017 IV	2018 I(1)	Latest data
Composite Activity Indicator (2)	3.1	3.2	3.2	3.2	3.2	3.1	-	Q.IV.17
Electric power consumption (3)	0.1	1.7	1.8	1.4	0.5	3.2	0.7	Feb.18
Non energy imports (vol.)	4.3	3.9	5.9	1.0	5.1	4.0	-	Dec.17
Economic Sentiment Indicator (90-17=100)	106.0	108.6	107.3	108.1	108.7	110.1	110.6	Feb.18
Large Firms Sales (4)	2.5	4.0	4.1	4.0	4.1	3.7	-	Dec.17
Large Firms Sales. Domestic (4)	2.5	2.9	2.4	3.2	2.9	3.2	-	Dec.17
Industry								
Composite Industry Indicador (2)	2.1	3.9	3.5	3.7	4.2	4.3	-	Q.IV.17
IPI calendar adjusted	1.8	3.2	1.8	2.9	2.8	5.2	0.7	Jan.18
Large Firms Sales. Industry (4)	2.5	4.0	2.3	3.6	4.4	5.5	-	Dec.17
Industry goods Exports (vol.)	6.0	5.3	11.9	0.6	2.8	6.3	-	Dec.17
Employment (LFS)	1.6	5.0	3.6	5.6	5.5	5.1	-	Q.IV.17
Social Security covered workers (5)	2.8	3.1	3.0	3.1	3.1	3.2	3.3	Feb.18
Industry confidence indicator (balances)	-2.3	1.0	0.3	-0.5	-0.1	4.3	3.3	Feb.18
Industry capacity utilization %	78.6	78.7	78.8	78.1	78.7	79.1	79.7	Q.I.18
Construction								
Composite Construction Indicator (2)	1.2	2.7	0.6	3.3	3.6	3.4	-	Q.IV.17
Production in Construction Index (ca)	5.1	-1.7	-3.1	-0.7	3.8	-5.8	-	Dec.17
Large Firms Sales.Construction (4)	-4.4	1.7	-3.1	5.0	2.3	2.2	-	Dec.17
Employment (LFS)	0.0	5.1	4.8	5.2	4.3	6.0	-	Q.IV.17
Social Security covered workers (5)	2.6	6.2	5.3	6.1	6.1	7.1	7.4	Feb.18
Official bidding (at current prices)	-4.3	38.0	-6.4	16.1	35.5	108.0	-	Dec.17
Floorage approvals: total	20.1	21.8	13.8	24.2	25.2	24.5	-	Dec.17
Floorage approvals: housing	29.0	24.8	16.9	29.3	28.9	24.8	-	Dec.17
Construction confidence indicator (balances)	-39.6	-26.9	-43.7	-24.7	-23.5	-15.7	-3.9	Feb.18
Mortgages. Amount borrowed	9.6	13.2	14.1	10.2	15.0	13.8	-	Dec.17
Housing Prices	4.7	6.2	5.3	5.6	6.6	7.2	-	Q.IV.17
Services								
Composite Services Indicator (2)	3.9	3.9	4.1	4.0	3.8	3.6	-	Q.IV.17
Large Firms Sales. Services (4)	2.9	4.0	4.1	4.2	4.0	3.7	-	Dec.17
Railway passengers	4.1	3.0	3.2	4.7	1.8	2.5	4.9	Jan.18
Railway traffic goods (Tm per km)	-7.3	0.7	5.5	0.1	-1.4	-1.4	-2.1	Jan.18
Air traffic passengers	11.0	8.3	6.4	11.1	7.2	8.0	8.8	Jan.18
Hotel overnight stays	7.4	2.7	-2.3	8.8	1.4	1.4	1.3	Jan.18
Foreign tourists	10.1	8.6	9.3	12.9	8.2	2.8	5.2	Jan.18
Employment (LFS)	2.9	1.9	1.4	1.7	2.1	2.1	-	Q.IV.17
Social Security covered workers (5)	3.2	3.6	3.4	3.8	3.6	3.6	3.5	Feb.18
Services confidence indicator (balances)	17.8	22.5	19.2	23.3	25.2	22.3	22.0	Feb.18
Retail trade confidence indicator (balances)	12.4	11.0	11.3	11.5	10.9	10.4	12.2	Feb.18

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

...while the sector leading indicators intensify the growth pace

Among the activity leading indicators in the sector, floorage approvals in new construction, according to construction new permits, recorded a y-o-y increase of 7.9% in December, 2.1 points less versus the figure registered in the previous month (10%), as a result of the setback experienced by the non-residential component, of 13.6%, versus the 0.3% growth registered in the previous month, partially offset by the acceleration of the residential component (15.3%, in comparison to the 13% recorded in November). In 2017 as a whole, the building surface in new construction ended with an average annual increase of 21.8%, higher than the figure recorded in 2016 (20.1%), due to the rebound of the non-residential component, which registered a rate of 12.1%, compared to the 2% fall recorded in the previous year, while the residential component slowed down 4.2 points, although it continued to grow sharply (24.8%).

In parallel, the official tenders continued to grow strongly in December last year, registering a y-o-y rate of 116.5%, higher than that recorded in the previous month (98.7%), due to the evolution of the civil works component, which intensified the growth rate by 19.2 points, up to 122.8%, and the construction component, which increased by 101.9%, compared to the 90.2% rise registered in November. In 2017 as a whole, the official tenders increased by 38% on average, after the 4.3% decrease registered in the previous year, with a 46.9% increase corresponding to building and 33.8% to civil works (compared to the rates of 5.8% and -8.4% recorded in 2016).

On the other hand, among the most recent qualitative indicators, the confidence in construction, according to the European Commission indicator, edged downwards by 1.7 points in February compared to the previous month, registering a balance of -4.7 points, due to the decline in the order portfolio component, partially offset by the improvement of expectations related to employment. However, the level of the sector confidence indicator is the second largest since November 2007.

The services sector dynamism continues…

With regards to the services sector, the available short-term indicators show favourable signs. The Services Sector Turnover Index (SSTI), with work calendar adjusted data, slowed down by 1.5 points in December, to 6.3% y-o-y, due to the trade evolution, which moderated the growth rate by two points, to 6.2%, and, to a lesser extent, to the other services evolution, whose 6.3% growth was seven tenths lower compared to the figure registered in November. 2017 ended with an average annual increase of 6.6% in the SSTI, 2.2 points higher than in 2016 (4.4%) and the highest since 2006 (7.2%).

Amongst the most recent qualitative indicators related to the services sector, the confidence indicator in the sector, published by the European Commission, registered a 3.7 points rise in February, reaching a level of 23.8, and the services PMI indicator corresponding to the same month reached 57.3, four tenths higher than the figure registered in January.

Tourism extends the expansionary trend in January

The indicators related to the tourism sector start 2018 extending the favourable results achieved at the end of last year. Thus, the arrival of over 4 million international tourists to Spain in January stands out, a figure that represents a y-o-y increase of 5.2% in comparison to the slight decline, of 0.2%, recorded in the previous month. The total expenditure by tourists who visited Spain in that month reached € 4.5 billion, which implies a y-o-y increase of 5.6%, after the slight increase recorded in the previous month (0.1%), which resulted in a growth of the average expenditure per tourist of 0.3%, standing at € 1,095. By issuing market, the most important one in January, with regards to the number of tourists received and contribution to the tourism spending was the United Kingdom.

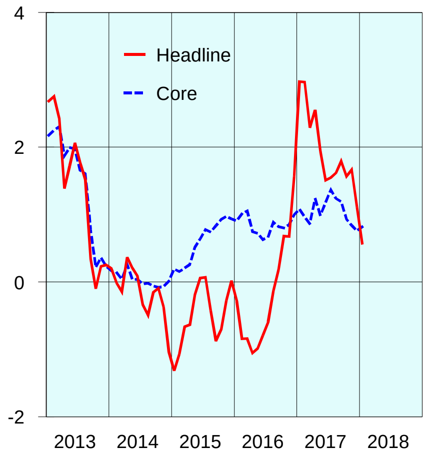
On the other hand, overnight stays in hotels increased by 1.3% y-o-y in January, three tenths more than in the previous month, due to the greater dynamism of foreign overnight stays, whose stays rose by 0.8%, compared to the 2.5% decrease registered in the previous month, partially offset by the slowdown of domestic overnight stays, of 3.8 points, to 2.3%. Likewise, air passenger traffic continued registering a high growth in the same month (8.8% y-o-y), although it was one tenth lower in comparison to December 2017, as a result of the lower dynamism of domestic traffic, which increased by 15.5% , half a point less than in the previous month, while the international traffic component accelerated two tenths, up to 5.6%.

3. - PRICES

Inflation moderates half a point in January, down to 0.6%

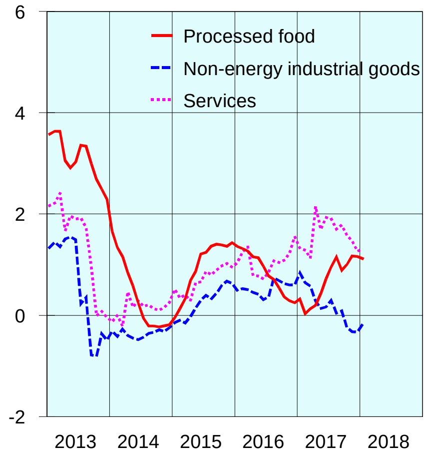
The Consumer Price Index (CPI) y-o-y variation rate moderated by half a point in January 2018, standing at 0.6%, due to the fall in energy products prices, after the rise registered in the previous month and, to a lesser extent, to the slowdown in food prices, partially offset by the lower fall in non-energy industrial goods (BINE) prices, while the services prices growth rate remained stable.

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



Source: INE.

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



Source: INE.

Energy products prices fall by 1.7%

Energy products prices fell by 1.7% y-o-y in January, after increasing by 2.6% in December, mainly due to the higher fall in electricity prices, which went from registering a rate of -0.2% y-o-y in December to -13% in January, and, to a lesser extent, to the half a point slowdown of fuels and lubricants prices, down to 2.5%. For its part, gas prices intensified the growth rate by 1.4 points, up to 8.2%.

Table 3.1 **Main price indicators**

	Annual average			Year-on-year change in %					
				2017					2018
	15	**16**	**17**(1)	**Jan.**	**Mar.**	**Jun.**	**Sep.**	**Dec.**	**Jan.**
CPI: Total	-0.5	-0.2	2.0	3.0	2.3	1.5	1.8	1.1	0.6
Core inflation (2)	0.6	0.8	1.1	1.1	0.9	1.2	1.2	0.8	0.8
CPI excl. food and energy	0.5	0.8	1.1	1.2	1.0	1.3	1.3	0.7	0.8
CPI excl. energy	0.7	0.9	1.2	1.2	1.1	1.2	1.3	0.9	0.9
CPI food	1.2	1.3	1.3	1.1	1.4	0.9	1.3	1.7	1.3
- Non-processed	1.8	2.3	2.6	2.7	4.3	1.4	2.2	2.8	1.6
- Processed	0.9	0.8	0.7	0.3	0.1	0.7	0.9	1.2	1.1
CPI excl. food	-1.0	-0.6	2.1	3.5	2.5	1.7	1.9	0.9	0.4
- Industrial goods	-2.7	-2.4	2.5	5.8	3.8	1.2	1.8	0.6	-0.7
- Energy	-9.0	-8.6	8.0	17.5	11.7	3.7	5.8	2.6	-1.7
- Non-energy industrial goods	0.3	0.5	0.2	0.8	0.6	0.2	0.1	-0.3	-0.2
- Total services	0.7	1.1	1.6	1.3	1.1	1.9	1.8	1.3	1.3
CPI manufactured goods (3)	0.5	0.6	0.4	0.6	0.4	0.4	0.4	0.2	0.3
Industrial Producer Prices: Total	-2.1	-3.1	4.4	7.5	5.8	3.2	3.5	1.7	0.1
Energy	-8.8	-10.8	10.4	26.6	14.7	5.6	6.5	1.1	-4.3
Non-energy IPP	0.3	-0.4	2.3	1.8	2.8	2.2	2.4	1.9	1.6
Consumer goods	1.1	0.2	1.9	1.4	2.1	2.1	2.0	1.1	0.8
- Durable	0.2	1.2	0.1	0.3	0.3	0.0	0.1	0.2	0.7
- Non-durable	1.2	0.2	2.0	1.5	2.3	2.3	2.2	1.1	0.8
- Food	1.3	-0.1	2.5	1.8	2.8	3.0	2.6	1.3	0.8
- Non-food	0.7	0.8	0.8	0.8	0.9	0.7	0.9	0.7	0.9
Capital goods	0.8	0.6	0.9	0.8	1.2	1.0	0.9	0.8	0.7
Intermediate goods	-0.7	-1.5	3.4	2.6	4.4	2.8	3.5	3.4	2.8
Unit Value Indices (UVI): Imports	-2.5	-3.1	4.7	7.0	11.4	2.1	4.4	2.0	-
- Consumer goods	7.0	1.4	3.2	0.6	4.7	4.0	3.9	2.2	-
- Consumer food	4.2	-0.9	4.5	3.7	3.5	6.1	5.2	1.6	-
Exports	0.6	-1.7	0.7	0.8	1.5	-1.6	2.6	1.2	-
Prices received by farmers (4)	6.4	-3.3	7.9	15.4	7.7	4.4	7.1	-	-
GDP Deflator	0.6	0.3	1.0	..	0.7	0.9	1.0	1.2	..
Private Consumption Deflator	-0.1	-0.1	1.8	..	2.2	1.9	1.5	1.4	..

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

Non-processed food prices moderated the growth rate by 1.2 points, to 1.6%, mainly due to the fall in the fresh vegetables and legumes prices, of 3%, after the 3.3% increase registered in the previous month.

Core inflation remains at 0.8%

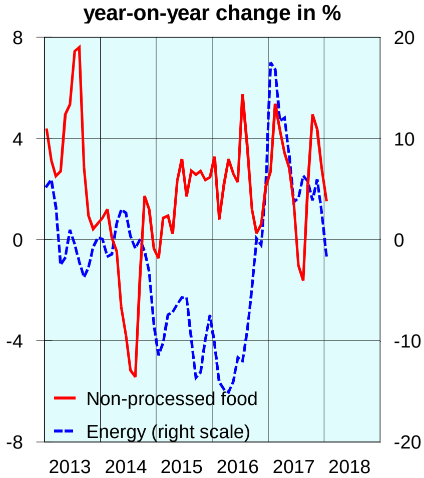
Core inflation, which excludes the most volatile elements from the CPI (non-processed food and energy), remained at 0.8% y-o-y in January for the third consecutive month, standing above general inflation for the first time since November 2016.

BINE prices decreased by 0.2% y-o-y in January, one tenth less than in the previous month. The prices of personal computers stood out in this evolution, which moderated the rate of decline by 2.3 points, to 3.2%.

The y-o-y variation rate of services prices remains at 1.3%. By components, it is important to note the fall rate intensification in tourist packages prices, by seven tenths, down to 1.9% and, in the opposite direction, the telephone and fax services price acceleration, by seven tenths up to 2.1% y-o-y.

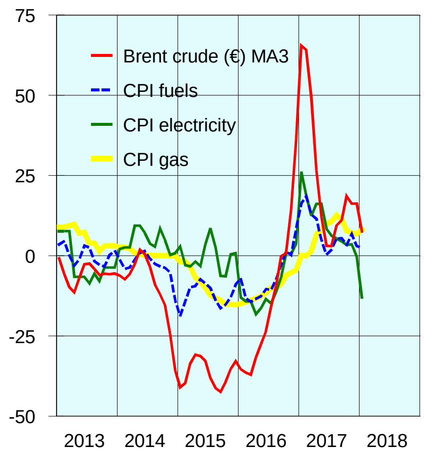
For its part, processed food, beverages and tobacco prices increased by 1.1% in January, one tenth less than in December, due to the lower growth rate of tobacco prices (1% in January, compared to the 2.1% registered in the previous month), an evolution which in turn is explained by the m-o-m rebound recorded in the same month of 2017.

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



Source: INE.

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



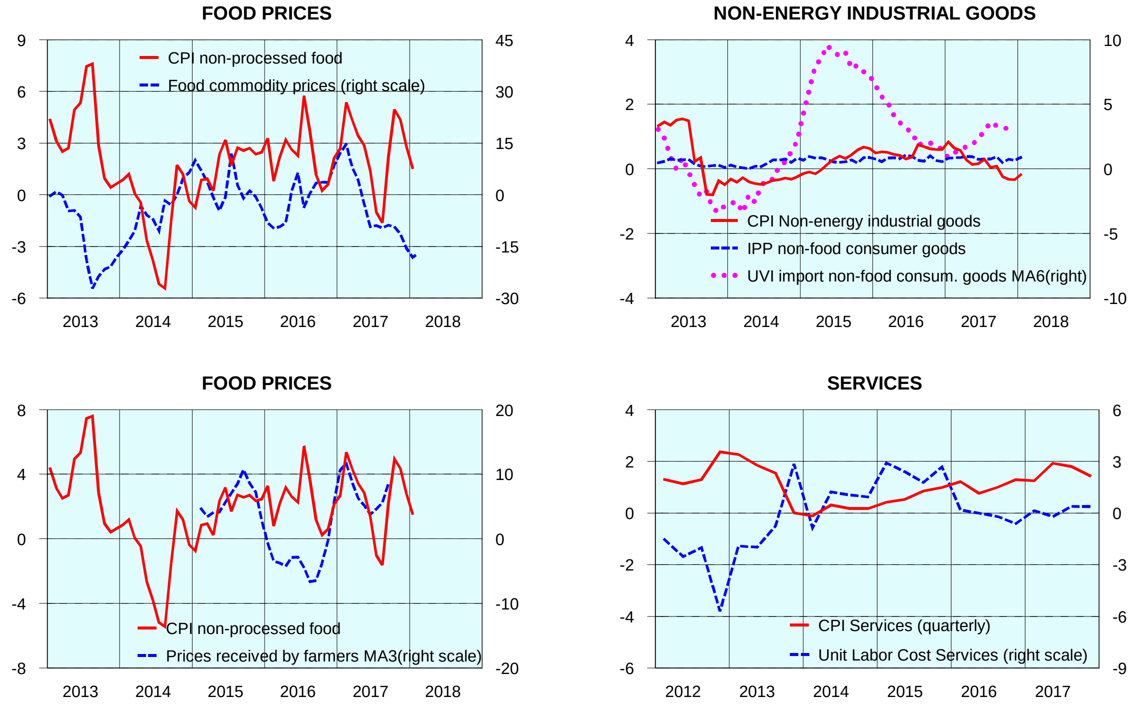
Sources: INE and Reuters.

According to the CPI flash estimate, inflation reached 1.1% in February

According to the flash estimate published by the INE, the y-o-y rate of the national CPI stood at 1.1% in February, a rate half a point higher than the figure registered in January. According to the INE, in this behaviour the rise in electricity prices stands out, versus the fall registered in the same month of last year.

G. 3.5 COMPONENTS AND MAIN LEADING INDICATORS

Year-on-year change in %



Sources: INE, MAPM, Customs and SGACPE.

The harmonised inflation, estimated by the Spanish HICP flash estimate, stood at 1.2% y-o-y in February, a rate half a point higher than that registered in January, while the Eurozone's HICP flash estimate, published by the Eurostat, recorded a y-o-y increase of 1.2% in February, one tenth lower when compared to January. If February final figures confirm the estimates, Spain's inflation differential against the Eurozone would be null, versus the favourable differential of six tenths registered in January.

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

	2015	2016	2017(2)	2017 Jan.	2017 Mar.	2017 Jun.	2017 Sep.	2017 Dec.	2018 Jan.
Eurozone	-0.6	-0.5	0.5	1.1	0.6	0.3	0.3	-0.2	-0.6
Core inflation	-0.4	-0.1	0.0	0.2	-0.1	0.1	-0.1	-0.2	-0.2
- Proc. food.	0.4	0.1	-1.1	-0.7	-1.2	-1.1	-1.2	-1.0	-1.3
- Non-energy industrial goods	-0.2	-0.1	-0.2	0.2	-0.2	-0.2	-0.8	-0.5	-0.4
- Services	-0.7	-0.2	0.3	0.0	0.1	0.6	0.6	0.1	0.2
Non-proc. food.	-0.1	0.6	0.0	-1.3	0.1	0.4	0.3	0.3	0.3
Energy	-2.2	-3.5	3.1	9.3	4.3	1.8	1.9	-0.4	-3.9
EU	-0.6	-0.6	0.3	1.2	0.5	0.1	0.0	-0.5	-0.9
OECD	-1.2	-1.4	-0.3	0.5	-0.2	-0.4	-0.6	-1.1	-
USA	-0.7	-1.6	-0.1	0.4	-0.3	0.0	-0.4	-0.9	-1.4

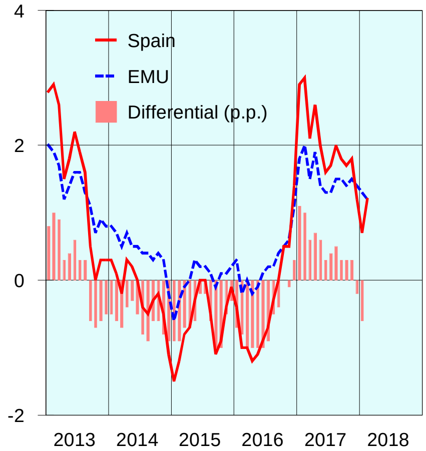
(1) Differences in percentage points between the annual variation in the CPI for Spain and other areas or countries. For Spain and the EU countries, these rates have been calculated with harmonised price indices.
(2) Average of the period available data.
Sources: Eurostat and OECD.

The PPI y-o-y rate stands at 0.1% in January

The Producer Price Index (PPI) registered a 0.2% rise in January 2018, in comparison to the previous month, versus the 1.9% recorded in January 2017.

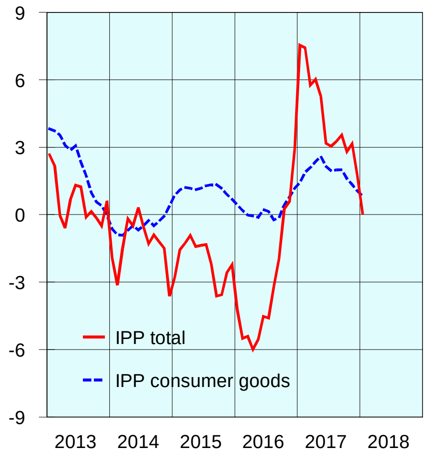
In y-o-y terms, the PPI variation rate stood at 0.1%, a rate 1.6 points lower when compared to the figure registered in December. This was due to the fall in energy prices, after the increase recorded in the previous month, and, to a lesser extent, to the slowdown of the other components.

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



Feb 2018 data are provisional.
Sources: INE and Eurostat.

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



Source: INE.

Energy production prices fell by 4.3% y-o-y in January, compared to the 1.1% increase registered in the previous month. This evolution is mainly explained by the production, transport and distribution of the electricity component, whose prices intensified the rate of decline by almost ten points, down to 11.6%, which is largely explained by the base effect associated with the strong m-o-m rebound recorded a year earlier (7.6% m-o-m in January 2017, compared to the 3.1% drop registered in January this year).

The non-energy PPI slowed down three tenths in January, to 1.6% y-o-y, mainly due to intermediate goods prices, which moderated the growth rate by six tenths, to 2.8%. In this evolution, metallurgy should be noted (8% y-o-y, compared to the 11.5% recorded in the previous month).

Consumer goods production prices grew by 0.8% y-o-y in January, three tenths less than in December, as a result of the evolution of the prices of non-durable consumer goods prices, which increased by 0.8% y-o-y, three tenths less than in the previous month, while durable consumer goods prices accelerated half a point, up to 0.7% y-o-y.

Equipment goods prices grew by 0.7% y-o-y in January, one tenth less than in December.

4. - LABOUR MARKET

In the fourth quarter of 2017, labour market statistics point to an extension of the employment creation dynamism, according to the Labour Force Survey (LFS) data, as well as in the available period of the first quarter of 2018, according to the figures of Social Security covered workers. Compensation per employee remains virtually stable, although compensation per hour worked by employees shows a sustained growth. For its part, the average wage variation agreed in collective bargaining for 2018, with information up to the end of February this year, stood at 1.5%.

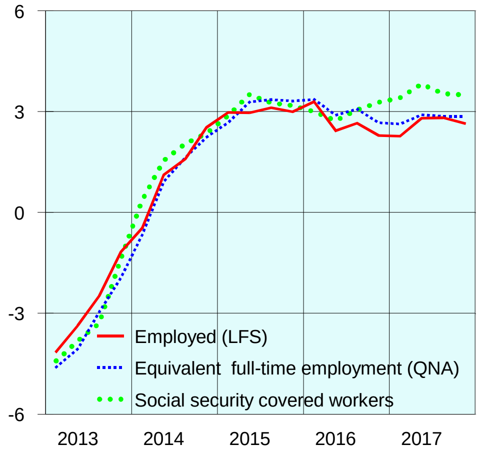
Employment increases by 2.6% y-o-y in the fourth quarter of 2017

According to the LFS data, published by the INE, the number of employed people decreased by 50,800 in the fourth quarter of 2017 (-19,400 in the same quarter of 2016). The employed population amounted to 18,998,400 people. With seasonally adjusted data, the number of employed people increased by 0.4% q-o-q, three tenths less than in the previous quarter. In y-o-y terms, employment increased by 490,300 people, 2.6%, a rate two tenths lower in comparison to the one registered in the previous quarter. The employment rate fell two tenths in the quarter, reaching 49.1%, 1.1 points higher than that recorded one year earlier.

For its part, according to Quarterly National Accounts figures, full-time equivalent employment, with seasonally and calendar adjusted data, slowed down by three tenths in q-o-q terms, to 0.5%, the y-o-y rate remaining at 2.9% for the third consecutive quarter.

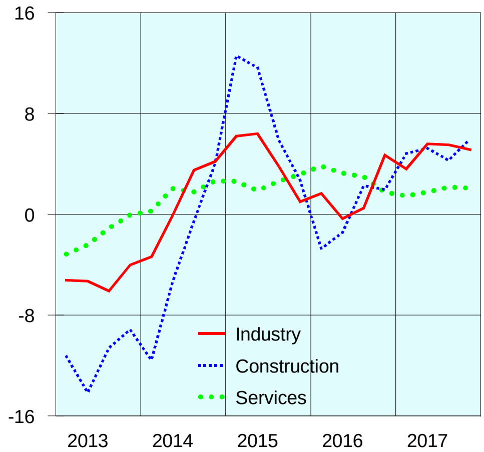
With regard to the information published by the Ministry of Employment and Social Security, the number of Social Security covered workers, with seasonally adjusted data, rose by 0.8% q-o-q in the fourth quarter of 2017, two tenths more than in the previous period. In y-o-y terms, and with unadjusted data, the number of Social Security covered workers increased by 3.5% in the fourth quarter, as in the previous quarter.

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



Sources: INE (LFS and QNA) and MESS.

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



Source: INE (LFS).

Table 4.1 **Summary of employment market indicators**

	Latest figures (1)		**Year on year change in%**					
	Thousands	**Annual Δ**	**2016-III**	**2016-IV**	**2017-I**	**2017-II**	**2017-III**	**2017-IV**
Labour Force Survey								
In work	22765.0	19.1	-0.2	-0.6	-0.6	-0.6	-0.3	0.1
- Men	12159.8	-7.1	-0.9	-0.7	-0.7	-0.5	-0.1	-0.1
- Women	10605.2	26.3	0.6	-0.4	-0.4	-0.8	-0.5	0.2
Rate of employment (2)(*)	58.8	-	-0.2	-0.5	-0.5	-0.6	-0.4	-0.2
- Men	64.6	-	-0.6	-0.6	-0.6	-0.5	-0.2	-0.2
- Women	53.3	-	0.2	-0.4	-0.4	-0.6	-0.5	-0.1
In work	18998.4	490.3	2.7	2.3	2.3	2.8	2.8	2.6
- Non-agricultural sector	18177.7	486.4	2.6	2.2	2.0	2.5	2.7	2.7
- Industry	2711.3	132.2	0.5	4.7	3.6	5.6	5.5	5.1
- Construction	1143.7	64.4	2.3	2.0	4.8	5.2	4.3	6.0
- Services	14322.7	289.8	3.0	1.7	1.4	1.7	2.1	2.1
- Men	10339.2	267.3	2.2	2.1	2.0	2.9	3.0	2.7
- Women	8659.1	222.9	3.2	2.5	2.5	2.7	2.5	2.6
- Foreign nationals	2125.6	117.3	3.8	3.1	4.6	4.5	4.9	5.8
- Full time	16193.0	517.9	3.5	2.8	2.4	2.9	3.1	3.3
- Part time	2805.4	-27.6	-1.9	-0.4	1.5	2.5	1.1	-1.0
Rate of part-time employment (3)(*)	14.8	-	-0.7	-0.4	-0.1	-0.1	-0.2	-0.5
Wage earners	15922.6	537.2	3.0	2.6	2.7	3.3	3.3	3.5
- Private Sector	12847.8	448.5	3.7	3.4	3.8	4.0	3.6	3.6
- Public Sector	3074.7	88.6	0.6	-0.5	-1.5	0.3	1.9	3.0
- On a permanent contract	11670.4	357.9	1.9	1.5	1.7	1.8	2.7	3.2
- On a temporary contract	4252.2	179.3	6.2	5.9	5.6	7.7	4.9	4.4
Rate of workers on temporary contracts (4)(*)	26.7	-	0.8	0.8	0.7	1.1	0.4	0.2
Self-employed	3075.8	-46.9	0.7	0.6	0.1	0.3	0.6	-1.5
Unemployed	3766.7	-471.1	-10.9	-11.3	-11.2	-14.4	-13.6	-11.1
- Men	1820.6	-274.5	-13.4	-12.3	-12.1	-15.5	-15.0	-13.1
- Women	1946.0	-196.7	-8.4	-10.4	-10.3	-13.4	-12.3	-9.2
- Under the age of 25	558.2	-55.7	-15.6	-10.7	-11.7	-15.7	-10.5	-9.1
- Having no previous job	399.3	-30.5	-16.9	-8.3	-6.3	-12.5	-9.7	-7.1
Rate of unemployment (5)(*)	16.5	-	-2.3	-2.3	-2.2	-2.8	-2.5	-2.1
- Men	15.0	-	-2.5	-2.3	-2.2	-2.8	-2.6	-2.2
- Women	18.3	-	-2.0	-2.3	-2.3	-2.8	-2.5	-1.9
- Young people (aged 16-24)	37.5	-	-4.6	-3.3	-4.8	-7.0	-6.0	-5.4
MEMBERSHIP OF THE S.S. (6)								
Total no. workers covered	18363.5	615.3	3.0	3.3	3.4	3.8	3.5	3.5
Wage earners	15139.3	587.0	3.5	3.8	4.0	4.4	4.1	4.1
Self-employed	3224.2	28.2	0.9	0.9	0.9	0.9	0.7	0.5
- Foreign nationals	1836.2	133.9	5.1	5.5	5.6	7.2	7.1	7.3
EMPLOYMENT OFFICES								
Registered unemployment	3470.2	-280.6	-9.1	-9.4	-9.6	-10.9	-8.8	-8.0
Registered contracts	1546.4	93.9	6.9	7.1	12.5	9.8	5.5	3.6
- Permanent (7)(*)	11.3	-	0.6	0.5	0.3	0.0	0.4	0.8
- Part time (7)(*)	34.2	-	0.6	0.3	-0.9	-0.4	-0.7	0.4

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

Job creation extends to all major branches of activity

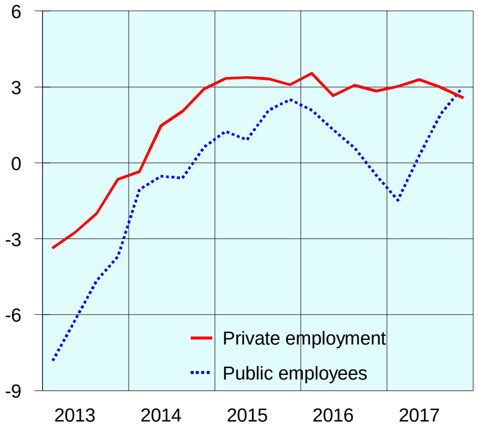
According to LFS figures, and in y-o-y terms, the rise in employment affected all sectors, particularly services, where it increased by 289,800 people (2.1% y-o-y), followed by industry, with 132,200 more (5.1%), construction with 64,400 (6%) and agriculture with 4,000 employed people more (0.5%).

Two thirds of the new jobs created were open-ended contracts

Focusing on the professional status of workers, employees rose by 537,200 in comparison to a year earlier, registering a y-o-y variation rate of 3.5%, a figure two tenths higher to that registered in the previous quarter, and the number of self-employed workers fell by 46,900, by 1.5%, compared to the 0.6% increase in the previous quarter.

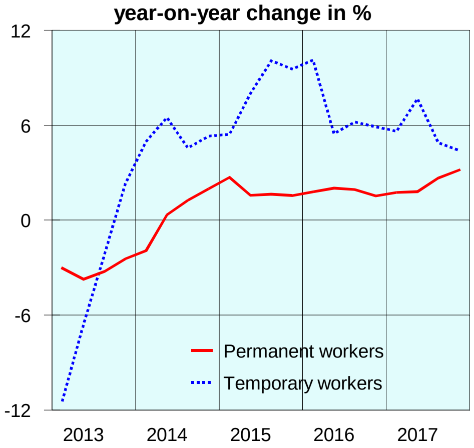
By type of contract and in y-o-y terms, 66.6% of the employees increase corresponded to open-ended contracts (357,900), with the temporary rate reaching 26.7%, two tenths higher compared to a year earlier. This is the smallest y-o-y increase of the temporary rate since the third quarter of 2013.

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



Source: INE (LFS).

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



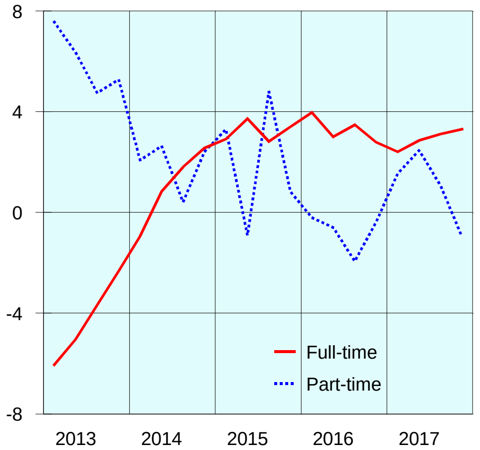
Source: INE (LFS).

Regarding working hours, full-time workers rose by 3.3% y-o-y, a rate two tenths higher than in the previous quarter, and part-time workers decreased by 1% y-o-y, following the 1.1% rise 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 proportion 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.

LFS unemployment falls by 11.1% y-o-y

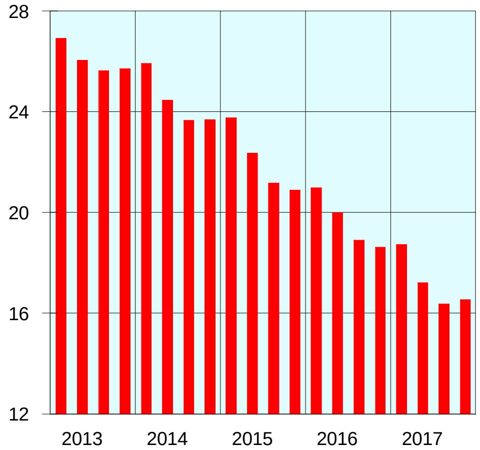
Unemployment rose by 35,000 people in the fourth quarter of 2017, compared to the reduction of 83,000 people registered in the same period of 2016. Thus, the total number of unemployed people stood at 3,766,700. With seasonally adjusted data by the INE, the number of unemployed people decreased by 1.6%, six tenths less in comparison to 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. The unemployment rate increased two tenths in the quarter and fell 2.1 points compared to the figure registered a year earlier, reaching 16.5% of the labour force.

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



Source: INE (LFS).

G 4.6 UNEMPLOYMENT RATE
% of labour force



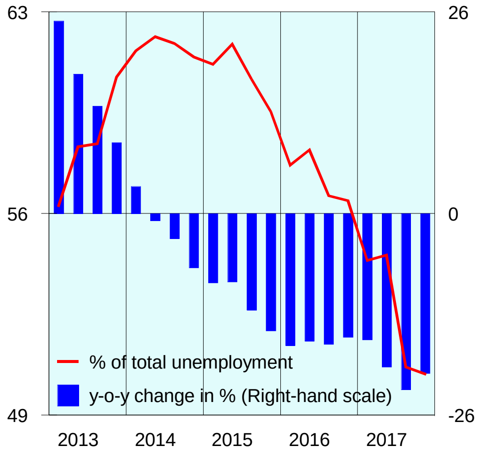
Source: INE (LFS).

Youth unemployment and long-term unemployment continue to fall

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

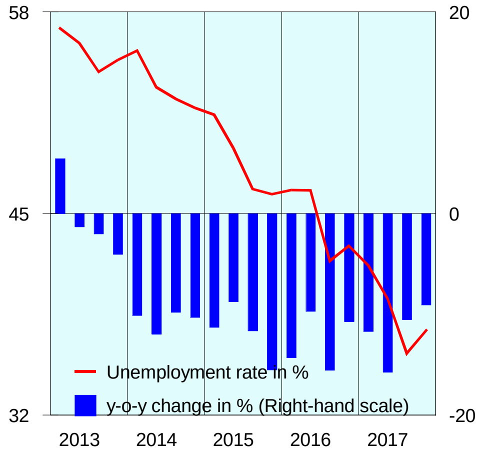
According to LFS figures, the number of unemployed people who have been looking for a job for one year or more fell by 20.6% y-o-y in the fourth quarter, 2.1 points less than in the previous quarter.

G 4.7 UNEMPLOYED SEARCHING FOR OVER A YEAR



Source: INE (LFS).

G 4.8 YOUTH UNEMPLOYMENT



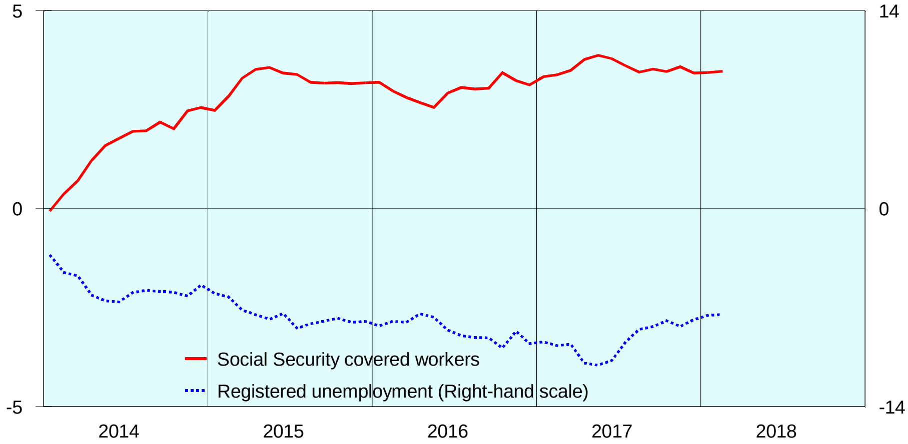
Source: INE (LFS).

For its part, long-term unemployment, defined as the number of people who are unemployed for over one year, fell by 20.2% y-o-y in the fourth quarter of 2017, according to Eurostat figures, reaching a weight of 42.9% on the total number of unemployed people, which represents a reduction of 4.9 points compared to the same period of 2016.

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

According to the latest labour market information, from the Social Security covered workers records, employment rose by 3.5% y-o-y in the two-month period from January to February 2018, a rate identical to that registered in the last two quarters of 2017. This is due to the fact that the acceleration of employment in construction (7.4% y-o-y in the two-month period, a rate three tenths higher compared to the figure registered in the fourth quarter of 2017) and in industry (3.3%, compared to the 3.2% recorded in the fourth quarter) offset the lower growth rate in services (3.5%, one tenth lower than in the period from October to December), while agriculture maintained the rate of decline at 0.6% y-o-y.

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



Source: MESS.

…and registered unemployment falls by 7.5% y-o-y

With regard to registered unemployment, the y-o-y rate of decline stood at 7.5% in the two-month period from January to February, half a point less than in the fourth quarter of 2017. Registered unemployment moderated its decrease rate in all activity branches.

Unit labour costs remain stable in the fourth quarter

According to the Quarterly National Accounts figures, compensation per employee rose by 0.2% y-o-y in the fourth quarter, one tenth less than in the third quarter, while the growth rate of apparent labour productivity remained stable at 0.2%, so unit labour costs showed no change in y-o-y terms, as in the third quarter. For its part, compensation per hour worked by employees grew by 1.1% y-o-y, two tenths less in comparison to the previous quarter.

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

	2015	2016	2017 (1)	2016		2017			
				III	IV	I	II	III	IV
WAGES FROM COLLECTIVE BARGAINING (2)									
All sectors	0.7	1.0	1.5	1.1	1.0	1.3	1.3	1.4	1.5
- Agriculture	0.7	0.9	1.1	0.9	0.8	0.9	0.9	1.0	1.0
- Industry	0.7	1.1	1.5	1.1	1.1	1.4	1.4	1.5	1.5
- Construction	0.8	0.9	1.9	0.9	0.9	2.2	2.2	2.2	2.0
- Services	0.7	1.0	1.5	1.1	1.0	1.2	1.3	1.4	1.4
TOTAL LABOUR COSTS PER WORKER									
All sectors	0.6	-0.4	0.1	-0.5	-0.8	0.0	-0.2	0.4	-
- Industry	-0.4	0.4	0.5	0.0	0.6	0.9	0.4	0.3	-
- Construction	-1.1	-1.7	-0.8	-1.9	-1.4	-1.3	-1.2	0.1	-
- Services	1.0	-0.4	0.0	-0.4	-1.0	-0.1	-0.2	0.4	-
WAGE COSTS PER WORKER									
All sectors	1.1	-0.3	0.0	-0.3	-0.8	-0.2	-0.1	0.3	-
- Industry	0.4	0.4	0.4	-0.2	0.5	0.8	0.3	0.2	-
- Construction	-0.7	-1.5	-0.8	-1.7	-1.6	-1.0	-1.1	-0.1	-
- Services	1.4	-0.3	0.0	-0.2	-0.9	-0.3	0.0	0.3	-
NON-WAGE COSTS PER WORKER									
All sectors	-0.7	-0.8	0.2	-0.9	-0.9	0.5	-0.5	0.7	-
- Industry	-2.6	0.3	0.8	0.6	0.9	1.1	0.9	0.4	-
- Construction	-2.0	-2.3	-0.9	-2.3	-0.9	-1.8	-1.2	0.4	-
- Services	-0.1	-0.9	0.2	-1.1	-1.3	0.6	-0.9	0.7	-
COMPENSATION PER EMPLOYEE (3)									
All sectors	1.6	-0.3	0.1	-0.4	-0.5	0.3	-0.2	0.3	0.2
- Agriculture	3.4	-3.8	0.3	-5.1	-2.9	-0.8	-0.3	1.4	1.1
- Industry	1.2	0.0	0.5	-0.2	0.0	0.6	0.5	0.5	0.4
- Construction	-0.9	-2.1	-1.1	-2.5	-2.1	-1.8	-1.3	-0.5	-0.6
- Services	1.9	-0.2	0.2	-0.2	-0.4	0.5	-0.1	0.3	0.2
LABOUR COST PER UNIT OF PRODUCT (4)									
All sectors	1.4	-0.6	-0.1	-0.6	-0.7	0.0	-0.3	0.0	0.0
- Agriculture	7.2	-6.6	0.3	-8.6	-4.7	-1.2	1.0	0.6	1.1
- Industry	-1.5	-0.4	0.0	-0.3	0.6	0.7	0.5	-0.1	-1.0
- Construction	3.6	-2.4	-0.8	-2.6	-2.7	-1.8	-1.3	-0.7	0.5
- Services	2.4	-0.2	0.2	-0.2	-0.6	0.1	-0.2	0.4	0.4

(1) Available period data.
(2) Aggregate figures. The years include the reviews from wage revision clauses.
(3) Equivalent full-time employment. Figures corrected for seasonal factors.
(4) Compensation per employee/labour productivity. Figures corrected for seasonal factors.
Sources: MESS and INE (Quarterly survey of labour costs and National Accounts Base 2010).

The agreed wage increase in collective bargaining stands at 1.5% up to February

According to the Collective Agreements 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 February 2018), the same wage increase agreed in the year 2017, revised.

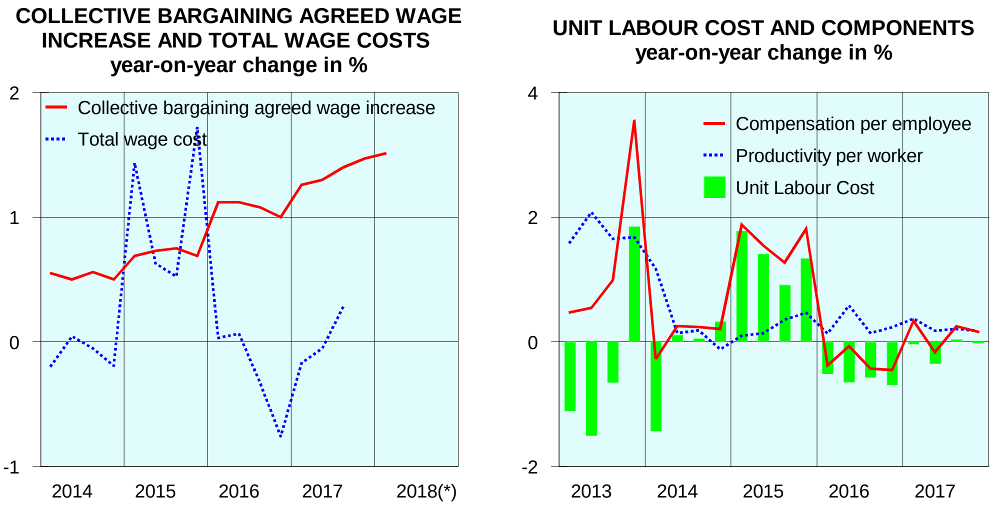
The number of workers affected by the 1,865 agreements signed up to February and with effects in 2018 reached 4,775,306, 33.7% higher than in the same period of 2017. Of all the workers affected by the agreements signed up to February and with effects in 2018, 99.5% correspond to agreements signed before the aforementioned year (4,750,975 workers, 1,824 agreements) and the remaining 0.5% to new agreements signed in 2018 (24,331 workers, 41 agreements), with wage increases of 1.5% and 1.6%, respectively.

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

By sector, the agreed wage increase up to February is 2% in construction, 1.6% in services, 1.5% in industry and 1.1% in agriculture.

Up to February 2018, 194 opt-outs were registered, affecting 3,995 workers, 4.2% less than in the same period of last year. Most of the opt-outs submitted refer to the wage amount agreed.

G 4.10 WAGE INDICATORS



(*) Data for I.Q.2018 refers to February.
Sources: INE (ETCL and QNA) and MESS.

5. - PUBLIC SECTOR

The General Government EDP Debt stands at 98.4% of GDP in 2017,...

In December 2017, the General Government Debt, according to the Excessive Deficit Protocol (EDP) methodology, reached 98.4% of GDP (€ 1,144.6 billion), a percentage six tenths lower than in 2016 (99.0% of GDP).

By subsectors, the State EDP Debt stood at 85.6% of GDP (€ 996,472 million) in December 2017, six tenths higher when compared to a year earlier. The Debt of other entities belonging to the Central Government reached 2.9% of GDP (€ 33.4 billion), a percentage lower by six tenths in comparison to December 2016. On the other hand, the Regional Government EDP Debt to GDP ratio remained stable in December last year at 24.8% (€ 288.3 billion). The Local Government subsector registered an EDP Debt in December 2017 equivalent to 2.5% of GDP (€ 29.2 billion), four tenths lower in comparison to the figure registered in the same period of the previous year, extending the downward trend that began in mid-2013. Regarding the Social Security subsector, the EDP Debt stood at 2.4% of GDP (€ 27.4 billion), compared to the 1.5% of GDP registered at the end of 2016. This increase is due to loans received from the State in July and November 2017.

The Bank of Spain reviewed the monthly General Government EDP Debt in the most recent period, as a result, mainly, of the reclassification of some units within the General Government sector. Among these reclassifications, that of Empresa Nacional de Residuos Radioactivos S.A. (Enresa) should be noted because, even though it had a marginal impact on the public deficit figure, it reduced the General Government EDP Debt in 2017 due to the consolidation effect, by an amount equivalent to 0.2% of GDP.

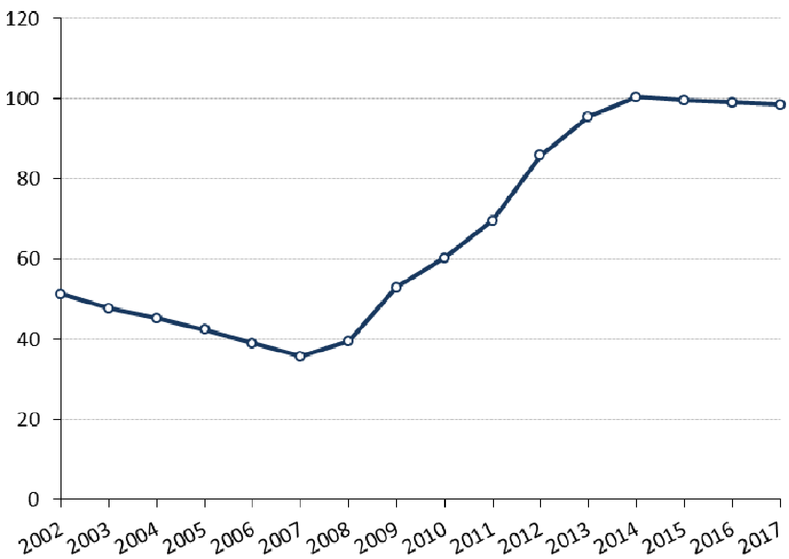
...and the State Debt slows down in January 2018 in y-o-y terms

At the end of January 2018, the State EDP Debt stood at € 996.1 billion, compared to the € 955.2 billion registered a year earlier, which represents a y-o-y increase of 4.3%, five tenths lower when compared to December 2017 (4.8%).

PUBLIC DEBT SUSTAINABILITY

As a result of the public accounts deterioration due to the economic crisis, the Spanish public debt increased strongly between 2008 and 2014. Since then, the public debt to nominal GDP ratio of the Spanish economy stabilised at levels close to 100% of GDP.

Graph 1.- Public debt
(% of GDP)



Source: Bank of Spain and INE

This evolution can be analysed with a simple accounting model that breaks down the variation of the debt-to-GDP ratio as the sum of the contribution of three factors: the primary balance, the differential between the interest rate and the nominal GDP growth rate and the deficit-debt adjustments (calculated as residual, that is, variation in the level of public debt not explained by the balance observed of the public sector or the nominal GDP growth).

***Graph 2** shows the contribution of the three factors to the increase in the public debt to GDP ratio since 2008[1]. It can be observed that the primary public deficit reduction prevented a greater growth of the debt between 2012 and 2014, although the fiscal consolidation process in recent years has not been enough to reach a positive primary balance yet. In this sense, it can be noticed how the slight reduction in the public debt to GDP ratio in 2015, 2016 and 2017 is mainly due to the deficit-debt adjustments and, secondly, to the nominal GDP growth.*

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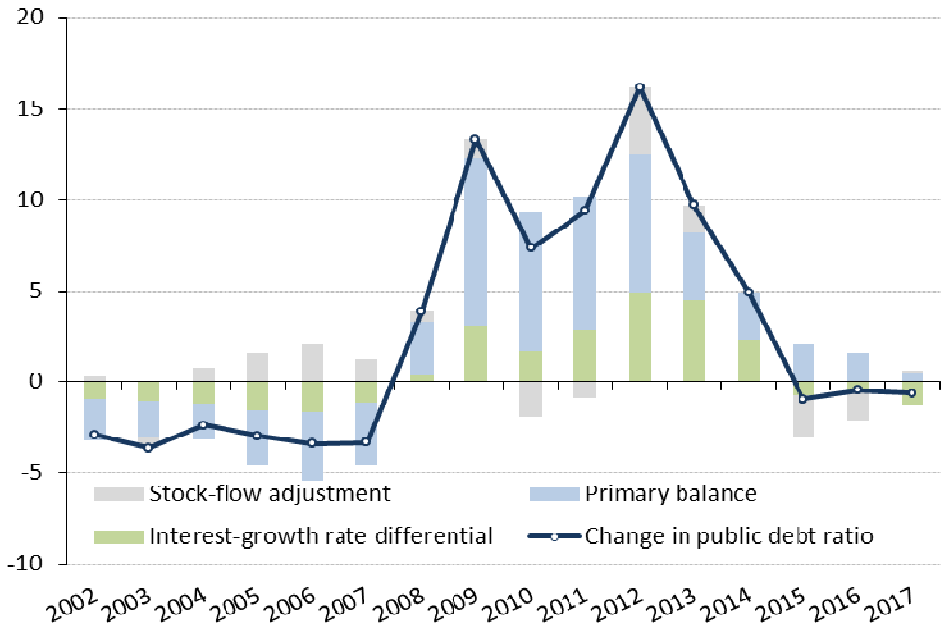
(1) See page 41 for more details on the determinants of the public debt evolution.

Graph 2.- Change in public debt ratio

(% of GDP and percentage points)



Source: Own elaboration based on Bank of Spain and NSI data

The deficit-debt adjustment (also called stock-flow adjustment) reflects all those financial transactions that, without affecting the public deficit, cause a variation in the stock of public debt, and include, among others, the net acquisition of financial assets, valuation effects or reclassification of non-financial and financial debt and the materialisation of contingent liabilities[2]. Since the beginning of the crisis, this adjusting component has played an important role in the dynamics of the Spanish public debt, with opposing movements by the different instruments, among which four stand out: firstly, international financial aids granted by Spain (EFSF, Greece and ESM); secondly, the aids granted to the financial sector through the Fund for the Acquisition of Financial Assets (FAAF) and the Fund for Orderly Bank Restructuring (FROB); thirdly, the emissions of the Electricity Deficit Amortisation Fund (FADE); and, finally, the provision of the Fund for Financing of Payments to Suppliers (FFPP).

The greater contribution of the stock-flow adjustment to the debt variation, which took place in 2012, is mainly explained by the international aids granted and by the FFPP, since the increase in liabilities through the FROB was partially offset by the amortisation of the funds from the FAAF, which was dissolved that same year. In 2014, the effect of the deficit-debt adjustment was almost null, and in 2015 and 2016 it contributed to reduce the debt by 2.1 and 1.6 percentage points of GDP, respectively. This evolution is explained by the net sale of financial assets, by the amortisations related to the Electricity Deficit Amortisation Fund (FADE) and by the operations of the Fund for Orderly Bank Restructuring (FROB).

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(2) In the event that guarantees granted by the General Government on debts incurred by other sectors are partially or totally called, a capital transfer paid to the original debtor is recorded and entails an increase in the public debt. An example of this type of contingent liabilities are the guarantees granted to some credit institutions to issue securities, in accordance with Royal Decree 7/2008, of 13th October, on urgent economic and financial measures in relation to the financial crisis.

In general, the disposal of financial assets and variations in the cash and deposits balance contributed to moderate and even stabilise the debt by using the liquidity previously accumulated by the General Government. This allows financing the deficit without having to resort to indebtedness (for example, the disposal of foreign public debt held by the Social Security Reserve Fund).

The public debt growth between 2008 and 2014 raises the need to examine its sustainability risks in the mid and long term. To this end, different deterministic projections can be prepared starting from an equation of public debt evolution as a percentage of the GDP that can be broken down as follows[3]:

$$\Delta d_t = d_{t-1}.\frac{i_t}{(1+g_t)} - d_{t-1}.\frac{gr_t}{(1+g_t)} - d_{t-1}.\frac{\pi_t(1+gr_t)}{(1+g_t)} + \alpha^f.d_{t-1}.\varepsilon_t.\frac{(1+i_t)}{(1+g_t)} - pb_t + f_t$$

Where:

- d_t *is the public debt/nominal GDP ratio in the year t.*
- i_t *is the implicit interest rate of public debt[4] in the year t.*
- g_t *is the nominal GDP growth rate expressed on a per unit basis in the year t.*
- gr_t *is the real GDP growth rate expressed on a per unit basis in the year t.*
- π_t *is the inflation rate (in terms of the GDP deflator) in the year t.*
- α^f *is the public debt proportion in foreign currency in the total public debt*
- ε_t *is the depreciation rate of the euro in the year t in relation to the basket of currencies in which the debt is denominated expressed on a per unit basis.*
- pb_t *is the primary public balance/nominal GDP ratio in the year t.*
- f_t *is the stock-flow adjustment /nominal GDP ratio in the year t.*

This breakdown allows identifying the determinants of the public debt dynamics and specifically the so-called "snowball effect", which is the sum of the four terms shown below:

- $d_{t-1}.\frac{i_t}{(1+g_t)}$ *reflects the interest rate effect. The higher the implicit interest rate, the higher the public debt/GDP ratio.*
- $-d_{t-1}.\frac{gr_t}{(1+g_t)}$ *reflects the real GDP growth effect. The higher the real GDP growth, the lower the public debt/GDP ratio.*
- $-d_{t-1}.\frac{\pi_t(1+gr_t)}{(1+g_t)}$ *reflects the inflation effect. A higher price growth allows reducing the public debt/GDP ratio more rapidly.*
- $\alpha^f.d_{t-1}.\varepsilon_t.\frac{(1+i_t)}{(1+g_t)}$ *reflects the exchange rate variation effect. A depreciation of the euro against the currencies in which the public debt is issued would increase the public debt/GDP ratio.*

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(3) This breakdown of the public debt dynamics follows the methodology used by the European Commission for the sustainability analyses of the public debt of the FSR and DSM.
(4) It is assumed that the interest rate is the same for public debt expressed in euros and in foreign currency.

On the other hand, the primary public balance can be broken down into the cyclical component, the primary structural balance before taking into account the costs variation linked to ageing[5] ("costs of ageing"), the changes in costs of ageing[6] and the one-off measures as shown in the following equation

Primary public balance = *cyclical component + cyclically adjusted primary balance*

= *cyclical component + primary structural balance + one-offs*

= *cyclical component + primary structural balance (excluding costs of ageing) + costs of ageing + one-offs*

***Graph 3** shows several public debt deterministic projections for the period between 2017 and 2025.*

The central scenario considers the latest forecasts for the Spanish economy included in the World Economic Outlook published by the International Monetary Fund in October 2017 for real GDP growth, the GDP deflator and the public balance. The output gap and costs of ageing forecasts have been obtained from the methodologies developed by the European Union[7]. In this sense, it should be noted that this is a very conservative central scenario with more pessimistic assumptions than the hypotheses included in the last macroeconomic scenario of the Government and the current consensus of forecasts, especially with regard to the public balance evolution. However, since the nature of the sustainability exercises revolves around analysing the response of macroeconomic variables (in this case the public debt) in situations not considered a priori (stress test), this central scenario is a good starting point to perform the deterministic and stochastic projections.

To project the public debt implicit interest rate, the Spanish public debt has been divided into five groups of instruments according to their maturity period when issuing them: short-term instruments (maturity up to 1 year from the issue -Treasury Bills-); bonds issued with a maturity of 3 years; bonds issued with a maturity of 5 years; bonds issued with a maturity of 10 years and very long-term instruments (bonds issued with a maturity over 10 years). The weight of these instruments in the total public debt has been calculated[8] and it has been assumed that the issue of debt instruments is performed in such a way that in 2022 the portfolio average life will be of 8.01 years, compared to the estimated average at the end of 2017 of 7.13 years. Since the weight of the Treasury Bills is wanted to remain constant, this target is achieved by reducing the relative importance of the 3 and 5 year bonds and increa-

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(5) This breakdown allows identifying the orientation of the tax policy by separating it from the economic cycle effects, so that an improvement (worsening) of the primary structural balance would indicate a structural tax effort (easing).

(6) Separating the effect of the costs linked to ageing from the rest of the primary structural balance components makes it possible to isolate the estimated effects of the reforms in the pension system in recent years, whose impact occurs in the mid and long term. It should be noted that in table 1 the negative sign in the costs of ageing row implies a cost saving.

(7) The WEO forecasts end in 2022 and projections of the output gap are not made beyond 2020. That is why the potential GDP between 2021 and 2025 is assumed to grow by 1.5% per year and that between 2023 and 2025 the output gap initiates a convergence trend towards zero over a period of 8 years. Likewise, the GDP deflator between 2023 and 2025 grows by 2% per year. On the other hand, between 2023 and 2025 a non-policy change tax scenario has been assumed in which the primary structural balance does not change in comparison to 2022, except for the saving in costs of ageing derived from the reforms approved in the past.

(8) For example, in 2017, short-term instruments accounted for 8.57% of the total public debt. The 3-year bonds represented 5.06%; 5-year bonds, 17.74%: 10-year bonds, 41.12% and very long-term bonds represented 27.50% of the total public debt.

sing that of the 10 and beyond years bonds. In order to decrease the weight of bonds, net issuances are negative between 2017 and 2022, that is, gross issuances are lower than the annual bond amortisation. Between 2022 and 2025 it is assumed that the issuance of the different public debt instruments is done in such a way that the weights of the different instruments are maintained at the levels of 2022.

This classification allows determining how much public debt should be refinanced each year for each instrument. Thus, for example, in 2018 it has been assumed that all public debt issued with bills must be refinanced, one third of the public debt in circulation in the form of 3-year bonds, 20% of public debt in the form of 5-year bonds, 10% of the public debt in the form of 10-year bonds and 3.6% of the rest of the outstanding public debt. In order to estimate the implicit interest rate for each year, hypotheses must be made about the interest rate of the new debt issuances. For 2017 the average interest rate of the Treasury issuances has been taken for each term and, subsequently, it has been assumed that between 2018 and 2025 the interest rate of the new issuances converges linearly to 2.55%, in the case of the bills, to 2.67% in the case of 3-year bonds, to 2.88% for 5-year bonds, to 3.22% in the case of 10-year bonds and to 3.59% for very long term obligations. The new issuances are fully amortised at maturity, that is, the bills after one year of being issued and the bonds, after three, five ten and twenty-eight years, without early amortisations.

Likewise, it has been assumed that all the debt of the year t is issued on 31st December of the same year, so the interests on the debt issued in the year t are paid at the end of year t + 1.

Table 1 summarises the main assumptions of the central scenario.

The following have been considered as potential stress scenarios: a negative shock on the nominal implicit interest rate, a negative shock on the real and potential GDP growth, an upward deviation of the public deficit and a non realization of savings in the costs of ageing derived from the reforms of recent years9. In addition, in these exercises it is assumed that the stock-flow adjustment is null.

In the scenario with a negative shock on the nominal implicit interest rate, the interest rate of the new issuances in 2022 stands at 3% for bills, at 3.20% for 3-year bonds, at 3.5% for 5-year bonds, at 4% for 10-year bonds and at 5% for very long-term bonds. It should be noted that in this scenario it has been assumed that the primary structural balance follows the same trend as in the central scenario to better show the possible impact of a rate increase on the public balance and on the public debt evolution.

With regard to the scenario with a deviation of the public deficit, it has been assumed that the deficit trend of the central scenario deviates 0.5 percentage points of annual GDP upwards between 2018 and 2022. It should be noted that the output gap in this scenario does not vary in respect of the central scenario, which implies that the higher public deficit is the result of a worsening of the cyclically adjusted balance.

(9) Due, for example, to a possible reversal of the reforms of recent years.

Table 1

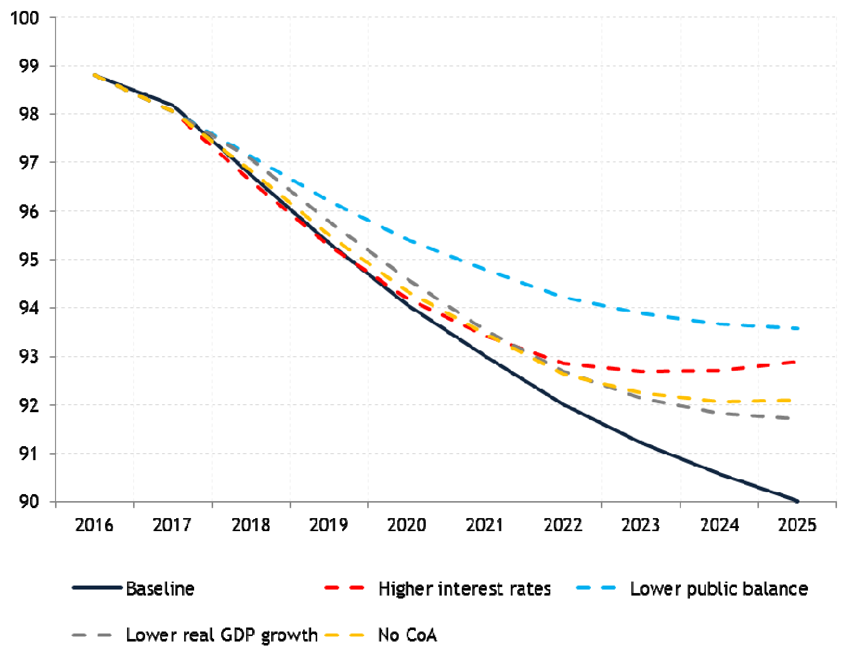
Baseline scenario: main assumptions and results

		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Nominal GDP (% growth rate)		3.6	4.0	4.1	3.7	3.5	3.4	3.5	3.2	3.2	3.2
Public debt (% of nominal GDP)		99.0	98.4	96.7	95.3	94.1	93.0	92.0	91.2	90.6	90.0
Change in the ratio (-1+2+3) of which:		-0.4	-0.6	-1.4	-1.4	-1.3	-1.1	-1.0	-0.8	-0.7	-0.5
Primary balance (1.1+1.2+1.3) (1)		-1.7	-0.6	0.0	0.3	0.4	0.3	0.1	0.2	0.1	0.1
	Structural primary balance (1.1.1-1.1.2) (1.1)	0.3	0.2	-0.3	-0.5	-0.7	-0.9	-1.2	-1.0	-0.9	-0.8
	Structural primary balance (before costs of ageing) (1.1.1)	0.2	0.0	-0.5	-0.6	-0.8	-1.1	-1.4	-1.2	-1.0	-0.9
	Costs of Ageing (1.1.2)	-0.1	-0.2	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	-0.1	-0.1
	Cyclical component (1.2)	-1.7	-0.6	0.3	0.8	1.1	1.2	1.3	1.1	1.0	0.8
	One-offs (1.3)	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Snowball effect (2.1-2.2-2.3+2.4) (2)		-0.6	-1.4	-1.4	-1.1	-0.9	-0.8	-0.9	-0.6	-0.5	-0.5
	Interest expenditure (2.1)	2.8	2.5	2.5	2.4	2.3	2.3	2.3	2.3	2.3	2.3
	Growth effect (2.2)	3.1	2.9	2.4	1.9	1.7	1.5	1.5	1.1	1.1	1.1
	Inflation effect (2.3)	0.3	0.9	1.5	1.6	1.5	1.6	1.6	1.8	1.8	1.8
	Exchange rate effect (2.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock-flow adjustments (3)		-1.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation (GDP deflator)		0.3	1.0	1.6	1.7	1.6	1.7	1.8	2.0	2.0	2.0
Nominal interest rate (nominal)		2.9	2.6	2.6	2.5	2.5	2.5	2.5	2.6	2.6	2.7
Output Gap (% of potential GDP)		-3.1	-1.0	0.6	1.5	2.1	2.2	2.4	2.1	1.8	1.5
Public balance (% nominal GDP)		-4.5	-3.1	-2.5	-2.1	-2.0	-2.0	-2.1	-2.1	-2.2	-2.3

In the scenario with lower real GDP growth, it has been assumed that in 2018 GDP grows 0.5 percentage points less than in the central scenario and between 2019 and 2022 real GDP growth converges linearly to the potential GDP growth of the Spanish economy. Between 2023 and 2025, the output gap closes, leading to a lower real growth than under the assumptions of the central scenario.

Finally, in the scenario without savings in costs linked to the population ageing, it has been assumed that as of 2018 the savings estimated by the Commission in terms of structural effort derived from the pension system reforms of the recent years do not materialise.

Graph 3: Public debt deterministic scenarios
(% of nominal GDP)



Source: General Directorate of Macroeconomic Analysis and International Economy

The results highlight the importance of an active fiscal consolidation in the coming years to set the public debt / GDP ratio on a declining and sustainable trend in the mid-term.

*As shown in **table 1** and **graph 3**, if the deficit forecasts included in the October 2017 IMF's World Economic Outlook were met, the public debt ratio to GDP would be reduced by only 8 percentage points in the coming 8 years. This slow reduction in public indebtedness is explained by the fact that the public balance evolution responds exclusively to the cyclical evolution of the Spanish economy (improvement of the cyclical public balance and passive de-leveraging) while throughout the projection period there is a structural easing that limits the public debt correction.*

Thus, a deficit reduction without structural effort would not guarantee a sustainable trend of the public debt since, as the stress scenarios suggest, in the event of possible shocks in real GDP growth, in the interest rates or a worse evolution of the public balance (which may be linked to a reversal of measures that have a budgetary impact in the mid and long term such as those made in the pension system in the past), the public debt ratio reduction in the mid-term would be heavily at risk.

On the other hand, the preparation of a central deterministic scenario makes it possible to verify with a simple calculation whether the current level of the public debt is sustainable, in the sense that the public debt to GDP ratio is equal to or lower than the discounted present value of the sum of primary public balances in terms of GDP.

That is, assuming that the debt accumulation can be approximated by the following equation,

$$D_{t+1} = (1 + r_t)D_t - SP_t$$

- *where* D_t *is the debt at the beginning of period t,* SP_t *is the primary public balance in period t and* r_t *is the real implicit interest rate between t and t y t + 1*

it can be solved recursively in such a way that in terms of GDP the following expression is obtained:

$$d_t = \sum_{j=0}^{n} \prod_{i=0}^{j} \left(\frac{1 + g_{t+i}}{1 + r_{t+i}}\right) sp_{t+j} + \prod_{i=0}^{n} \left(\frac{1 + g_{t+i}}{1 + r_{t+i}}\right) d_{t+n+1}$$

- *where* d *represents the public debt to GDP ratio,* sp *the primary public balance as a percentage of GDP and* g *the nominal GDP growth.*

On the other hand, imposing as a condition that $d_{t+n+1} = d_t$*, the previous expression can be reformulated as*

$$d_t\left(1 - \prod_{i=0}^{n} \left(\frac{1 + g_{t+i}}{1 + r_{t+i}}\right)\right) \leq \sum_{j=0}^{n} \prod_{i=0}^{j} \frac{1 + g_{t+i}}{1 + r_{t+i}} sp_{t+j}$$

Thus, with the assumptions of the deterministic scenario, the values of the adjusted debt ratio and the present value of the primary public balance to GDP ratio for the period between 2017 and 2025 can be calculated.

In this case, the discounted present value of the primary balances sum is 0.90% while the value of the discounted public debt (left side of the equation) equals to -8.80%[10]*. In short, without uncertainty about the compliance with the deterministic assumptions of the variables, it could be concluded that the public debt current ratio is sustainable in the mid-term. However, by definition, the values that will be adopted by the deterministic scenario variables are not known with absolute certainty, as they are random variables, so it is advisable to deepen the analysis taking this uncertainty into account.*

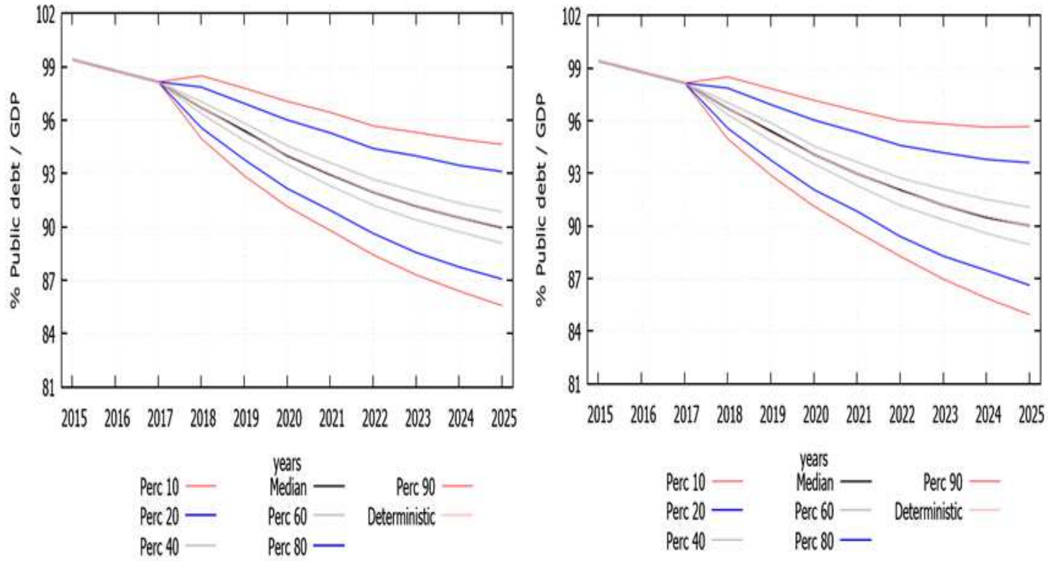
One way to quantify the uncertainty of the central scenario deterministic trend is to complete the analysis with a stochastic exercise. The stochastic analysis allows simulating a high number of possible debt trends (2000 trends in this exercise) depending on the underlying macroeconomic conditions, much higher than the sensitivity analysis of the deterministic projections. This simulation also considers the size of historical shocks and the correlation between variables, so the results reflect the interrelation between shocks and indicate how fu-

(10) It should be noted that the value is negative although the public debt ratio is positive because the discount factor in this case is greater than 1.

ture shocks would affect the trend of the central scenario. To obtain stochastic projections of the debt, simulations have been performed on its main determinants: the real GDP growth rate, the exchange rate, the implicit interest rate and the primary public balance. The developed projection[11] estimates the shocks to these determinants of the debt dynamics based on the variance and covariance matrix of the historical disturbances, assuming that they are distributed jointly following a normal distribution.

Two scenarios have been conducted that differ in the assumptions about the shocks persistence. In the first scenario, all shocks are assumed to be temporary and to last one year. In this case, the annual shocks are applied each year to the value of the different variables of the scenario deterministic trend. In the second scenario, it is assumed that the shocks on the implicit interest rate are permanent. The permanent nature results from accumulating the shocks of each year to the accumulated value of the shocks of previous years. In both cases, the shocks are applied to the values underlying the central scenario of the deterministic scenario. On the other hand, temporary shocks on GDP growth result in a shock in the public balance through the cyclical component of the fiscal balance.

Graph 4: Stochastic debt proyections whit temporal shocks (left) and permanent shocks (right)
(% of nominal GDP)



Source: General Directorate of Macroeconomic Analysis and International Economy

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(11) Following the methodology of the European Commission for the sustainability analysis of the public debt of the Fiscal Sustainability Report (FSR) and Debt Sustainability Monitoring (DSM). This methodology is described in more detail in the articles Assessing Public Debt Sustainability in EU Member States: A Guide (occasional paper 200) and Stochastic public debt projections using the historical variance-covariance matrix approach for EU countries (ECP 480).

The results reinforce the main conclusion of the deterministic analysis. Under the assumptions of the deterministic exercise central scenario, the likelihood that the public debt as a percentage of GDP remains below 90% of GDP in 2025 is almost 50%, and the probability that the debt is lower than 85% of GDP is approximately 10%. On the other hand, the chances that the public debt ratio stagnates above 95% of GDP is almost 20%.

Ultimately, these stochastic simulations suggest that a fiscal effort greater than that of the central scenario will be necessary to decisively and effectively reduce public indebtedness, thus decreasing the risks derived from the current fiscal situation, especially in the case of possible exogenous shocks that may affect not only the GDP growth of the Spanish economy (and therefore the cyclical public balance), but also the interest rates of the new issuances of public debt.

6. - BALANCE OF PAYMENTS

The Spanish economy ended 2017 with a net lending to the rest of the world of 1.9% of GDP

According to the available Balance of Payments data, in 2017, the Spanish economy generated a net lending to the rest of the world of € 21.7 billion, equal to 1.9% of GDP, versus a net lending of € 24.2 billion (2.2% of GDP) the year before.

The current account balance registered a surplus amounting to € 19.8 billion, equal to 1.7% of GDP, versus the 1.9% of the GDP registered in the previous year, which was the highest in the current time series. This result was due to the € 2.6 billion decrease of the goods and services surplus, which stood at € 31.1 billion (2.7% of GDP), partially offset by the € 939 million decrease of the deficit of primary and secondary income, which stood at € 11.2 billion (-1.0% of GDP)

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

Million euro

	January-December 2016			January-December 2017		
	Credit	Debit	Net	Credit	Debit	Net
Current and capital accounts	**439,361**	**415,193**	**24,166**	**467,028**	**445,324**	**21,704**
Current account	**436,069**	**414,584**	**21,486**	**464,404**	**444,602**	**19,806**
Goods and services	368,516	334,842	33,671	396,263	365,208	31,054
Tourism	*54,660*	*17,437*	*37,223*	*60,156*	*19,586*	*40,570*
Primary and secondary income	67,553	79,742	-12,188	68,141	79,394	-11,249
Capital account	**3,292**	**609**	**2,683**	**2,624**	**722**	**1,898**

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

In parallel, the financial balance registered net capital outflows amounting to € 30.1 billion, versus net outflows of € 26.7 billion registered a year earlier. This result is due to net capital outflows of € 62.0 billion, excluding the Bank of Spain, partially offset by the increase in the net debtor position of the Bank of Spain, which reached € 31.8 billion.

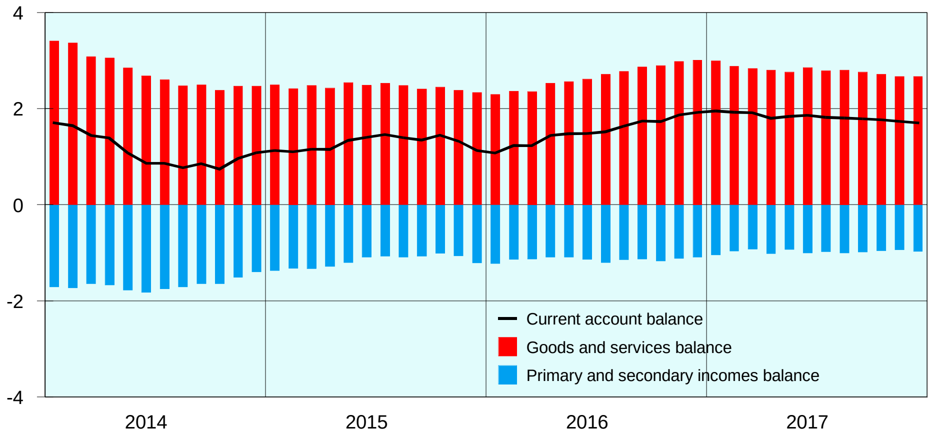
The surplus of goods and services moderates

Trade of goods and services with the rest of the world resulted in a surplus of € 31.1 billion in 2017, 7.8% lower compared to the figure recorded in 2016. In nominal terms, exports increased by 7.5% and imports by 9.1%. These rates are 4.1 and 8 points higher, respectively, than those registered in 2016.

The trade deficit increases

The Balance of Payments only provides disaggregated data between the balances of goods and services for the first nine months of 2017. According to Customs data, which show a similar evolution, the trade deficit increased by 31.9% in 2017, due to the greater trade deficit of energy goods, which increased by 27.5% (in line with the evolution of the price of imported oil which, measured in euros, became 29.5% more expensive on average during the period) and, to a lesser extent, to the 18.9% decrease of the non-energy balance surplus. Using the unit value indices of the Ministry of Economy, Industry and Competitiveness, the terms of trade decreased by 3.9%, thus interrupting the trend of improvements experienced during the last years.

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



Sources: Banco de España and SGACPE.

Tourism revenues accelerate...

The balance of tourism services accumulated a surplus of € 40.6 billion in 2017, 9% higher than in the previous year. This result includes an increase of 10.1% of tourism revenues, 2.9 points higher in comparison to the figure registered in 2016. Foreign tourists´ expenditure, according to the Tourist Expenditure Survey (EGATUR), increased by 12.2% during the last year (9.2% a year earlier) and, tourist arrivals, an indicator of the evolution of tourism in real terms, increased by 8.6%, versus the 10.1% registered a year earlier, exceeding the € 81.7 million.

...and so does tourism payments

Tourism payments, as a result of Spanish residents travelling abroad, grew by 12.3% in 2017, a rate 0.9 points higher than that registered in 2016.

The deficit of primary and secondary income falls

The balance of primary and secondary income accumulated a deficit of € 11.2 billion in 2017, 7.7% lower than that recorded in 2016, due to a revenue increase of 0.9% and a payments decrease of 0.4%, versus the 0.8% and -0.5% rates recorded, respectively, in the previous year. There is only data available split into primary and secondary income up to September 2017. The only available data up to December 2017 are included in the secondary income and, in particular, are provided by the Directorate General of the Treasury and Financial Policy corresponding to the financial flows with the European Union, which show a contraction in the net current transfers received from the EU of € 3.4 billion, € 296 million higher in comparison to the figure recorded a year earlier, due to a fall in revenues (-7.6%) higher than that of payments (-2.8%). With regards to revenues, public transfers received from the European Social Fund, aimed at promoting employment, fell by 25.1%, while in the transfers for the private sector, the subsidies received by farmers as refunds of the Common Agricultural Policy fell by 3.5%. On the payments side, within public payments for the EU, those related to the VAT Resource (17.3%) and Traditional Own Resources (6.9%) rose, while those related to GNI Resource (-8.7%) fell.

The capital balance surplus falls

In 2017, the capital balance generated a surplus of € 1.9 billion, 29.3% lower in comparison to the previous year, due to a fall in revenues (-20.3%) and a rise in payments (18.6%). Capital transfers from the EU fell by 88.4% compared to those registered a year earlier, down to € 308 million. Quantitatively, speaking, the most important items were public transfers from the structural funds of the EU Budget, aimed at infrastructure, rural development and environment. In this regard, the fall of the transfers received from the Cohesion Fund should be noted, which were reduced to zero, and the decline of those corresponding to the ERDF (-89.9%, down to € 253 million). However, it is important to note that these revenues are very erratic, due to the multiannual nature of many of the actions they finance.

Net capital outflows in financial transactions with the rest of the world, excluding the Bank of Spain

In 2017, the financial account recorded net capital outflows amounting to € 30.2 billion, versus the net outflows of € 26.7 billion registered a year earlier. Excluding the Bank of Spain, the financial account recorded net capital outflows worth € 62.0 billion (5.3% of GDP), lower in comparison to those registered a year earlier (€ 79.3 billion). This result includes positive balances (investments) in asset and liability transactions.

The change in liabilities records net capital inflows...

In 2017 as a whole, the change in liabilities generated net capital inflows worth € 71.6 billion, versus the net outflows of € 3.8 billion registered a year earlier. The direct investment balance fell by 82.7% compared to a year earlier, recording net inflows amounting to € 5 billion, which were channelled toward other resident sectors (the breakdown by instrument is only available for the first nine months of the year). On the other hand, portfolio investment recorded net inflows amounting to € 63.1 billion, versus the net outflows of 12.7 billion recorded in 2016, mainly due to the results of the General Government and the Monetary Financial Institutions. Finally, other investments (loans, deposits and repos) recorded net inflows of € 3.6 billion, versus the net outflows recorded in 2016 (€ 19.8 billion) mostly concentrated in the private financial sector.

...and Spain's investment abroad rises

The change in net assets with the rest of the world, excluding the Bank of Spain, accumulated in 2017 net capital outflows (investments) of € 133.6 billion, 76.8% higher than the figure reached in the previous year. Direct investment accumulated capital outflows amounting to € 29.5 billion, 35% lower than a year earlier, coming mainly from other resident sectors. The portfolio investment balance rose by 216.5%, recording net outflows of € 80.9 billion, mainly concentrated in the non-financial private sector. On the other hand, other investment registered net outflows amounting to € 25.5 billion, 253% higher compared to a year earlier, led by the private sector, both financial and non-financial. Finally, financial derivatives registered net inflows amounting to € 2.3 billion in comparison to the net inflows of € 2.6 billion recorded in the previous financial year.

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

Current, capital and financial transactions generated a decrease of net assets of the Bank of Spain amounting to € 31.8 billion, a figure that includes an increase of € 3.7 billion of the reserves, a decrease (increase of the net debtor position) of € 31.3 billion of the assets vis-à-vis the Eurosystem and a decrease of € 4.2 billion in other net assets.

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

	Million euro					% y-o-y change		Accumulated amounts		
								Million euro		% y-o-y change
	2016	2017				2017		2016	2017	2017
	IV	I	II	III	IV	III	IV	I-IV	I-IV	I-IV
Net current transfers	**-2,103**	**1,365**	**-1,055**	**-1,527**	**-2,152**	**-7.8**	**2.3**	**-3,073**	**-3,369**	**9.6**
- Revenue	**903**	**4,295**	**1,470**	**964**	**601**	**-13.6**	**-33.4**	**7,935**	**7,330**	**-7.6**
Refunds CAP	608	4,208	709	854	403	-0.2	-33.7	6,396	6,174	-3.5
ESF	186	32	729	25	147	-88.3	-21.3	1,245	932	-25.1
Other subsidies	109	55	33	85	52	83.8	-52.6	295	224	-24.1
- Payments	**3,007**	**2,930**	**2,526**	**2,491**	**2,753**	**-10.1**	**-8.4**	**11,009**	**10,700**	**-2.8**
VAT	344	409	468	368	368	10.6	7.0	1,375	1,613	17.3
GNI	2,140	2,012	1,681	1,594	1,850	-20.6	-13.6	7,817	7,138	-8.7
Traditional Own Resources	409	367	370	382	419	13.5	2.6	1,439	1,538	6.9
Other	114	142	6	147	116	57.0	2.1	378	411	8.8
Capital transfers	**707**	**15**	**190**	**51**	**51**	**-81.4**	**-92.8**	**2,657**	**308**	**-88.4**
ERDF	678	15	181	38	19	-84.7	-97.1	2,519	253	-89.9
Cohesion Fund	11	0	0	0	0	-	-	15	0	-
Other	17	1	9	13	31	-49.9	81.9	124	54	-56.3

Sources: D. G. Tesoro and SGACPE.

The NIIP improves in the third quarter of 2017

The Net International Investment Position (NIIP) decreased its debtor balance in the third quarter of 2017, by € 15.8 billion, compared to the same period of 2016, reaching € 957.1 billion.

The debtor NIIP accounted for 83.1 % of GDP in the third quarter of 2017, a figure 4.5 points below the one registered in the previous year. Assets amounted to € 1.85 trillion, 5.7% more compared to a year earlier, and liabilities to € 2.81 trillion, 3.1% more. On the other hand, the gross external debt stood at € 1.91 trillion (166.1% of GDP) in the third quarter of 2017, versus the € 1.89 trillion registered in the same quarter of 2016 (170.4% of GDP).

The NIIP debtor balance, excluding the Bank of Spain, reached an amount of € 750 billion in the third quarter of 2017, 7.8% less than a year earlier. A fall was registered in the debtor balance of the different components: direct investment, of 32.1%, down to € 29.8 billion; portfolio investment, of 4.4%, down to € 557.1 billion; other investment, of 13.2%, down to € 154.7 billion; and financial derivatives, of 8.4%, down to € 8.4 billion.

The Bank of Spain increased its debtor balance by € 47.9 billion in the third quarter of 2017 compared to a year earlier, up to € 207.1 billion, equal to 18.0% of GDP. This increase is explained by the expansion of the Bank of Spain debtor balance vis-à-vis the Eurosystem (€ 40.1 billion), and to a lesser extent, by the € 3.2 billion decrease in reserves and the fall in the balance of other net assets, which went from € 839 million to -3.8 billion.

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

Million euro

	January-December 2016			January-December 2017		
	Assets change	Liabilities change	Balance	Assets change	Liabilities change	Balance
Financial account	**22,897**	**-3,799**	**26,695**	**101,720**	**71,566**	**30,163**
- Excluding Bank of Spain	**75,532**	**-3,799**	**79,327**	**133,552**	**71,566**	**61,991**
Direct investment	***45,369***	***28,698***	***16,671***	***29,481***	***4,952***	***24,532***
Monetary financial institutions	6,283	2,152	4,131	6,008	-1,906	7,914
Other resident sectors	39,089	26,548	12,541	23,475	6,859	16,616
Portfolio investment	***25,559***	***-12,733***	***38,291***	***80,895***	***63,064***	***17,831***
General Government	106	-319	425	32	29,022	-28,990
Monetary financial institutions	-1,523	-9,306	7,783	7,126	33,894	-26,768
Other resident sectors	26,976	-3,109	30,085	73,737	145	73,592
Other investment	***7,225***	***-19,764***	***26,986***	***25,506***	***3,550***	***21,958***
General Government	-1,569	-2,007	438	-67	-4,443	4,376
Monetary financial institutions	5,653	-18,771	24,424	16,697	5,388	11,309
Other resident sectors	3,141	1,014	2,127	8,876	2,605	6,271
Financial derivatives	***-2,621***	-	***-2,621***	***-2,330***	-	***-2,330***
- Bank of Spain	**-52,635**	-	**-52,635**	**-31,832**	-	**-31,832**
Reserves	8,233	-	8,233	3,666	-	3,666
Claims on the Eurosystem	-59,706	-	-59,706	-31,264	-	-31,264
Other net assets	-1,159	-	-1,159	-4,231	-	-4,231
- Net errors and omissions	**2,527**	-	**2,527**	**8,456**	-	**8,456**

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