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SPANISH ECONOMY REPORT

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Y COMPETITIVIDAD

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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

Financial markets

The financial markets evolution in March was conditioned by the monetary policy meetings of the main central banks, as well as the trade tensions between the United States and China. In a context where volatility and uncertainty have prevailed in the markets, the main stock indices and the public debt yields have decreased and the euro has appreciated slightly 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 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.

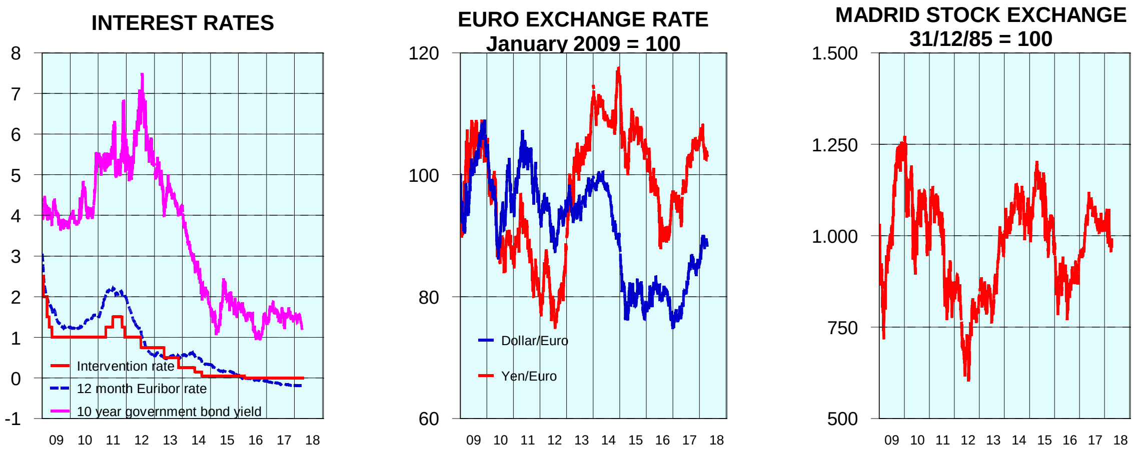
Thus, the ECB’s guide remains unchanged with regards to its monetary policy, but the difference of this statement with the previous one lies in the complete withdrawal of the sentence: "If the outlook becomes less favourable, or if financial conditions become inconsistent with further progress towards 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 a normalisation of the monetary policy.

The Fed increases interest rates and continues reducing its balance

The Federal Open Market Committee (FOMC) of the Federal Reserve (Fed), in its two day meeting held on 20th and 21st March, decided to increase the Federal Funds interest rates by 25 b.p., up to the target range of 1.50%-1.75%, and continue with the progressive reduction of its balance sheet, so, as of April, only the amount of monthly maturities exceeding 30,000 million dollars will be reinvested (18,000 million in bonds and 12,000 in assets backed by mortgages), in comparison to the previous threshold of 20,000 million.

In a context of an upward revision of the growth prospects, the FOMC reiterated that the monetary policy continues to be accommodative, supporting the strength of the labour market and the achievement of the 2% inflation target. With regards to the future path of the Federal Funds interest rates, the entity expects to continue with gradual increases during the period 2018-2020, the central range considered most appropriate to achieve the monetary policy targets being between 2.1% and 2.4% in 2018, which leaves room for several additional increases this year.

G1. MONETARY AND FINANCIAL INDICATORS (1)



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

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 22nd March, decided to maintain the Official Bank Rate at 0.50%, in force since 2nd November 2017 (the first rate increase since 6th December 2007) 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 expectation of a demand excess during the forecast horizon, a continuous tightening of the monetary policy will be appropriate for inflation to return to its target in a sustained manner.

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, supported by the 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 12-month Euribor remains stable, with negative values

In the interbank market of the Eurozone, interest rates registered minor changes in March and remained negative, in a context where the ECB maintained an accommodative monetary policy. Thus, on 5th April, the one, six and twelve-month Euribor stood at -0.372%, -0.271% and -0.191%, respectively, versus the -0.370%, -0.270% and -0.191% recorded at the end of February. The evolution of the 12-month Euribor in this period is due to the expectations of practical stability in interest rates and the stability of risk premiums required in the market (the OIS and the Euribor-OIS differential almost did not change during this period).

European public debt yields decrease

In the secondary public debt market, yields fell sharply during March, in a context of maintenance of the stimulus policy by the ECB and increased risk aversion, following the announcement of protectionist measures by the United States. However, in the first few days of April, yields edged slightly upwards, boosted by the decline in risk aversion. Thus, the 10-year Spanish bond yield stood at 1.23% on 5th April, 31 b.p. below the figure recorded on 28th February. On the other hand, the German bond yield fell by 14 b.p. in that period, down to 0.52%, the Spain-Germany differential standing at 71 b.p., 17 b.p. below the level recorded in late February and at record lows since 2010. Meanwhile, the Spain- Italy differential stood at -58 b.p., 5 b.p. above the figure registered on 28th February. The decline in yields in Greece, Portugal and Italy in this period should be noted (39, 32 and 26 b.p., respectively). In the United States, the 10-year bond yield fell 5 b.p. in this period, down to 2.82%.

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

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-29-17	Feb-28-18	Apr-05-18	Variation in spreads		Dec-29-17	Feb-28-18	Apr-05-18	Variation in spreads	
				Period	Annual				Period	Annual
	(1)	(2)	(3)	(3)-(2)	(3)-(1)	(4)	(5)	(6)	(6)-(5)	(6)-(4)
Germany	0.43	0.66	0.52	-14	9					
Finland	0.60	0.78	0.66	-12	6	17	12	14	2	-3
Holland	0.53	0.70	0.67	-3	14	10	4	15	11	5
France	0.78	0.93	0.75	-18	-3	35	27	23	-4	-12
Austria	0.58	0.90	0.76	-14	18	15	24	24	0	9
Belgium	0.64	0.95	0.82	-13	18	21	28	30	2	9
Ireland	0.67	1.08	0.93	-15	26	24	42	41	-1	17
Spain	1.57	1.54	1.23	-31	-34	114	88	71	-17	-43
Portugal	1.94	1.99	1.67	-32	-27	151	133	115	-18	-36
Italy	2.00	2.07	1.81	-26	-19	157	141	129	-12	-28
Greece	4.12	4.41	4.02	-39	-10	369	375	350	-25	-19

Source: Financial Times.

The stock indices decrease

In the stock markets, the main indices fell in the period between late February and early April this year, in a context of high volatility. After declining in early March, due to expectations of interest rate rises in the United States, stock indices rebounded, boosted by the macroeconomic data and the favourable business results. However, as of the second week of March, the indices fell sharply, affected by the uncertainty regarding the global trade relations and the steep falls recorded by the US technology sector. Finally, in the first week of April, they edged upwards, driven by the relaxation of trade tensions between the United States and China. In Europe, the Eurostoxx 50 index fell by 0.3% in the period between 28th February and 5th April. In Spain, the IBEX 35 presented a similar profile to that observed in the rest of European indices, registering a fall of 1.0% in that period and reaching 9,740.90 points. In the US market, the S&P 500 index decreased by 1.9% during that period.

The euro appreciates slightly against the dollar

With respect to the currency market, the expectations of monetary policy normalisation in the Eurozone and the trade tensions between the United States and China have slightly strengthened

T 2. International stock exchange

Countries	Index	Level Apr-05-18	% Variation Feb-28-18	Dec-29-17
Germany	DAX	12,305.19	-1.1	-4.7
France	CAC 40	5,276.67	-0.8	-0.7
Italy	FTSE MIB	22,969.50	1.6	5.1
Spain	IBEX 35	9,740.90	-1.0	-3.0
Eurozone	EUROSTOXX 50	3,429.95	-0.3	-2.1
United Kingdom	FTSE 100	7,199.50	-0.4	-6.4
United States	S&P 500	2,662.84	-1.9	-0.4
Japan	NIKKEI 225	21,645.42	-1.9	-4.9
China	SHANGHAI COMP	3,131.11	-3.9	-5.3
Mexico	IPC	47,951.75	1.1	-2.8
Brazil	BOVESPA	85,209.66	-0.2	11.5
Argentina	MERVAL	31,866.63	-3.5	6.0

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

the euro exchange rate against the dollar in March, in a context of high volatility, and despite the rates increase in the United States. Thus, in the period between late February and early April this year, the euro appreciated by 0.4% against the dollar and the yen, and depreciated by 1.2% against the pound, trading at the end of the 5th April session at 1,226 dollars, 131.26 yen and 0.8740 pounds. In the same period, the euro appreciated by 0.1% in nominal effective terms vis-à-vis the group of industrialised countries.

The M3 broad monetary aggregate slows down in February 2018...

The M3 broad aggregate slowed down by three tenths in February, to 4.2% y-o-y. This evolution is due to the slowdown of currency in circulation and of overnight deposits (two and four tenths, down to 2.9% and 9.4%, respectively) and the higher fall of other short-term deposits (-2.3%, compared to the -1.9% registered in the previous month) and of marketable instruments (-6.4%, compared to the to -6.3% recorded in the previous month).

T 3. Eurozone monetary aggregates

Monetary aggregates	February 2018 Balance (Billion €)	% Year-on-year variation December 2017	January 2018	February 2018
1. Currency in circulation	1,116	3.4	3.1	2.9
2. Overnight deposits	6,714	9.7	9.8	9.4
M1 (= 1 + 2)	**7,830**	**8.7**	**8.8**	**8.4**
3. Other short-term deposits (= 3.1. + 3.2.)	3,446	-2.1	-1.9	-2.3
3.1. Term deposits up to two years	1,180	-8.4	-8.1	-9.1
3.2. Deposits redeemable at notice up to three months	2,265	1.6	1.7	1.8
M2 (= M1 + 3)	**11,275**	**5.1**	**5.2**	**4.9**
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	635	-4.3	-6.3	-6.4
4.1. Repurchase agreements	73	9.8	-1.6	7.9
4.2. Money market funds shares/units	499	-2.6	-1.1	-2.9
4.3. Securities other than shares up to two years	63	-24.0	-38.7	-35.3
M3 (= M2 + 4)	**11,911**	**4.6**	**4.5**	**4.2**

Source: European Central Bank.

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

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, slowed down two tenths in February 2018, standing its y-o-y rate at 2.8%. This evolution is mainly due to the slowdown of loans (two tenths, down to 2.7%) and shares and other equity (0.2%, versus 2.2% in January), partially offset by the acceleration of shares and other equity (fours tenth, up to 4.9%). Within the loans, those received by households, non-financial corporations and other financial intermediaries slowed down 0.1, 0.4 and 1 point, respectively, down to 3.0%, 1.9% and 4.6%.

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

	February 2018 Balance (Billion €)	% Year-on-year variation		
		December 2017	January 2017	February 2017
Credit to the private sector	**13,181**	**2.8**	**3.0**	**2.8**
Loans	**10,937**	**2.5**	**2.9**	**2.7**
Households	**5,618**	**3.2**	**3.1**	**3.0**
House purchases	*4,223*	*3.3*	*3.1*	*2.9*
Consumer credit	*662*	*7.1*	*7.2*	*7.3*
Other lending	*732*	*-0.5*	*-0.8*	*-0.1*
Non-financial corporations	**4,347**	**1.9**	**2.3**	**1.9**
Insurance companies & pension funds	**114**	**-3.2**	**-1.2**	**2.0**
Other financial intermediaries	**859**	**2.7**	**5.6**	**4.6**
Securities other than shares	**1,457**	**4.6**	**4.5**	**4.9**
Shares and other equities	**786**	**3.2**	**2.2**	**0.2**

(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 February

The stock of financing to the private non-financial sector in Spain fell by 0.4% y-o-y in February, three tenths more in comparison to January. Financing received by firms fell by 0.5%, in comparison to the 0.4% rise registered in the previous month, due to the higher fall registered by bank loans and foreign loans and the slowdown of securities other than shares. On the other hand, financing received by households recorded a y-o-y rate of -0.2% in February, a figure five tenths higher in comparison to the one registered in the previous month (-0.7%), due to the lower decline in bank loans for housing and the acceleration of loans for other purposes.

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 10.0% y-o-y in February 2018, 1.3 points more in comparison to the figure registered in the previous month. This evolution is due to the acceleration of the loans for housing and for consumption (1.6 points, both, up to 5% and 17.5%, respectively), while loans for other purposes slowed down one tenth, to 9.6%. The amount of new loan and credit operations to SMEs (using as a proxy for these credits those under one million euros) rose by 9.8% y-o-y, in cumulative terms for the last twelve months up to February this year, two tenths more compared to the previous month. On the other hand, the amount of new loan and credit operations exceeding one million euros increased by 7.9% y-o-y, a rate 5.2 points higher than that of January.

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

	Februray 2018 Balance (Billion €)	% Year-on-year variation		
		December 2017	January 2018	February 2018
Non-financial corporations and Households	**1,586**	**-0.1**	**-0.1**	**-0.4**
Non-financial corporations	**881**	**0.4**	**0.4**	**-0.5**
Bank loans	*503*	*-0.6*	*-0.4*	*-1.8*
Securities(1)	*95*	*7.6*	*8.6*	*7.8*
External loans	*283*	*-0.1*	*-0.6*	*-0.7*
Households	**704**	**-0.8**	**-0.7**	**-0.2**
Bank loans. Housing	*526*	*-2.8*	*-2.8*	*-2.7*
Bank loans. Other	*179*	*6.4*	*5.9*	*7.8*
General Government	**-**	**3.4**	**3.0**	**-**
Total financing	**-**	**1.3**	**1.2**	**-**

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

Spanish economy

Domestic Demand and production

The Bank of Spain revises three tenths upwards its growth forecast for the Spanish economy in 2018, up to 2.7%

In its macroeconomic forecasts for the Spanish economy published in March, the Bank of Spain (BoS) revised three tenths upwards the 2018 real GDP growth forecast, up to 2.7%, mainly due to a more-favourable-than-expected evolution of the activity in the first quarter of this year, as well as the lower impact derived from the political situation in Catalonia, as a result of a moderation in uncertainty since last December. For the years 2019 to 2020, the BoS foresees an extension of the expansionary path of the Spanish economy, although at a more moderate pace, projecting a real GDP growth rate of 2.3% in 2019 and 2.1% in 2020, two and one tenth higher, respectively, compared to those of the previous forecast.

With regards to the composition of growth, the BoS foresees that it will remain balanced. Although domestic demand will continue to be the main growth driver, the external sector will record positive contributions in the forecast horizon, although at a slightly decreasing pace. The BoS revised upwards the domestic demand contribution in 2018 by 0.4 percentage points (p.p.), to 2.4 p.p. and by 0.3 p.p. that of 2019, to 2.1 p.p. The external sector is expected to contribute with 0.3 p.p. in 2018 and 0.2 p.p. in 2019, one tenth less than expected in December last year, in both years. In 2020, the domestic demand contribution is revised upwards one tenth, up to 1.9 p.p., and that of net external demand 0.2 p.p., two tenths below the figure estimated in the previous forecasts.

With regard to employment, the BoS improves its growth forecast by four tenths for 2018, up to 2.7%, and three tenths for 2019 and 2020, up to 2% and 1.9%, respectively. This employment growth would lead to additional reductions in the unemployment rate, which is expected to reach 15.1% of the labour force in 2018, 13.3% in 2019 and 11.6% in 2020.

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

The global activity short-term qualitative indicators for the first quarter of 2018, point to the extension of the economic activity dynamism, in a context of intense job creation, high expectations and favourable financing conditions. Thus, the Economic Sentiment Index (ISE) published by the European Commission, remained in March at high levels, reaching 109 points (1990-2017 average= 100), 1.2 points below the one recorded in February. The ISE ended the first quarter of the year at 110, a level very similar to the one registered in the fourth quarter of 2017 (110.1). By components, consumer confidence (3.9 points), retail trade (2.2 points) and those of the construction and industry sectors (0.5 points, both) edged downwards in March, while confidence in services improved (2.8 points). Likewise, the Composite PMI for Spain published by IHS Markit, reached 55.8 in March, (57.1 in the previous month), ending the first quarter with an average level of 56.5, 1.3 points higher compared to the figure recorded in the previous quarter.

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, remained at 99.9 in February for the fourth consecutive month, virtually coinciding with its long-term average.

Among the quantitative indicators, the Business Turnover Index (BTI), with calendar adjusted data, continued recording a high growth in January, although at a more moderate rate, registering a 4.7% increase, almost three points lower than in December last year. This result was due to the decrease of the turnover in the electricity and water supply sector (-5.8%, following the 1.2% increase registered in the previous month), and the lower momentum in the extractive and manufacturing industries and in trade (6.6% and 5%, respectively, compared to the 9.3% and 6.4% recorded in the previous month), partially offset by the acceleration in market non-financial services sectors, from 1.7 points, up to 8% y-o-y. In the same vein, according to the statistics prepared by the Tax Agency and based on monthly VAT returns, total large firm sales, with fixed-sample, deflated and adjusted for calendar and seasonal variations data, registered a 3.2% y-o-y increase in January, half a point lower than in the previous month, due to the less expansionary trend of domestic sales (3.3%, compared to the 3.6% registered in in the previous month) and, to a lesser extent, of exports (3.9%, one tenth lower than in December). On the other hand, imports accelerated 1.3 points, up to 3.9% y-o-y.

The Spanish economy closed 2017 with net lending vis a vis the rest of the world of 2% of GDP

According to the Quarterly Non-Financial Accounts for the Institutional Sectors (QNFAIS) published by INE, in the fourth quarter of 2017, the Spanish economy showed net lending vis a vis the rest of the world, amounting to € 8.9 billion (2.9% of the quarterly GDP), € 113 million lower in comparison to the figure registered in the same quarter of the previous year (€ 9 billion, 3.1% of GDP). This y-o-y decrease of the balance compared to the rest of the world is explained by the evolution of the foreign trade balance in goods and services whose surplus fell by € 897 million, down to € 5.7 billion, while the surplus of the income and current transfers balance increased (€ 673 million, up to € 2.1 billion) and the balance of capital transfers (€ 111 million, up to € 1.1 billion). In 2017 as a whole, the Spanish economy recorded a net lending vis a vis the rest of the world of € 23.1 billion, equal to 2% of GDP, compared to the € 23.8 registered in 2016 (2.1% of GDP).

By institutional sectors, the net lending of the Spanish economy y-o-y decrease in the fourth quarter of 2017 is explained by the lower net lending of households and non-profit institutions serving households (2.4% of the quarterly GDP, compared to the 4.1% registered in the fourth quarter of 2016), partially offset by the increase of the net lending of non-financial corporations and financial institutions (0.9 and 0.4 points respectively, up to 3.4% and 3.1% of GDP) and, to a lesser extent, due to the lower net borrowing of the General Government, (it fell three tenths in comparison to a year earlier, down to 6% of GDP).

Private consumption indicators extend the expansionary trend in the first quarter of the year

Short-term indicators of private consumption show an extension of the expansionary trend during the first months of 2018. Among the quantitative indicators, retail sales, at constant prices and with work calendar adjusted data, accelerated by two tenths in February 2018, registering a y-o-y rate of 2.2%. By groups, the most expansionary trend of retail sales is explained by the higher growth rate of the food component (1.6% y-o-y, a rate 0.9 percentage points higher when compared to the figure recorded in the previous month), while the non-food group slowed down one point, to 2.3%. However, passenger car registrations, according to the figures provided by the ANFAC (Spanish Association of Vehicles Manufacturers), increased by 2.1% in March compared to the same month of 2017, following the 13% increase recorded in the previous month, although they ended the first quarter of 2018 with an annual average growth of 10.5%, similar to that of the fourth quarter of 2017 (10.6%). On the other hand, domestic sales in large companies of consumption goods and services, deflated, and with fixed-sample and seasonal and calendar adjusted data, grew by 2% y-o-y in January, a rate 1.4 points lower compared to the figure registered in the previous month.

Among the qualitative indicators, the Consumer Confidence Indicator (CCI), published by the CIS, fell in March by 1.1 points for the third consecutive month, down to 98.6, standing below the 100 threshold (indicative of a negative perception of consumers), due to the decline of both, the current situation component, which decreased half a point, down to 90.1 and, to a greater extent, the expectations component, which fell by 1.5 points, down to 107.2. Likewise, the consumer confidence indicator, published by the European Commission (EC), fell 3.9 points in March, down to -3.5. In the first quarter of the year, the consumer confidence indicator of the EC registered an average value of -0.6, and that of the CIS of 100.2, in comparison to the -1.5 and 100.9, respectively, registered in the previous quarter.

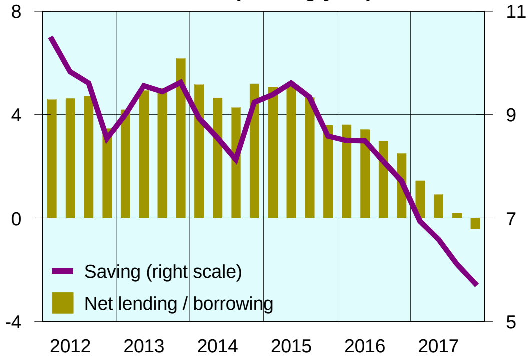
The reduction of households´ savings rate continues

According to the QNFAIS, households and non-profit institutions serving households (NPISHs) registered net lending in the fourth quarter of 2017 amounting to € 7.4 billion, 37.7% less than a year ago. This evolution is explained by the decline in savings in the sector (-10.9% y-o-y) and the increase in investment (20% y-o-y), while other net capital income increased by 9.8%, reaching € 224 million. In turn, the decrease in savings is explained by an increase in final consumption expenditure (4.1% y-o-y) higher than households´ gross disposable income (2.5%).

The y-o-y growth in households and NIPSHs gross disposable income (GDI) was due to the wage income growth (3.5%) and non-wage income growth (2.2%), as well as to the rise in current transfers received (4%), partially offset by the increase in current taxes on income and wealth (8.5%) and current transfers paid (3.9%).

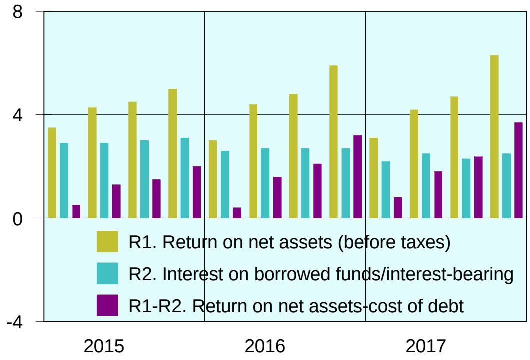
The gross saving rate stood at 10.3% of GDI in the fourth quarter of 2017, compared to the 11.8% registered in the same period of 2016. The savings rate of households and NPISHs stood at 5.7% of its GDI in the fourth quarter of 2017, four tenths lower than that of the third quarter and the record low of the current series.

G 2. HOUSEHOLD SECTOR
% GDI (moving year)



Source: INE.

G 3. CBQ. PROFIT RATIOS (%)



Source: BE (Central Balance Quarterly).

Indicators of investment in equipment show favourable signs

The available short-term information on equipment investment shows favourable signs. Truck registrations, according to the figures provided by the ANFAC, rebounded in the two month period from January to February, registering a y-o-y rate of 22%, compared to the 7.4% increase registered in the last quarter of last year, and domestic large firms´ sales of equipment and software, deflated, and with fixed-sample and seasonal and calendar adjusted data, accelerated two points in January, up to 8.3% y-o-y.

On the other hand, according to the Business Tendency Survey, the Industry Climate Indicator for investment goods fell 8.8 points in March, compared to the previous month, reaching a balance of 6.9 points. This evolution is attributed to the stock level and production expectations components, while the orders portfolio component evolved favourably. The first quarter ended with a balance of 15.1 points, nine tenths lower than the previous quarter.

Non-financial corporations increase their net lending in the last quarter of 2017

According to the QNFAIS data, non-financial corporations showed a net lending position equal to € 10.3 billion in the fourth quarter of 2017, € 2.9 billion higher than that registered a year earlier. This greater net lending of the sector is due to the fact that the increase in the companies disposable income (12.3% y-o-y) was greater than the rise in investment (7%) and the reduction in other net capital income (they went from € 2.7 billion in the fourth quarter of 2016 down to € 2.6 billion euros in the same period of 2017). In turn, the greater amount of companies disposable income compared to a year earlier, is explained by the growth of the gross operating surplus (6.3%) and the decrease in net current transfers paid (-26.9%) and the amount allocated to pay the corporate income tax (22.4%), partially offset by the increase in net property income paid (12.9%). The rise of the companies´ gross value added (5.2%) and of net subsidies on production (12.9%) contributed to the gross operating surplus increase, while the compensation of employees registered a y-o-y increase of 4.5%.

Construction investment indicators continue to grow at a high rate

The indicators related to residential investment continue the expansionary trend. According to the INE Statistics based on the properties recorded in the Property Registers, housing sales slightly moderated the y-o-y growth rate by 6.9 points in February 2018, to 16.2%. This was due to the lower dynamism of used housing purchases, whose y-o-y variation rate stood at 16.2% (23% in January), as well as of new housing purchases, which rose by 16.4%, 7.1 points less than in the previous month.

On the other hand, the number of mortgages on housing stood at 29,778 in January, which represents a y-o-y increase of 9.2%, after the null variation registered in the previous month. The average amount per mortgaged house registered an increase of 7.9%, 5.3 points higher in comparison to the figure recorded in December last year, so the capital borrowed rose by 17.8%, 15.2 points more than in the previous month.

Finally, in real terms, the price of private housing rose 1.6% in the fourth quarter of 2017 (1% in the third quarter) according to the statistics of the Ministry of Public Works (according to appraisal values), while according to the INE statistics (based on sale scripts), it grew by 5.7% in that same period, eight tenths more than in the previous quarter.

The Central Balance Sheet results show an improvement in corporate profitability ratios

According to the Quarterly Central Balance Sheet data published by the Bank of Spain, non-financial corporations included in the sample recorded an increase in their productive activity in the last quarter of 2017, the y-o-y variation of its nominal Gross Value Added (GVA) reaching 1.4%, six tenths higher compared to the figure registered in the previous quarter. The greater dynamism of the activity, together with the stabilisation of the personnel expenses growth rate (3.4% y-o-y, as in the previous quarter), resulted in a more moderate decrease of the gross economic result (GER), 0.4% y-o-y, compared to the 1.5% decline recorded in the previous quarter. In turn, the more moderate decline of the GER, together with the lower fall experienced by financial expenses (-7.2%, compared to a rate of -15.6% registered in the third quarter of 2017), resulted in a net ordinary income (NOI) increase of 6.4%, 2.6 points lower than the figure recorded in the third quarter.

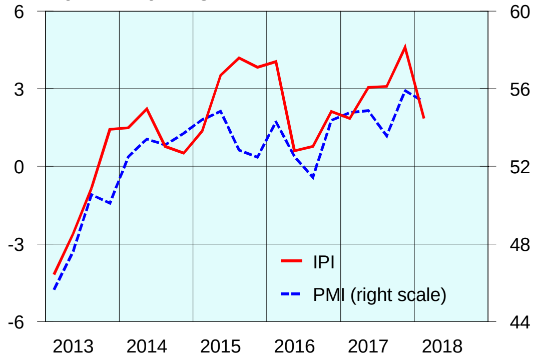
In this context, the ordinary return ratios continued to grow. Thus, the ordinary return on net assets for all the companies in the sample stood at 6.3% in the fourth quarter of 2017, 1.6 points higher than the figure recorded in the previous quarter. On the other hand, the ratio that measures the financial cost (financial expenses over liabilities) stood at 2.5%, two tenths higher than in the previous quarter, so the differential between them (which is an indicator of companies' economic incentives to invest), rose 1.3 points, reaching 3.7 percentage points.

Industrial activity indicators show mixed results

From the supply point of view, amongst the industrial activity indicators, the Industrial Production Index (IPI), with calendar adjusted data, gained momentum in February 2018, recording a y-o-y increase of 3.1%, three points higher than in the previous month. By destination groups, the higher IPI y-o-y dynamism is explained by the rebound of energy and, to a lesser extent, by the acceleration of intermediate goods, an evolution partially offset by the slowdown experienced by equipment and consumer goods. Specifically, energy went from registering a 7.9% fall in January to an increase of 5.3% in February, and intermediate goods rose by 4.8%, eight tenths more than in the previous month. On the other hand, equipment and consumer goods moderated their growth rate by 1.9 and 0.5 points, respectively, to 2.1% and 0.1% y-o-y.

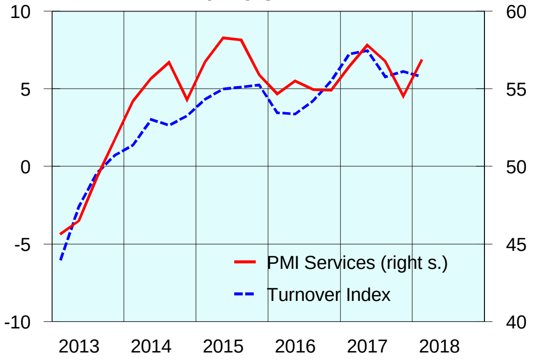
The Industry Turnover Index (ITI) and the Industry New Orders Index (INOI), adjusted for calendar effects, showed a lower dynamism in January, experiencing y-o-y increases of 5.7% the former and 6.9% the latter (9.6% and 8.6% in the previous month). This evolution is mainly due to the slowdown of intermediate and consumer goods in both indices and, moreover, in the case of the ITI, to the less expansionary trend of equipment goods.

G 4. PRODUCTION AND PMI IN THE INDUSTRY
year-on-year growth rate in % and index



Sources: INE and Markit group.

G 5. SERVICES: PMI AND TURNOVER INDEX
index and y-o-y growfh rate in %



Sources: INE and Markit group.

The lower activity dynamism of the industrial sector was also reflected in the qualitative indicators. The manufacturing PMI reached 54.8 in March, 1.2 points lower than in the previous month, due to the growth rate moderation of the manufacturing production, even though it remained at high levels due to the sharp rise registered by new orders. On the other hand, the industrial confidence indicator, published by the European Commission fell half a point during that month in comparison to the previous month, reaching 1.9, as a result of the rise of the stock of finished products component, in spite of the improvement of the order portfolio and production expectations. The first quarter of 2018 ended with an average Industry PMI value of 55.3, six tenths lower than in the previous quarter and with an average confidence level in the sector of 2.8 points, versus 4.3 in the last quarter of 2017.

The activity in the construction sector improves at the beginning of 2018…

Activity in the construction sector continued the recovery trend in the first months of the year. Thus, the Construction Production Index (CPI), deflated and with calendar adjusted data, published by Eurostat, eased the y-o-y falling rate in January 2018, almost ten points, to 3.6%. The less contractionary trend of the CPI is explained by the evolution of the building component, whose rate stood at -2.4%, eight points higher than in December 2017 and, to a greater extent, by the civil works component, which fell by 9.3%, after the sharp fall (-26.8%) recorded in the previous month.

...and leading indicators maintain the expansionary trend

With regards to construction activity leading indicators, according to construction new permits of the Ministry of Public Works, floorage approvals in new construction accelerated 3.4 points in January, up to 11.3% y-o-y, due to the rebound of the non-residential component, which registered a 12.2% increase, after the 13.6% fall recorded in the previous month, partially offset by the lower dynamism of the residential component (11.1%, versus the 15.3% registered in December). In parallel, the official tenders continued to grow strongly, albeit at a more moderate pace, going from a 114.7% rate in December to 55.7% in January, due to the slowdown in both the building component (14.2% in January, in comparison to the 96% registered in the previous month) and the civil works component (40.1 points, to 82.6%).

On the other hand, among the most recent qualitative indicators, the confidence in construction, according to the EC indicator, edged downwards by half a point in March compared to the previous month, registering a balance of -5.2 points, ending the first quarter of 2018 with an average level of -4.3 points, 11.4 points higher compared to the figure recorded in the previous quarter (-15.7).

The services sector indicators continue to grow strongly

With regards to the services sector, the Services Sector Turnover Index (SSTI), with work calendar adjusted data continued its dynamism, although with slightly more moderate growth rates. Thus, the SSTI registered a 5.8% y-o-y increase in January, four tenths lower than the previous month, due to the trade evolution, which slowed down 1.1 points, to 5.1%, while other services recorded a rate of 6.8%, half a point higher than in December.

Amongst the most recent qualitative indicators related to the services sector, the confidence indicator in the sector, published by the EC, rose by 2.8 points in March, reaching 26.6, ending the first quarter of 2018 with an average balance of 23.5 points, in comparison to the 22.3 points registered in the previous quarter. On the other hand, the service PMI indicator corresponding to March reached 56.2, more than one point lower than the figure registered in February (57.3), ending the first quarter with an increase of 2.3 points compared to the previous quarter, to 56.8.

Tourism-related indicators showed in general, a less expansionary trend, as shown by the number of tourists that visited Spain, which increased by 2.6% y-o-y in February, half as much as in January (5.2%). The expenditure by foreign tourists who visited Spain points in the same direction, which stood at € 4.5 billion in that month, 4.7% higher than a year earlier (5.6% in January).

Overnight stays in hotels recorded a y-o-y increase of 1% in February 2018, three tenths less than in the previous month. This slight slowdown was due to the lower dynamism of domestic overnight stays, whose stays increased by 0.6%, compared to the 2.3% rise registered in the previous month, partially offset by the acceleration of foreign overnight stays, four tenths, to 1.2%. On the other hand, in the same month, air passenger traffic accelerated almost half a point, up to 9.2% y-o-y, as a result of the greater expansionary trend of both the domestic and international components.

Prices

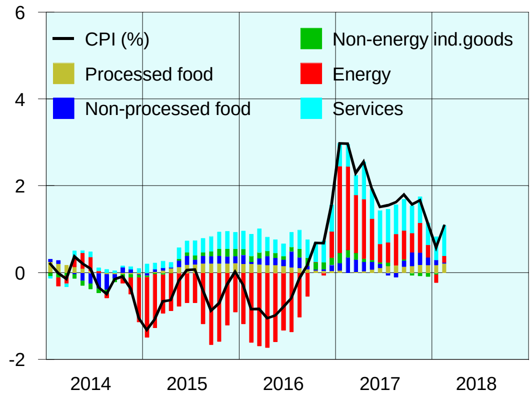
Inflation rises half a point in February, up to 1.1%

The Consumer Price Index (CPI) rose by 1.1% y-o-y in February, a rate half a point higher than that registered in January (0.6%). The inflation increase in February is explained by the rise in energy products prices, after the fall recorded in the previous month, as well as by the acceleration of services prices and, to a lesser extent, of non-energy industrial goods prices (BINE), partially offset by the lower growth rate of food prices.

Energy products prices rise slightly

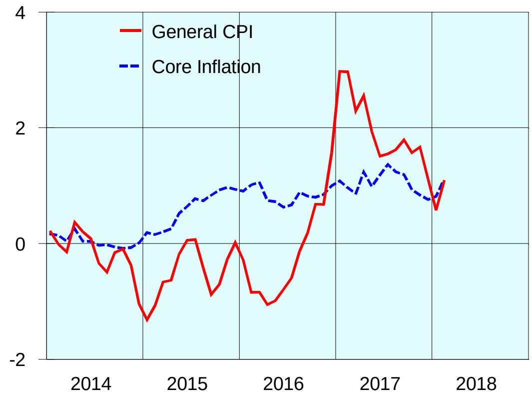
Energy products prices rose by 1.4% y-o-y in February, following the 1.7% fall recorded in January, due to the evolution of electricity prices, which went from registering a y-o-y rate of -13% in January to 0.5% in February. The prices of the other energy components slowed down, especially fuels and lubricants prices, 1.8 points down to 0.7%.

G 6. CPI GROWTH CONTRIBUTION BY SECTORS
in percentage points



Sources: INE and SGACPE.

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



Source: INE.

Non-processed food prices grew by 0.3% in February, 1.3 points less than in the previous month, mainly due to the greater drop in the fresh vegetables and legumes prices (-10.6%, after the 3% decrease recorded in the previous month).

Core inflation increases three tenths, up to 1.1%, coinciding with the general inflation

Core inflation, which excludes the most volatile elements from the CPI (non-processed food and energy products), rose three tenths in February reaching 1.1%, coinciding with the general inflation.

Services prices rose 1.7% y-o-y in February, four tenths more than in January, mainly due to the acceleration, of almost six points, of tourist packages prices, up to 3.8% (-1.9% in the month previous), and telephone and fax services prices, which increased by 3.8% y-o-y, compared to the 2.1% registered in the previous month.

Non-energy industrial goods prices stabilised in y-o-y terms, after the 0.2% fall recorded in the previous month.

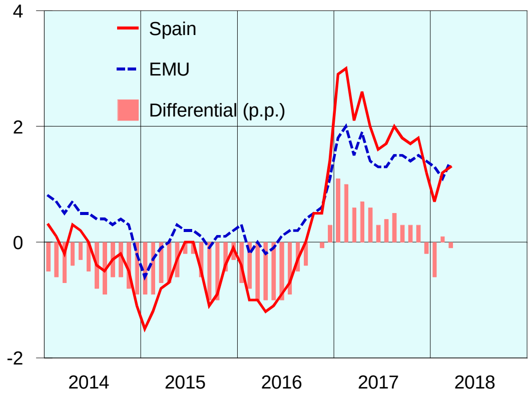
For its part, processed food, beverages and tobacco prices accelerated three tenths in February, up 1.4% y-o-y, mainly boosted by the products included in the category of bread and cereals, whose prices accelerated six tenths, up to 0.5%.

According to the CPI flash estimate, inflation increases one tenth in March, up to 1.2%

According to the flash estimate published by the INE, the y-o-y rate of the national CPI stood at 1.2% in March, a rate one tenth higher than the figure registered in February. In this behaviour the evolution in food and non-alcoholic beverages and tourist services prices stands out.

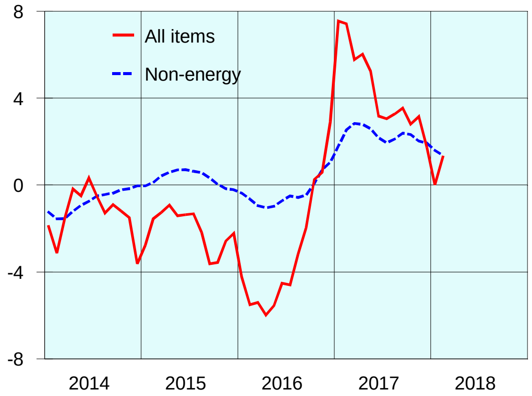
The harmonised inflation, estimated by the Spanish HICP flash estimate, stood at 1.3% y-o-y in March, a rate also one tenth higher than that registered in February. For its part, the Eurozone's HICP flash estimate, published by the Eurostat, recorded a y-o-y increase of 1.4% in March, three tenths higher than the figure registered in February, so the inflation differential against the Eurozone favourable to Spain stood at one tenth.

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



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

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



Source: INE.

The PPI rises 1.3% y-o-y in February

The Producer Price Index (PPI) registered a 1.3% y-o-y rise in February, in comparison to the stability registered in the previous month, mainly due to the increase in energy prices, after the fall recorded in the previous month, partially offset by the slowdown of the other components.

Energy production prices rose by 1.4% y-o-y in February, compared to the 4.4% decrease 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 more than thirteen points, down to 1.8%, which is largely explained by the base effect associated with the strong m-o-m fall recorded a year earlier (2.4% m-o-m in February 2018, compared to the -11.1% registered in the same month of 2017).

The non-energy PPI slowed down two tenths in February, to 1.4% y-o-y. All its components contributed to this evolution, especially intermediate goods and non-durable consumer goods.

Intermediate goods prices moderated the growth rate by three tenths, to 2.4%. For its part, the consumer goods prices slowed down by three tenths in February, to 0.6%, due to the evolution of non-durable consumer goods (0.6% y-o-y, a rate three tenths lower than that of the previous month), especially the manufacture of olive oil (-3.4%, in comparison to the 5% rise recorded in January), while durable consumer goods prices accelerated three tenths, up to 1% y-o-y. Equipment goods prices moderated their growth rate by one tenth, to 0.6%.

Labour market

The number of Social Security covered workers increased by 3.3% y-o-y in March this year, two tenths less than in February, ending the first quarter of 2018 with a y-o-y increase of 3.4%, one tenth less than the figure registered in the previous quarter. For its part, registered unemployment showed a y-o-y drop of 7.6% in March, one tenth more versus the previous month, falling by 7.5% y-o-y in the first quarter, half a point less than in the previous one.

With regard to costs, according to the Labour Costs Quarterly Survey, the labour cost per worker increased by 0.7% y-o-y in the fourth quarter of 2017, with calendar and seasonally adjusted data, while in terms of effective worked hour, it registered an increase of 0.6% y-o-y, with calendar and seasonally adjusted data. For its part, with information up to March, agreed wages in collective agreements with effects in 2018 grew by 1.5% y-o-y, the increase reaching 1.7% among those signed this year.

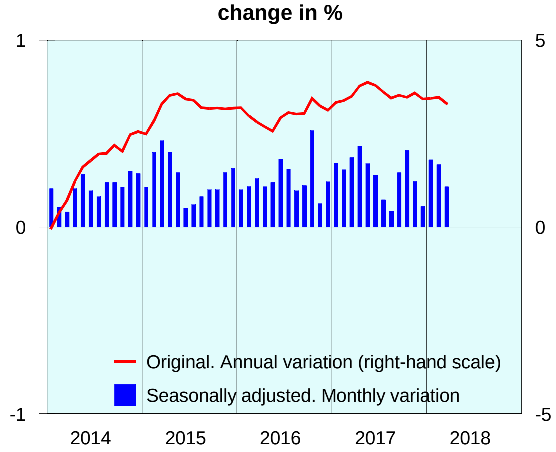
Social Security covered workers exceeds 18.5 million for the first time since late 2008

The average number of Social Security covered workers rose by 138,573 people in March this year compared to the previous month (161,752 Social Security covered workers more in March 2017), reaching 18,502,088, a level not reached since the end of 2008.

By branches, with unadjusted data, the number of Social Security covered workers decreased in comparison to the previous month in agriculture (11,095 fewer Social Security covered workers) and increased in the other sectors, mainly in services, with 137,548 more covered workers, followed by industry and construction, registering 6,334 and 5,745 more Social Security covered workers, respectively.

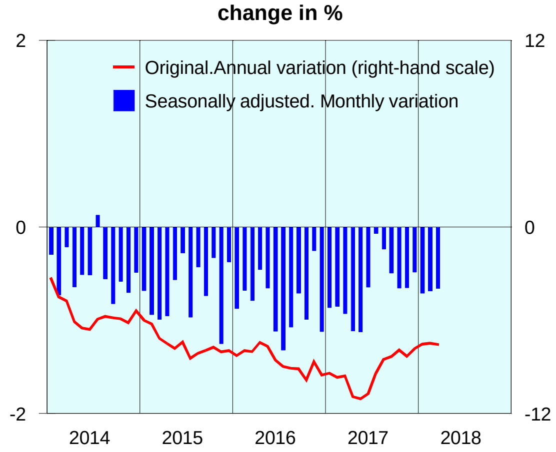
By NACE activity sections, with unadjusted data and for the General (excluding Agrarian and Domestic Workers Special Systems) and Self-employed Regimes, the largest m-o-m increases in Social Security covered workers correspond to hospitality (62,263 more Social Security covered workers, compared to the rise of 54,108 recorded in March 2017, a year in which the Easter Holidays were celebrated in April, while this year they were held in March) and, lo a lesser extent, education (18,611 more Social Security covered workers, after the 8,864 growth registered in the same month of 2017), trade (10,558 more Social Security covered workers, in line with the 9,366 covered workers more recorded in March 2017) and administrative activities and auxiliary services (10,254 more Social Security covered workers, versus the increase of 15,849 recorded in March 2017). Conversely, the largest decrease in Social Security covered workers was registered in Public Administration, defence and compulsory social security (5,421 fewer covered workers, after the rise of 8,318 Social Security covered workers recorded in the same month of the previous year).

G 10. SOCIAL SECURITY-COVERED WORKERS
change in %



Source: MESS.

G 11. REGISTERED UNEMPLOYMENT
change in %



Source: MESS.

With seasonally adjusted data, Social Security covered workers increased by 40,337 people in March compared to the previous month, 0.2% m-o-m, a rate one tenth lower compared to the figure recorded in February.

In y-o-y terms, Social Security covered workers rose by 592,081 people in March, which represents a rate of 3.3%, two tenths lower in comparison to that registered in the previous month. By branches, the slight slowdown of Social Security covered workers in y-o-y terms was mainly due to the lower growth of Social Security covered workers in construction (5.7%, a rate 1.5 points lower than the previous month), as well as to the largest drop in agricultural covered workers (six tenths, down to -1.1%) and the two tenths slowdown of Social Security covered workers in industry (3.2%), while covered workers in services continued to grow by 3.5%, for the fourth consecutive month. Non-agricultural Social Security covered workers grew by 3.6%, a rate one tenth lower in comparison to the figure registered in the previous month.

By NACE activity sections, with unadjusted data and for the General (excluding Agrarian and Domestic Workers Special Systems) and Self-employed Regimes, the slowdown by 1.5 and 1.4 points in Social Security covered workers in construction and public administration and defence and compulsory social security stands out, down to 5.7% and 2.4%, respectively. On the other hand, the higher growth rate of Social Security covered workers in education and in hospitality should be noted (7.6% and 4.2%, respectively, compared to the rates of 6.7% and 3.8% recorded in the previous month).

According to the professional situation, the acceleration in the number of Social Security covered people is due to self-employed workers, whose growth rate increased by one tenth, up to 1%, while wage-earners slowed down by two tenths, to 3.8%.

In the General Regime and for the 13 million covered workers whose type of contract is specified in the statistics, 59% of the y-o-y job creation in March was permanent and 41% temporary, with a y-o-y increase of 4.1% for the former, one tenth more than in February, and of 5.8% for the latter (6.8% in the previous month).

In the first quarter of 2018 as a whole, the annual variation rate of Social Security covered workers was 3.4%, very similar to the one registered in the fourth quarter of 2017 (3.5%).

Registered unemployment falls in March by 7.6% y-o-y

Registered unemployment fell by 47,697 people in March compared to the previous month (48,559 unemployed less in the same period of last year). As a result, the total number of registered unemployed stood at 3,422,551.

By branches, and with unadjusted data, registered unemployment fell, compared to the previous month, mainly in services (52,905 less people) and to a lesser extent, in industry, where 1,671 fewer unemployed were recorded, while unemployment increased in construction and agriculture, with 1,592 and 449 more unemployed, respectively. In the group without a previous employment, unemployment increased by 4,838 people.

With seasonally adjusted data, registered unemployment fell by 22,112 people in March in comparison to the previous month, which represents a m-o-m fall rate of 0.7%, for the third consecutive month.

In y-o-y terms, unemployment dropped by 279,766 people in March, by 7.6%, a rate of decline one tenth higher than the figure registered in the previous month.

By branches, registered unemployment intensified the pace of y-o-y decline by seven tenths in services, down to 6.5%, and four tenths in agriculture, to 8.5%, while in construction and industry it recorded rates of decline of 13% and 10.1 %, respectively, 2.5 and one point lower in comparison to February.

Youth unemployment (people below 25 years old) fell by 25,037 people in the last year, which represents an 8.4% y-o-y drop (-8.5% in February).

In the first quarter of 2018 as a whole, the y-o-y variation rate of registered unemployment was -7.5%, which represents a rate of decrease half a point less pronounced than that recorded in the last quarter of last year.

The average labour cost increases by 0.7% y-o-y in the fourth quarter of 2017

According to the Quarterly Labour Cost Survey, in the fourth quarter of 2017 the average labour cost per worker and month stood at € 2,669, a figure 0.7% higher to the one registered in the same quarter of 2016 (€ 2,650), after the 0.4% rise registered in the previous quarter. This evolution was due both to the wage cost and the other costs, which accelerated by two and eight tenths, respectively, in the fourth quarter, up to 0.5% and 1.5%.

Total wage cost grew by 0.5% y-o-y, two tenths more than in the previous quarter, up to € 2.020 (75.7% of total labour cost). This acceleration is entirely explained by extraordinary payments, which grew by 0.8%, compared to the 2.4% fall recorded in the previous period, partially offset by the lower growth rate of the ordinary wage cost, which rose by 0.3%, after rising by 0.5% in the previous quarter. For its part, payment in arrears increased by 3.1%, as in the previous quarter.

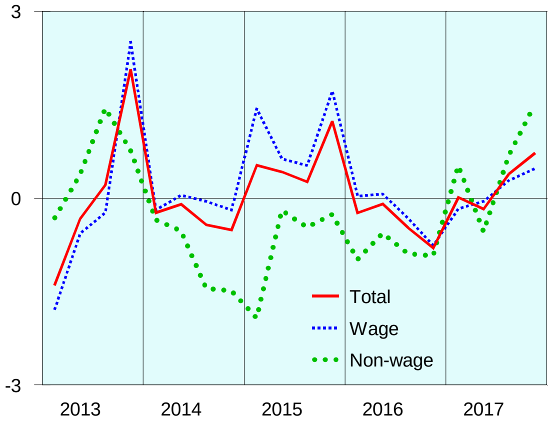
The non-wage component, called "other costs", with original series (€ 649, 24.3% of the total labour cost), registered a 1.5% increase in the fourth quarter of last year, eight tenths higher in comparison to the figure recorded in the previous period. This acceleration was mainly the result of the strong rebound of non-wage payments and, to a lesser extent, the higher rate of increase in mandatory contributions. In particular, non-wage payments increased by 1.2%, compared to the 4.8% drop registered in the previous quarter, mainly due to the dismissal cost, which accelerated by 17.1 points in the fourth quarter, up to 7.8%, and mandatory contributions increased by 1.2%, one tenth more than in the previous period. For its part, the subsidies and bonuses of the Social Security fell by 6.9%, 2.3 points more than the figure registered in the previous quarter.

With calendar and seasonally adjusted data, the labour cost per worker and month rose by 0.7% y-o-y in the fourth quarter (0.3% in the previous quarter). Both the wage and non-wage costs accelerated, by three and eight tenths, respectively, up to 0.5% and 1.5%.

From a sectorial point of view, the labour cost rose both in industry, 1.1% y-o-y (0.3% in the previous quarter), and in services, 0.7% (0.4% in the previous quarter), while it fell by 0.2% in construction, compared to the 0.1% growth registered in the third quarter. With regards to the wage cost, it accelerated both in industry and in services, eight and one tenth, respectively, up to 1% and 0.4%, while it intensified the pace of decline in construction, two tenths, down to 0.3%.

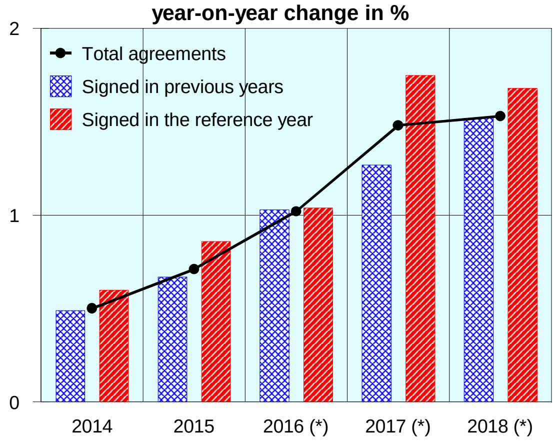
With seasonally and calendar adjusted data, the labour cost per effective worked hour increased in the fourth quarter by 0.6% y-o-y (-0.1% in the third quarter), and the wage cost per effective hour, by 0.3% (-0.1% in the previous quarter).

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



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

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



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

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

According to the Collective Bargaining 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 March 2018), the same as the wage increase agreed in 2017, revised.

Of all the workers affected by the agreements signed up to March and with effects in 2018, 96.5% correspond to agreements signed before the aforementioned year (4,841,578 workers, 1,904 agreements) and the remaining 3.5% to new agreements signed in 2018 (177,586 workers, 101 agreements), with wage increases of 1.5% and 1.7%, respectively.

With regards to the coverage, the agreed wage variation in company agreements (1.3%) was lower than that signed in a higher level (1.5%).

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

Up to March 2018, 297 opt-outs were registered affecting 5,684 workers, 22.2% less than in the same period of 2017.

External sector

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

According to the Balance of Payments data, in January 2018, the Spanish economy generated net lending to the rest of the world of € 2 million, compared to the net borrowing of € 214 million recorded a year earlier. This evolution is due to the improvement of the capital account balance.

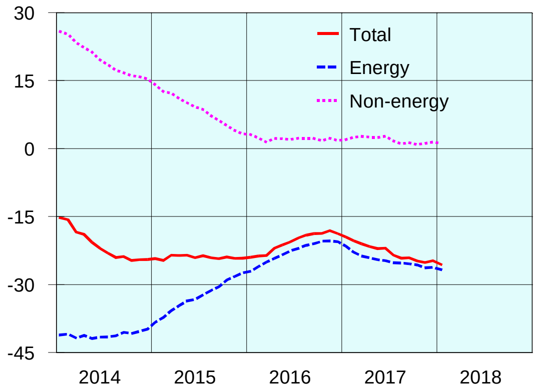
The current account balance recorded a € 445 million deficit in January, compared to the deficit of € 327 million registered in the same month of 2017, as a result of the decrease in the balance of goods and services, which went from a surplus of € 707 million to a deficit of € 7 million, partially offset by the 57.6% y-o-y reduction of the deficit of primary and secondary income. Meanwhile, the surplus in the capital account ended at € 447 million, almost four times higher than the figure recorded in January of the previous year.

The trade deficit increases in January 2018

According to Customs data, the trade balance recorded a deficit of € 3.9 billion in January 2018, compared to a deficit of € 3.1 billion registered a year earlier. The trade deficit increase was due to the rise in the deficits of its two components, energy (18.6%) and non-energy (67.1%).

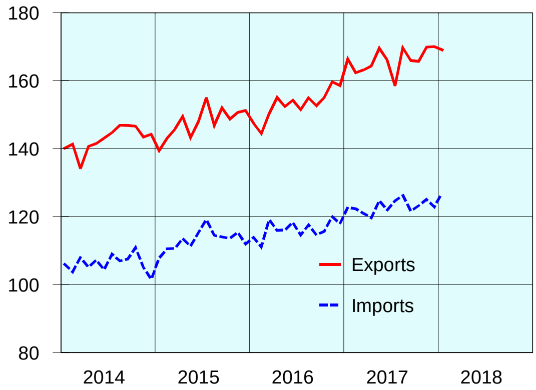
In cumulative terms for the last twelve months up to January 2018, the trade balance recorded a deficit of € 25.5 billion, compared with the € 19.5 billion deficit accumulated in the twelve months up to January 2017. The 31% worsening of the external balance is explained by the energy component deficit increase, of 24.1%, up to € 26.7 billion, and by the decrease in the non-energy surplus, of 42.7%, down to € 1.1 billion.

G 14. TRADE BALANCE
accumulated 12 months, billion euros



Sources: DA and SGACPE.

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



Sources: DA and SGACPE.

Real exports of goods continue the dynamism in January

According to Customs figures, goods exports increased in January by 6.5% y-o-y, and their prices, approximated by unit value indices, rose by 1.9% (1.2% in December 2017), resulting in a 4.5% rise in real terms, after the 4.7% growth registered in December last year. The analysis by product groups in real terms and in y-o-y rates, showed in January an uneven performance in the different categories in comparison to the previous month. Exports of food consumer goods and capital goods grew by 3.9% and 1.4%, respectively, after the falls registered in December, of 2.2% and 0.4%; those of non-energy intermediate goods accelerated 0.8 points, up to 3.5%; and exports of non-food consumer goods and intermediate energy goods slowed down by 2 and 37.3 points, to 7.8% and 2.2%, respectively.

By geographical areas, exports in volume to the European Union increased by 4.8% y-o-y in January, in comparison to the 6.8% rise registered in December, and exports outside the Union accelerated by 3.7% (0.9% in the previous month).

On the other hand, goods imports increased by 8.9% y-o-y in nominal terms in January, and their prices rose by 2.3% (2% in December). This prices change reflect increases of 4.1% in energy goods prices and of 1.9% in other products prices. As a result, imports in real terms, experienced a y-o-y increase of 6.5%, following the 1.6% increase registered in the previous month. The analysis by products of imports in real terms and in y-o-y rates registered a generalised acceleration in all groups. The imports of food and non-food consumer goods went from registering negative rates in December last year (-1.8% and -0.9%, respectively) to record increases of 4.5% and 9.3%, respectively, while capital, energy intermediate and non-energy intermediate goods accelerated 1, 1.9 and 1.8 points, respectively, up to 2.3%, 11.4% and 4.7%.

By geographical areas and in real terms, imports from the European Union rose by 3.2% y-o-y in January, following the 3.6% increase registered in December and real imports from the rest of the world recorded an increase of 10.6%, after the 1.2% fall registered in the previous month.

The "momentum" of exports remains positive

The "momentum" (change during the last three months in comparison to the previous three months) of exports, in real terms, registered a positive rate in January (1.5%) for the fourth consecutive month, due to the positive contribution of EU countries, which more than offset the negative contribution of non-OECD countries. By products, the positive contribution of consumer goods stands out, specially non-food consumer goods. The "momentum" of imports became positive in January (1.1%), after two months registering negative rates, due to the positive contribution of EU countries and, to a lesser extent, of non-OECD countries. By products, the positive contribution of intermediate energy goods stands out.

The financial balance generates net capital outflows in January

According to the Balance of Payments, in January 2018 the financial balance, excluding the Bank of Spain assets, generated net capital outflows of € 26.2 billion, versus the net outflows of 25.6 billion recorded a year earlier. This result is explained by the net outflows registered by direct investment (€ 1.6 billion), portfolio investment (€ 13.4 billion) and other investments (€ 11.3 billion), while financial derivatives (€ 68 million) registered net inflows.

The assets net variation recorded net capital outflows (investments) of € 7.7 billion in January, versus the net outflows of € 10.3 billion registered in the same month of 2017. On the other hand, the liabilities net variation generated net outflows (disinvestments) of € 18.5 billion, higher than the net outflows of € 15.2 billion recorded a year earlier.

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

The net debtor position of the Bank of Spain vis-à-vis the rest of the world increased by € 23.8 billion in January, due to an increase of € 24.1 billion in the net debtor position vis-à-vis the Eurosystem and a decrease of € 167 million in the remaining net assets. On the other hand, reserves increased by € 525 million.

The debtor balance of the Net International Investment Position falls as a percentage of GDP

On the other hand, the Bank of Spain published the Net International Investment Position (NIIP) figures for the fourth quarter of 2017. During this quarter, the ratio of the net debtor balance over the GDP fell by 2.6 percentage points, down to 80.8%, reaching € 940.4 billion, compared to the € 932.8 billion registered in the fourth quarter of 2016.

Given that the debtor balance of the Net International Investment Position increased by € 7.6 billion euros in 2017 and the financial account, including the Bank of Spain, accumulated in the same period net capital outflows amounting to € 22.5 billion, it is estimated that a strong negative valuation effect has taken place.

The NIIP debtor balance, excluding the Bank of Spain, fell by € 30 billion in the fourth quarter of 2017 compared to the same period of the previous year. This reduction was the result of the decrease in the net debtor position of the portfolio investment and other investment. On the other hand, the Bank of Spain increased its net debtor position abroad by € 37.6 billion.

The ratio of the gross external debt on GDP fell 1.9 points, from 166.7% (€ 1.86 billion) in the fourth quarter of 2016, down to 164.8% (€ 1.92 billion) in the fourth quarter of 2017.

Public Sector

On 26th March, the Ministry of Finance and Civil Service published the data of non-financial transactions of the General Government and its subsectors, in terms of National Accounts, for year 2017 and the non-financial transactions of the Central Government, the Regional Governments and the Social Security Funds, with consolidated data and in terms of National Accounts, for January 2018. Likewise, the Ministry published the State monthly budget execution data up to February 2018, both in terms of National Accounts and Cash.

Furthermore, the Ministry of Employment and Social Security published the monthly budget execution data of the Social Security, in terms of Cash, up to February 2018.

On the other hand, the Bank of Spain (BoS) published the General Government Debt data, following the Excessive Deficit Procedure (EDP) methodology, for the fourth quarter of 2017 and the monthly data for January 2018, as well as the Debt data for the State, corresponding to February.

The General Government deficit falls in 2017 down to 3.11% of GDP, complying with the target

In 2017, the General Government recorded a deficit, in terms of National Accounts, of 3.11% of GDP (€ 36.2 billion), 1.40 p.p. lower compared to the deficit registered in 2016 (4.51%). Excluding the support provided to financial institutions (€ 475 million, equal to 0.04% of GDP), the General Government deficit in 2017 stands at 3.07% of GDP (€ 35.8 billion), 1.22 p.p. below the 4.29% recorded in 2016. Thus, the EU Council Recommendation consisting in reducing the deficit down to 3.1% in 2017 is met.

Excluding the effect of accrued interest expenditure (€ 29.8 billion), a primary deficit of € 6.4 billion is obtained for the total General Government, equal to 0.55% of GDP, 1.15 p.p. lower when compared to the figure recorded in the previous year. By subsectors, the decrease of 1.40 percentage points in the government deficit in 2017 is explained by the deficit reduction of the Central Government and the Regional Governments (0.80 and 0.52 p.p. respectively) and, to a lesser extent, by the decrease in the deficit of Social Security Funds (0.11 p.p.), while the Local Corporations decreased their surplus by two hundredths in comparison to last year.

The Central Government ended 2017 with a deficit of 1.90% of GDP (€ 22.1 billion), 0.80 p.p. above its target (-1.1% of GDP) and 0.80 p.p. below the deficit registered in 2016. Of this reduction, 0.72 points are due to the State and the remaining 0.08 to the Bodies of the Central Government.

The Central Government non-financial resources increased by 3.4% due to the rise registered by current taxes on income and wealth (5.4%) and taxes on production and imports (4.0%).

On the other hand, the Central Government uses decreased by 0.7% in 2017, mainly as a result of the fall recorded by interest (-5.7%), contributions to the EU budget and support to financial institutions. Among the items that increased, social benefits other than social transfers in kind (4.6%) and transfers to other general government units (1.9%) should be noted.

On the other hand, the Regional Governments reached a deficit in 2017, in terms of National Accounts, of 0.32% of GDP (€ 3.7 billion), 0.28 p.p. below the target (-0.6% of GDP) and 0.52 p.p. below the deficit recorded in 2016 (0.84% of GDP).

This deficit decrease is mainly due to three factors: (i) the greater contributions from the financing system (both due to higher advanced payments and the result of the final settlement for year 2015); (ii) the greater resources from Tax on Property Transfers and Documented Legal Acts (14.7%); and (iii) the settlements of the financing system of Navarra and the Basque Country.

Thus, the Regional Governments non-financial resources increased by 6.6%, mainly due to the rise in tax revenues (9.9%) and the growth in transfers received from other general government units (6.0%), mostly coming from the Central Government.

On the other hand, uses increased by 2.9%, with rises in most of the items, and the growth of compensation of employees (2.0%) and gross fixed capital formation (9.0%) should be noted.

As regards the Local Government sub-sector, its surplus decreased slightly in 2017 in comparison to the previous year, 0.02 p.p. down to 0.59% of GDP (€ 6.8 billion), widely meeting the balanced budget target set for the year as a whole. This evolution is explained by an increase of non-financial resources lower than the one registered by non-financial uses (3.7% and 4.1%, respectively). Both in the case of resources and in the case of uses, the evolution is mainly explained by the increase in transfers between general government units.

Finally, Social Security Funds recorded a deficit of 1.48% of GDP in 2017 (€ 17.2 billion), lower by 0.11 percentage points than the one recorded in 2016 and slight higher (0.08 p.p.) than the target set (deficit of 1.4% of GDP).

Social Security Funds revenues increased by 2.8% mainly due to the rise in social security contributions (5.6%), which more than offset the decrease in transfers received from the State (-13.5%) and interest generated by the Social Security Reserve Fund (-50.2%).

On the other hand, expenditure rose by 2.2%, mainly due to the 2.0% rise of social benefits other than transfers in kind, boosted by those corresponding to the Social Security System, which increased by 3.4%, compared to the drop in unemployment benefits (-5.5%) and those of the Wage Guarantee Fund (known in Spanish as FOGASA) (-43.0%).

The General Government consolidated deficit, excluding Local Government, stands at 0.34% of GDP in January 2018

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded in January 2018 a deficit of € 4.1 billion (0.34% of GDP), 27.9% lower in comparison to the same month of 2017 (0.48% of GDP). This lower deficit is explained by a y-o-y increase of non-financial resources (8.7%) much higher than the one recorded by non-financial uses (2.3%).

The budget execution of the Central Government ended January this year with a deficit of € 5.2 billion, equal to 0.43% of GDP, seven hundredths below the one recorded in the same month of 2017 (€ 5.8 billion, 0.50% of GDP). This deficit reduction is due to a rise in non-financial resources (9.6%, up to € 12 billion), higher than that of non-financial uses (2.8%, to € 17.2 billion). The rise in resources is mainly explained by the evolution of taxes, which increased by 11.9% y-o-y.

The expenditure of the Central Government eligible to be included in the calculation of the expenditure benchmark increased by 27.2% y-o-y in January, registering an amount of € 8.1 billion. This evolution is due to the fact that no transfers were made to finance unemployment benefits in 2018, while € 1.6 billion were transferred in 2017.

With regard to Regional Governments, these accumulated a deficit of € 455 million equivalent to 0.04% of GDP in January this year, lower by six hundredths than that recorded in the same period of 2017 (€ 1.2 billion, 0.10% of GDP). This lower deficit is explained by a y-o-y increase of non-financial resources (8.5%) higher than the one recorded by non-financial uses (1.5%).

The expenditure of the Regional Governments eligible to be included in the calculation of the expenditure benchmark in the analysed period increased by 1.3% y-o-y, reaching € 10.7 billion.

As for Social Security Funds, these ended January with a surplus of € 1.6 billion (0.13% of GDP), 18.3% higher than the figure registered in the same period of 2017 (€ 1.4 billion, 0.12% of GDP). This higher surplus is due to an increase in non-financial resources (5.1%) higher than the rise registered by non-financial uses (3.6%).

The State's deficit in terms of National Accounts falls by 9.9% y-o-y up to February

Up to February 2018, the budget execution of the State ended with a deficit, in terms of National Accounts, of € 10.1 billion (0.83% of GDP), 9.9% lower than the deficit accumulated in the same period of 2017. This lower deficit was due to a y-o-y increase in non-financial resources (10.3%) much higher than that registered by non-financial uses (3.1%).

The increase in non-financial resources is mainly due to the rise of tax revenues (10.0%), in particular, to the increase in current taxes on income and wealth (17.5%) and on taxes on production and imports (8.6%). On the other hand, the increase in uses is due to the higher contribution to the EU based on VAT and GNI resources (34.1%) and to the rise of current transfers to other general government units (3.1%).

In terms of Cash, the State recorded a deficit of € 4.4 billion up to February 2018, lower by 4.4% to the figure recorded in the same period of 2017 (€ 4.6 billion). Non-financial revenues increased by 0.5% y-o-y, reaching € 21.8 billion, while non-financial expenditure decreased by 0.4%, down to € 26.2 billion.

It should be noted that, since August 2017, revenues have been affected by the implementation of the new Immediate Delivery of Information System (known in Spanish as SII) in the VAT, which according to the estimate provided by the Central Tax Agency, has implied a reduction in revenues in € 429 million up to the end of February.

Total tax revenue up to February increases by 4.4% in homogeneous terms, on Cash basis

Total tax revenue (including the Regional and Local Governments' share) recorded a y-o-y increase of 2.1% up to February. In homogeneous terms, that is, adjusted by the different tax refunds in both years, the IVMDH refunds (health cent), the deferrals of public entities and the SII impact, tax revenues rose by 4.4%. The remaining non-financial revenue decreased by 0.9%. Without including the Regional and Local Governments, and in non-homogeneous terms, tax revenues rose by 0.8%.

Within total taxes, revenue from Personal Income Tax, including the Regional and Local Governments' share, increased by 5.4% up to February, mainly due to the rise in labour income withholdings (6.6%). In homogeneous terms, after correcting the effect of tax refunds in both years and the deferrals of public entities, the Personal Income Tax increase stands at 6.4%.

Revenue from Corporate Income Tax recorded a negative figure of € 4.7 billion up to February, (€ -3.9 billion in the same period of the previous year), due to the 13.7% increase in the refunds made, corresponding to the 2016 tax declaration.

VAT revenue, including the Regional and Local Governments' share, increased by 3% y-o-y up to February. Correcting the impact related to the SII and tax refunds in both years, the net VAT collection in homogeneous terms increased by 2.7% when compared to the same period of 2017.

Excise duties collection, including the Regional and Local Governments' share, was 1.3% lower compared to the figure registered in the same period of 2017, mainly due to the decrease in the Excise on Tobacco Products (-7.7%), despite the rise in Tax on Hydrocarbons (2.7%).

The State non-financial expenditure decreases by 0.4% y-o-y up to February

With regard to expenditure, total non-financial payments decreased by 0.4% up to February in comparison to the amount accumulated in the same period of 2017, due to the fall of in interest expenditure (-10.5%), partially offset by the increase in the other items.

The borrowing requirement of the State rose by 171.1% up to February, compared to the same period of last year, reaching € 11.6 billion, versus the € 4.3 billion recorded in the same period of 2017. This increase is mainly due to the net rise of financial assets (€ 7.2 billion), compared to the net decrease registered in the same period of 2017 (€ 342 million), an evolution which in turn is explained by the sharp rise recorded in the net increase of financial assets of the current account in the Bank of Spain. The borrowing requirement was mainly financed through mid and long term domestic debt (€ 16.4 billion).

The Social Security records surplus up to February

On the other hand, up to February 2018, the Social Security System (Managing Entities, General Treasury and Mutual Insurers) recorded a surplus of € 2.5 billion in terms of Cash (0.21% of GDP), 7.5% below the figure recorded in the same period of 2017 (€ 2.7 billion). Revenues increased by 1.5% mainly due to the evolution of social contributions (5.1%, up to € 18.9 billion), more than offsetting the decrease of other revenues. On the other hand, payments increased by 2.8% mainly as a result of the rise registered by pensions (3.0%, up to € 18.3 billion).

The General Government EDP Debt ends 2017 at 98.3% of GDP

In the fourth quarter of 2017, the General Government Debt, according to the EDP methodology, reached 98.3% of GDP. This percentage is seven tenths lower than the one registered in the same quarter of the previous year (99.0% of GDP).

By subsectors, the Central Government Debt stood at 86.9% of GDP in the fourth quarter of 2017, two tenths above in comparison to the figure registered in the same period of 2016 (86.7%). On the other hand, the Regional Government EDP Debt reached 24.8% of GDP, a figure identical to the one registered in the fourth quarter of 2016. Local Government registered an EDP Debt equivalent to 2.5% of GDP in the fourth quarter of 2017, four tenths lower compared to the figure recorded in the same period of the previous year. Finally, the EDP Debt of the Social Security Administrations stood at 2.4% in the fourth quarter of 2017, compared to the 1.5% registered in the same period of 2016. This increase is due to the loans granted by the State to the General Treasury of the Social Security in July and November of 2017.

The General Government EDP Debt slows down in January 2018 in y-o-y terms

The General Government EDP Debt reached € 1,146.2 billion in January 2018, which represents a y-o-y increase of 3.0%, implying a decrease of three tenths in comparison to the figure registered in December last year (3.3%).

By subsectors, the State EDP Debt stood at € 996.0 billion, a figure 4.3% higher in comparison to that registered a year earlier. The Debt of Other Bodies belonging to the Central Government reached € 33.4 billion, which implies a 14.6% decrease in comparison to January last year. On the other hand, the Regional Government EDP Debt reached € 288 billion, 3.4% higher in comparison to the figure registered in the same month of 2017. The Local Government subsector registered in January an EDP Debt equal to € 29.0 billion, 9.2% lower versus a year earlier. Finally, the EDP Debt of the Social Security Administrations reached € 27.4 billion, a figure 59.3% higher than the one registered in January 2017 (€ 17.2 billion). This increase is due to the loans received from the State in July and November 2017.

In February, the State Debt, according to the EDP methodology, stood at € 1,007.3 billion, compared to the € 956.9 billion registered a year earlier, which represents a y-o-y increase of 5.3%, a rate one point higher in comparison to the figure registered in the previous month.

April 2018