April 2018

SPANISH ECONOMY REPORT

GOBIERNO
DE ESPAÑA

MINISTERIO DE
ECONOMÍA, INDUSTRIA
Y COMPETITIVIDAD

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

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

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

DEPÓSITO LEGAL: M-8493-2014

Elaboración y coordinación: Secretaría de Estado de Economía y Apoyo a la Empresa
Dirección General de Análisis Macroeconómico y Economía Internacional
Subdirección General de Análisis Coyuntural y Previsiones Económicas
Impresión: Centro de impresión digital y diseño.
Ministerio de Economía, Industria y Competitividad.

RECENT EVOLUTION OF THE ECONOMIC INDICATORS

Financial markets

The financial markets evolution in April was conditioned by the lower trade and geopolitical tensions, as well as by the publication of business results and macroeconomic indicators. In a context of increasing oil prices and extension of monetary policies by the main central banks, stock indices and public debt yields have increased and the euro has depreciated 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 26th April, 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 expects the key ECB official interest rates to remain at their present levels for an extended period of time, and well past the horizon of the net asset purchases.

Regarding non-standard monetary policy measures, the Governing Council expects the net asset purchases will continue at the current 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.

In the press conference that followed the meeting, the ECB president emphasised the slight slowdown of economic activity in the Eurozone in the first quarter of the year, and highlighted protectionism among the main risks.

The Fed maintains the interest rates and continues reducing its balance sheet

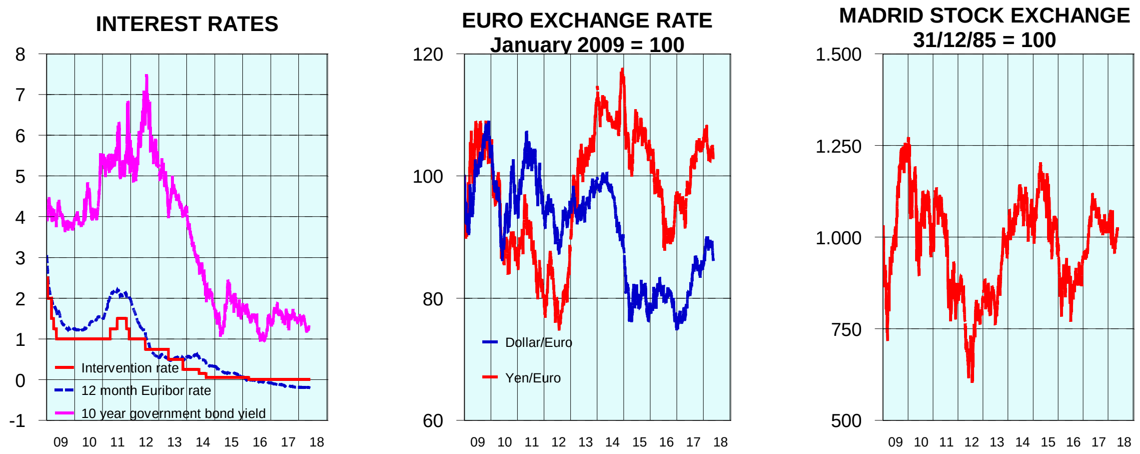
The Federal Open Market Committee (FOMC) of the Federal Reserve (Fed), in its two day meeting held on 1st and 2nd May, unanimously decided to maintain the Federal Funds interest rates within the target range of 1.50% and 1.75%, after the increase recorded in March and to continue with the progressive reduction of its balance sheet, only reinvesting the amount of monthly maturities exceeding 30 billion (18 billion in bonds and 12 billion in assets backed by mortgages). The FOMC stated that the monetary policy continues to be accommodative, supporting strong labour market conditions and a sustained return to 2% inflation.

In a context of an upward revision of the growth prospects, the FOMC confirmed that the labour market has continued to strengthen, the economic activity continues to grow at a moderate pace and it expects inflation to reach approximately the 2% target in the mid-term. Thus, a possibility exists for an interest rate rise in the next meeting to be held in June.

The BoJ maintains the interest rates and the monetary stimulus plans

In the meeting held on 26th and 27th April, the Bank of Japan (BoJ) decided to keep the negative interest to current accounts that financial institutions hold at the Bank (-0.1%). Similarly, the BoJ decided to keep its asset purchase programme unchanged, which expands the monetary base at an annual pace of approximately 80 trillion yen, and the exchange-traded funds programme (ETFs), which was increased to an annual pace of 6 trillion yen in its outstanding balance.

G1. MONETARY AND FINANCIAL INDICATORS (1)



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

The BoJ expects the economy to grow at a moderate pace, supported by the e measures, favourable financial conditions and external demand increase due to the expansion of the world economy. Likewise, the low inflation has forced the entity to stop considering the achievement of the 2% inflation target in 2019 as a likely case.

The 12-month Euribor remains stable, with negative values

In the interbank market of the Eurozone, interest rates remained negative in April, registering minor changes, in a context where the ECB maintained an accommodative monetary policy. Thus, on 4th May, the one, six and twelve-month Euribor stood at -0.372%, -0.269% and -0.190%, respectively, versus the -0.372%, -0.271% and -0.190% recorded at the end of March. The stability of the 12-month Euribor in this period is due to the expectations of stability in interest rates and in the risk premiums required in the market (the OIS and the Euribor-OIS differential did not change during this period).

European public debt yields increase

In the secondary public debt market, the risk aversion decline during April boosted yields upwards up to the last week of the month. However, since the end of April and during the first days of May, yields edged slightly downwards, in a context of extension of the monetary policies by the main central banks and of worse than expected evolution of some macroeconomic indicators.

Thus, the 10-year Spanish bond yield stood at 1.29% on 4th May, a figure 13 b.p. higher than that recorded on 29th March. On the other hand, the German bond yield rose by 5 b.p. in that period, up to 0.54%, the Spain-Germany differential standing at 75 b.p., 8 b.p. above the level recorded in late March. Meanwhile, the Spain- Italy differential stood at -51 b.p., 12 b.p. below the figure registered on 29th March. As an exception in the Eurozone, the yields decline in Greece (15 b.p.) in this period should be noted. In the United States, the 10-year bond yield rose 21 b.p. in this period, up to 2.95%.

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

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-29-17	Mar-29-18	May-04-18	Variation in spreads		Dec-29-17	Mar-29-18	May-04-18	Variation in spreads	
	(1)	(2)	(3)	Period (3)-(2)	Annual (3)-(1)	(4)	(5)	(6)	Period (6)-(5)	Annual (6)-(4)
Germany	0.43	0.49	0.54	5	11					
Finland	0.60	0.62	0.69	7	9	17	13	15	2	-2
Holland	0.53	0.64	0.69	5	16	10	15	15	0	5
Austria	0.58	0.72	0.76	4	18	15	23	22	-1	7
France	0.78	0.72	0.78	6	0	35	23	24	1	-11
Belgium	0.64	0.76	0.83	7	19	21	27	29	2	8
Ireland	0.67	0.92	0.96	4	29	24	43	42	-1	18
Spain	1.57	1.16	1.29	13	-28	114	67	75	8	-39
Portugal	1.94	1.62	1.67	5	-27	151	113	113	0	-38
Italy	2.00	1.79	1.80	1	-20	157	130	126	-4	-31
Greece	4.12	4.29	4.14	-15	2	369	380	360	-20	-9

Source: Financial Times.

The stock indices increase

In the stock markets, the lower trade tensions and geopolitical risk, the extension of the monetary policies by the main central banks, the increase in oil prices and the start of the business results season have all had a positive effect on the stock markets, driving the main stock indices upwards. In Europe, the Eurostoxx 50 index rose by 5.6% in the period between 29th March and 4th May this year. In Spain, the IBEX 35 presented a similar profile to that observed in the rest of European indices, registering a rise of 5.2% in that period and reaching 10,104.10 points. In the US market, after registering increases during the first weeks of the month, the S&P 500 index suffered a correction at the end of April, weighed down by the rise in the US bond yield, so the profits during the period moderated to 0.9%.

T 2. International stock exchange

Countries	Index	Level May-04-18	% Variation Mar-29-18	% Variation Dec-29-17
Germany	DAX	12,819.60	6.0	-0.8
France	CAC 40	5,516.05	6.7	3.8
Italy	FTSE MIB	24,335.02	8.6	11.4
Spain	IBEX 35	10,104.10	5.2	0.6
Eurozone	EUROSTOXX 50	3,550.59	5.6	1.3
United Kingdom	FTSE 100	7,567.14	7.2	-1.6
United States	S&P 500	2,663.42	0.9	-0.4
Japan	NIKKEI 225	22,472.78	6.2	-1.3
China	SHANGHAI COMP	3,091.03	-2.2	-6.5
Mexico	IPC	46,992.17	1.9	-4.8
Brazil	BOVESPA	83,118.03	-2.6	8.8
Argentina	MERVAL	28,553.27	-8.2	-5.0

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

The euro depreciates against the dollar

With respect to the currency market, the lower trade tensions, the evolution of macroeconomic indicators, the rise in the US bond yield and the expectations of an increase in interest rates in the United States following the Fed meeting, have strengthened the dollar exchange rate against the euro in April and the beginning of May. Thus, in the period between late March and early May this year, the euro depreciated by 2.9% against the dollar and by 0.6% against the yen, and appreciated by 0.9% against the pound, trading at the end of the 4th May session at 1,1969 dollars, 130.37 yen and 0.8824 pounds. In the same period, the euro depreciated by 0.7% in nominal effective terms vis-à-vis the group of industrialised countries.

The M3 broad monetary aggregate moderates the growth rate in March...

The M3 broad aggregate slowed down by half a point in March, to 3.7% y-o-y. This evolution is due to the growth rate moderation of currency in circulation and of overnight deposits (five tenths and one point, respectively, down to 2.4% and 8.4%) and the higher fall of marketable instruments (-7, 8%, compared to the -6.0% registered in the previous month), while other short-term deposits moderated the rate of decline by three tenths, to 2%.

T 3. Eurozone monetary aggregates

Monetary aggregates	March 2018 Balance (Billion €)	% Year-on-year variation January 2018	February 2018	March 2018
1. Currency in circulation	1,113	3.1	2.9	2.4
2. Overnight deposits	6,734	9.8	9.4	8.4
M1 (= 1 + 2)	**7,847**	**8.8**	**8.4**	**7.5**
3. Other short-term deposits (= 3.1. + 3.2.)	3,439	-1.9	-2.3	-2.0
3.1. Term deposits up to two years	1,174	-8.1	-9.2	-8.5
3.2. Deposits redeemable at notice up to three months	2,266	1.7	1.8	1.7
M2 (= M1 + 3)	**11,287**	**5.3**	**4.9**	**4.4**
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	651	-6.3	-6.0	-7.8
4.1. Repurchase agreements	72	-1.6	7.7	-1.6
4.2. Money market funds shares/units	503	-1.1	-2.4	-5.3
4.3. Securities other than shares up to two years	76	-38.7	-35.4	-25.5
M3 (= M2 + 4)	**11,937**	**4.6**	**4.2**	**3.7**

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 three tenths in March, down to 2.5%. This evolution is mainly due to the slowdown of securities other than shares (1.1 points, down to 3.9%) and the fall of shares and other equity (-0.2%), compared to the increase registered in February (1.1%), while the loans maintained the growth rate (2.6%). Within the loans, those received by households and non-financial corporations accelerated slightly (0.1 and 0.2 points, respectively, up to 3.0% and 2.2%), those received by other financial intermediaries slowed down 2.4 points, to 2.1%, and those received by insurance companies and pension funds fell by 0.5%, compared to the 2% increase recorded in February.

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

	March 2018 Balance (Billion €)	% Year-on-year variation		
		January 2018	February 2018	March 2018
Credit to the private sector	**13,194**	**3.0**	**2.8**	**2.5**
Loans	**10,945**	**2.9**	**2.6**	**2.6**
Households	**5,631**	**3.1**	**2.9**	**3.0**
House purchases	*4,241*	*3.1*	*2.9*	*3.0*
Consumer credit	*662*	*7.2*	*7.3*	*7.0*
Other lending	*728*	*-0.8*	*-0.6*	*-0.4*
Non-financial corporations	**4,347**	**2.3**	**2.0**	**2.2**
Insurance companies & pension funds	**112**	**-1.2**	**2.0**	**-0.5**
Other financial intermediaries	**855**	**5.5**	**4.5**	**2.1**
Securities other than shares	**1,465**	**4.5**	**5.0**	**3.9**
Shares and other equities	**783**	**2.2**	**1.1**	**-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 0.8% y-o-y in March

The stock of financing to the private non-financial sector in Spain fell by 0.8% y-o-y in March, one tenth more in comparison to February. Financing received by firms intensified the fall rate by three tenths, down to 0.7%, due to the slowdown registered by securities other than shares, while bank loans moderated the rate of decline and foreign loans decreased at the same pace as in the previous month. On the other hand, financing received by households recorded a y-o-y rate of -0.4% in March (-0.6% in the previous month), due to the slightly more moderate decline registered by bank loans for housing and the slight acceleration of loans for other purposes.

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

	March 2018 Balance (Billion €)	% Year-on-year variation		
		January 2018	February 2018	March 2018
Non-financial corporations and Households	**1,581**	**-0.1**	**-0.7**	**-0.8**
Non-financial corporations	**879**	**0.4**	**-0.7**	**-1.0**
Bank loans	*500*	*-0.4*	*-1.7*	*-1.4*
Securities[(1)]	*97*	*8.5*	*7.8*	*2.5*
External loans	*281*	*-0.6*	*-1.5*	*-1.5*
Households	**703**	**-0.7**	**-0.6**	**-0.4**
Bank loans. Housing	*526*	*-2.8*	*-2.7*	*-2.5*
Bank loans. Other	*177*	*5.9*	*5.8*	*6.0*
General Government	**-**	**3.0**	**3.8**	**-**
Total financing	**-**	**1.2**	**1.2**	**-**

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

The growth rate of new loan and credit operations to households and SMEs moderates

The amount of new loan and credit operations to households, in cumulative terms for the last twelve months, increased by 9.2% y-o-y in March, 0.8 points less in comparison to the figure registered in the previous month. This evolution is due to the slowdown of the loans for housing, consumption and for other purposes (0.3, 1.9 and 0.4 points, respectively, down to 4.7%, 15.6% and 9.2%). The amount of new loan and credit operations to SMEs (using as a proxy for these credits those under one million euros) rose by 8.2% y-o-y, in cumulative terms for the last twelve months up to March this year, 1.7 points less compared to the previous month. On the other hand, the amount of new loan and credit operations exceeding one million euros increased by 5.4% y-o-y, a rate 2.5 points lower than that of February.

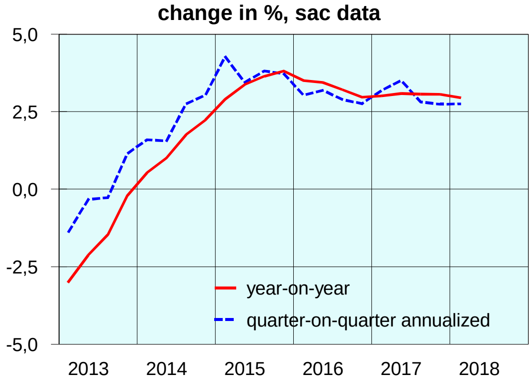
Spanish economy

Domestic Demand and production

The Spanish economy maintains a 0.7% q-o-q growth rate in the first quarter of 2018, according to the INE flash estimate

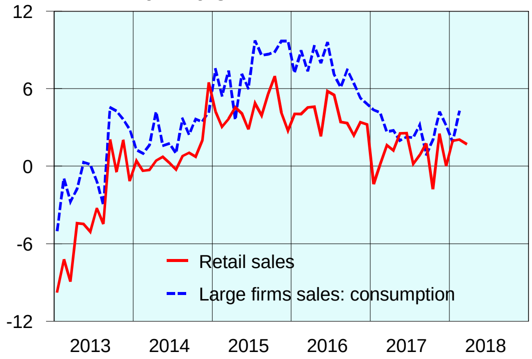
According to the Quarterly National Accounts (QNA) flash estimate, published by the National Statistics Institute (INE, by its Spanish abbreviation), GDP, in volume and with calendar and seasonally adjusted data, recorded a q-o-q growth rate of 0.7% in the first quarter of 2018, a figure identical to the one registered in the two previous quarters, extending the expansionary trend started in mid-2013. In y-o-y terms, GDP increased by 2.9%, two tenths less in comparison to the previous quarter. These rates continue above those estimated for the EU average (0.4% q-o-q and 2.4% y-o-y) and for the Eurozone (0.4% q-o-q and 2.5% y-o-y).

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



Source: INE.

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



Sources: INE and AEAT.

The IMF and the European Commission revise upwards their growth forecast for Spain in 2018 and 2019

In its World Economic Outlook Report published in April, the International Monetary Fund (IMF) has revised upwards the real GDP growth estimate of the Spanish economy, in comparison to the figures published in January, four tenths for 2018, up to 2.8%, and one tenth for 2019, up to 2.2%. With regard to the composition of growth, domestic demand will continue to be the main driver, contributing by 2.5 percentage points (p.p.) to GDP growth in 2018 and by 2 p.p.

in 2019, while the contribution of net external demand would remain at 0.3 p.p. this year and will fall one tenth, down to 0.2 p.p., next year.

In the same direction, the European Commission revised upwards the real GDP growth forecast of the Spanish economy for 2018 in its Spring Forecasts in comparison to the autumn projections. The increase was of four tenths, up to 2.9%, partly due to the positive impact of the expansionary measures of the General State Budget Draft for 2018, and three tenths higher compared to the figure for 2019, up to 2.4%. These forecasts project a balanced growth composition, with contributions from domestic demand of 2.6 p.p. for 2018 and 2.2 p.p. for 2019, both figures 0.4 p.p. higher than those foreseen in autumn, and a contribution of 0.2 p.p. from the external sector in both years.

Global activity indicators for Spain point to the extension of the activity dynamism in the first months of the year

The qualitative and quantitative indicators point, in general terms, to an extension of the activity dynamism. Thus, among the former, the Economic Sentiment Indicator (ISE, by its Spanish abbreviation) prepared by the European Commission, rose by 1.6 points in April in comparison to the figure recorded in the previous month, up to 110.6 (1990-2017 average= 100). The breakdown by components reflects an improvement in industry (1.4 points), retail (0.1 points) and consumer confidence (2.8 points). On the other hand, confidence in services fell by 4.1 points and by 7.1 points in construction. Likewise, the Business Confidence Indicator, published by the INE, rose by 0.4% q-o-q in the second quarter of 2018, compared to the decrease of the same magnitude registered 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, very close to its long-term average (100). The composite PMI for Spain registered a level of 55.4 in April, four tenths lower in comparison to the figure recorded in March, due to the less intense growth of the industry and services activity.

Among the quantitative indicators, the favourable evolution of the Business Turnover Index (BTI) stands out, intensifying by one point the growth rate in February, with calendar adjusted data, up to 5.5% y-o-y. This acceleration is explained by the more expansionary trend of the turnover in trade, which grew by 7%, almost two points more than in January, partially offset by the lower dynamism of the rest of the sectors. 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 4% y-o-y increase in February, one point higher than in the previous month, due to the slight acceleration of domestic sales (two tenths, up to 3.4% y-o-y) and, to a greater extent, of exports (6.2%, in comparison to the 3.8% registered in the previous month). On the other hand, imports recorded a y-o-y rate of 2.9%, eight tenths lower than that of the previous month.

Private consumption indicators continue to grow consistently

Short-term indicators of private consumption continue registering favourable signs. Among the qualitative indicators, domestic sales in large companies of consumption goods and services, deflated, and with fixed-sample and seasonal and calendar adjusted data, grew by 4.2% y-o-y in February, more than double than in January. Passenger car registrations also gained momentum in April, according to the figures provided by the ANFAC (Spanish Association of

Vehicles Manufacturers), registering a 12.3% y-o-y growth, more than ten points higher than the figure recorded in the previous month, although it must be taken into account that the calendar effect of the Easter Holidays, which this year was celebrated in March, while last year was held in April, favourably affected the private individual channel, whose registrations increased by 19.6%.

On the other hand, retail sales, at constant prices and with work calendar adjusted data, slowed down by four tenths in February, registering a y-o-y growth of 1.7%. By groups of products, the non-food group increased by 2%, compared to the 1.4% growth recorded by the food group. These rates are two and one tenth lower, respectively, than those registered in the previous month.

Among the qualitative indicators, the Consumer Confidence Indicator (CCI), published by the CIS, rose in April by 1.3 points in comparison to March, reaching 99.9, a figure very close to the 100 threshold (indicative of a positive perception of consumers), due to the rise of the current situation component, 2.6 points, to 92.7, while the expectations component remained at 107.2. Likewise, the Consumer Confidence Indicator, published by the European Commission (EC), rose 2.8 points in April, registering a balance of -0.7 points, as a result of the improvement recorded by most of its partial components.

Household debt continues to decrease as a percentage of GDP

Households have extended the deleveraging process started in mid-2010. Thus, the debt of households and NPISH reached 61.3% of GDP in the fourth quarter of 2017, compared to the 64.4% registered a year earlier. On the other hand, net financial wealth of households increased by 3.8% y-o-y in the fourth quarter of 2017, up to 118% of GDP, due to an increase in financial assets (2.4%) and a slight decrease in liabilities (-0.1% y-o-y).

Equipment investment indicators register, in general, a more expansionary trend…

With regard to investment in equipment goods indicators, the recently published information generally shows an expansionary trend. The availabilities indicator of equipment goods, with seasonally and calendar adjusted data, recorded a 1.3% q-o-q growth in the second quarter (with information up to February), compared to the 5.3% drop registered in the previous quarter. Domestic sales of equipment and software in large companies grew by 8.7% y-o-y in February, four tenths more than in the previous month. On the other hand, according to figures provided by the General Direction of Traffic, truck registrations registered a 2.5% fall in March, after the strong rise registered in February (23.5%).

On the other hand, according to the Business Tendency Survey, the Industry Climate Indicator for investment goods rose more than ten points in April, compared to the previous month, reaching a balance of 17.2 points. This evolution is attributed to the production expectations and orders portfolio components. Likewise, the use of productive capacity of the Spanish industry stood at 80.3% in the second quarter (data from April), six tenths above the figure recorded in the previous period and 4.1 points below in comparison to that registered in the Eurozone.

…and non-financial corporations' debt continues to decrease

In the fourth quarter of 2017, the Spanish companies' debt, in the form of loans and debt securities stood at 96.8% of GDP, versus the 102.3% of GDP recorded in the same period of the previous year, standing below 100% for the second consecutive quarter. As far as the non-financial corporations are concerned, the balance reflected a y-o-y increase in financial assets of € 51.5 billion, lower than that of liabilities (€ 53.8 billion), so net liabilities of the sector stood at € 1,356.2 million, representing a y-o-y increase of 0.2%.

Residential construction investment indicators grow at a high rate

The most recent indicators related to residential investment continue to grow at double-digit rates. According to the INE Statistics based on the properties recorded in the Property Registers, housing sales, recorded a y-o-y rate of 16.2% in February, almost seven points lower than in the previous month. This evolution is explained by the lower dynamism of both new housing purchases, which increased by 16.4% (23.5% in January), as well as used housing purchases, which grew by 16.2%, 6.8 points less than in the previous month. The first two month period of 2018 ended with a 19.8% y-o-y increase in housing sales, more than two points higher than in the fourth quarter of 2017.

With regards to the number of mortgages on housing, these stood at 27,945 in February, which represents a y-o-y increase of 13.8%, 4.6 points higher compared to the figure registered in the previous month. The average amount per mortgaged house registered an increase of 3.1%, in comparison to the figure recorded in the same month of 2017, so the capital borrowed for mortgages on housing rose by 17.4%, four tenths less than in the previous month.

Industrial production accelerates in March

From the supply point of view, amongst the industrial activity indicators, the Industrial Production Index (IPI), with calendar adjusted data, accelerated by 2.6 points in March, recording a y-o-y increase of 5.4%. According to the economic use of goods, the higher IPI dynamism is explained by the acceleration of the main groups, except for intermediate goods. Consumer and equipment goods increased by 4.2% and 5%, respectively, rates 4.5 and 3.5 points higher than those recorded in the previous month, and energy rose by 9.9% (5.4 % in February). On the other hand, intermediate goods slowed down 1.6 points, to 2.9%. The IPI ended the first quarter of 2018 with a y-o-y increase of 2.8%, lower than that registered in the fourth quarter of 2017 (5.2%).

On the other hand, the Industry Turnover Index (ITI) and the Industry New Orders Index (INOI) moderated the y-o-y growth rate in February. The ITI, adjusted for calendar effects, recorded a y-o-y rate of 4% in February, 1.7 points lower than the previous month, as a consequence of the slowdown registered by all its components. Likewise, the Industry New Orders Index (INOI), with calendar adjusted data, eased the pace of growth in February, 3.8 points to 3.1%, due to the fall of equipment goods, after the rebound recorded in January (11.7%), while the rest of the components registered a more expansionary trend.

The most recent qualitative indicators of the industry activity continue registering positive signs in general. The Industrial Confidence Index published by the European Commission rose by 1.4 points in April, as a result of the strong growth in the production expectations component and the fall in the level of stocks, partially offset by the decline in the order portfolio. On the other hand, the manufacturing industry PMI for Spain reached 54.4 in April, four tenths lower versus the previous month, as a result of the lower rise of new orders and employment, despite the acceleration registered in production.

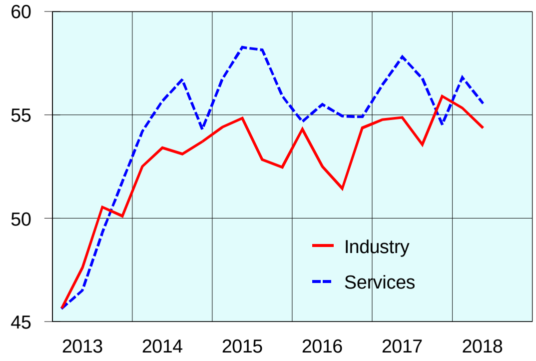
Construction activity indicators accelerate in February…

Among the indicators relating to the construction activity, the Production Index in the Construction Industry (PICI) in Spain, published by Eurostat, experienced a 2.3% increase in February, compared to the same month of 2017, in comparison to the 3% decrease registered January. This is explained by the rebound of the building component, which increased by 5.7%, after the 1.7% decrease recorded in the previous month, while the civil works component intensified the fall rate by more than three points, down to 13.1% y-o-y.

…and so do leading indicators in the sector

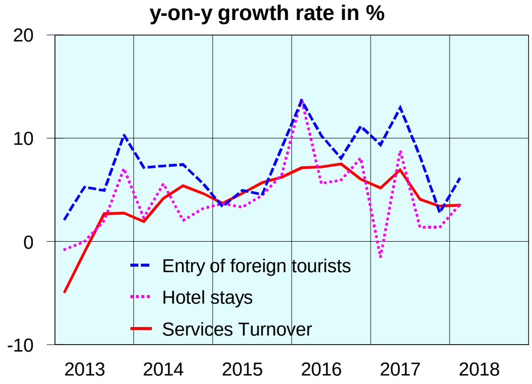
With regards to construction activity leading indicators, according to construction new permits of the Ministry of Public Works, floorage approvals in new construction intensified the y-o-y growth rate by 4.6 points in February, recording a rate of 15.9%. This evolution was due to the residential component, which accelerated 17 points, reaching a rate of 28.1%. On the other hand, the non-residential component fell by 29.3%, in comparison to the rise observed in the previous month (12.2%).

G 4. PURCHASING MANAGERS' INDEX (PMI)



Source: Markit Group.

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



Source: INE.

Activity in the services sector continues to show a solid growth

With regards to the services sector, the Services Sector Turnover Index (SSTI), with work calendar adjusted data, accelerated by one point in February, up to 6.7% y-o-y. This was due to the trade sector evolution, which grew by 7%, almost two points above the figure recorded in January, partially offset by the lower growth of the other services, although these continue to grow at high rates (6.2% compared to 6.9% in the previous month).

The qualitative indicators related to the services sector confirm the continuation of the sector expansionary trend in April. The Services PMI reached 55.6 in April, six tenths lower in comparison to the figure registered in the previous month (56.2), although the trade activity continued to rise strongly due to the solid increase reported by new orders. Likewise, the rebound in confidence among the sector companies should be noted, as it registered the highest level in ten months, in an environment of favourable economic expectations. On the other hand, confidence in the services sector remained high in April (22.5) but registered lower levels than in the previous month (26.6).

The tourism sector gains momentum

The tourism sector indicators ended the first quarter of the year reporting very favourable results. It is necessary to consider the positive effect that the celebration of the Easter Holidays in March would have had on these figures, while last year it was held in April. The arrival of 5.4 million international tourists to Spain in March 2018 stands out, a figure 9.6% higher in comparison to that registered a year earlier, representing a growth rate seven points higher with respect to the previous month. The cumulative figures recorded up to March show that the number of tourists that visited Spain increased by 6% y-o-y. In the same vein, the expenditure by tourists who visited Spain in March amounted to € 5.7 billion, a figure 12.1% higher than that of the same month of 2017 (4.7% in February), ending the first quarter of 2018 registering a y-o-y rise of 7.7%, 2.3 points higher than in the previous quarter. As a result of the evolution of the tourist inflow and the tourist expenditure, the average expenditure per tourist reached € 1,064 in March, a figure 2.3% higher than a year earlier.

Overnight stays in hotels accelerated 6.1 points in March, up to 7.1% y-o-y. This evolution was due to the 13.1% rebound recorded by domestic overnight stays, after the slight increase (0.6%) registered in February, as well as the greater dynamism of foreign overnight stays, which rose by 3.3%, a rate 2.1 points higher in comparison to the previous month. On the other hand, air traffic rose by 11% in March (9.2% in February), due to the higher boost of international traffic, which accelerated 3.8 points, up to 9.9% y-o-y, while domestic traffic showed a growth rate of 13.3%, 2.3 points lower than in the previous month.

Prices

Inflation rises one tenth in March, up to 1.2%

The Consumer Price Index (CPI) rose by 1.2% y-o-y in March, a rate identical to the flash estimate issued by the INE and one tenth higher than in the previous month. The inflation increase in March is explained by the acceleration in services and non-processed food prices.

Non-processed food prices accelerate in March

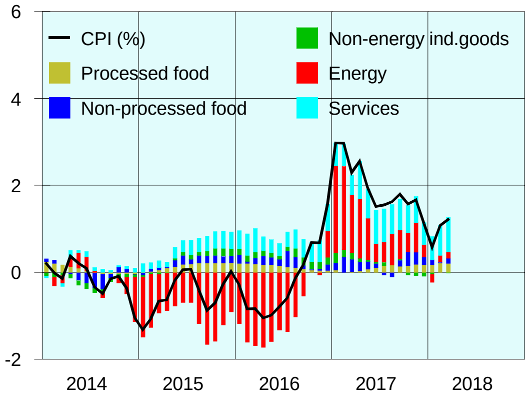
Non-processed food prices grew by 1.6% y-o-y in March, 1.3 points more than in February. This evolution is mainly explained by the lower fall in fresh vegetables and pulses prices (-3.4%, compared to the -10.6% recorded in the previous month), in turn affected by a base effect associated with the sharp m-o-m fall registered in the same month last year.

Energy products prices grew by 1.3% y-o-y in March, one tenth less than in February. This slight slowdown is explained by electricity prices, which fell by 1.4% y-o-y, after rising by 0.5% in February, and, to a lesser extent, by gas prices, which slowed down by 1.1 points, to 6.6%. For its part, the fuel and lubricant prices accelerated nine tenths, up to 1.6%, and liquid fuels grew by 1.8%, after the 1.9% fall recorded in the previous month.

Core inflation increases by one tenth, up to 1.2%, coinciding with the general inflation

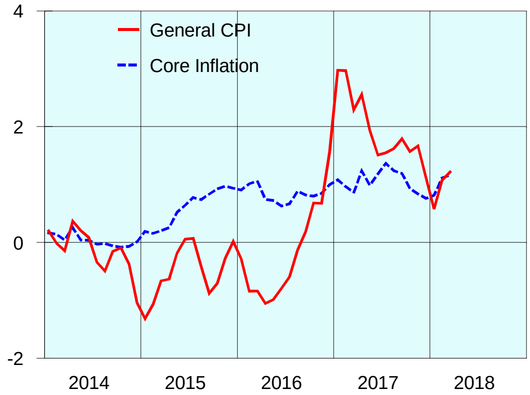
Core inflation (which excludes non-processed food and energy products, the most volatile elements of the CPI) rose by one tenth in March, up to 1.2% y-o-y, coinciding with the general inflation.

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.

Services prices rose by 1.9% in March, two tenths more than in February, mainly due to tourism and hospitality prices, and in particular thanks to tourism packages, whose prices accelerated 2.6 points, up to 6.4%, affected by the Easter Holidays, which this year was celebrated in March.

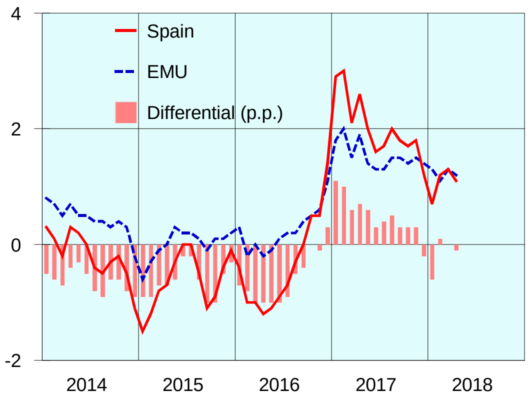
Non-energy industrial goods (BINE) prices fell slightly, by 0.1% y-o-y, after the stabilisation registered in the previous month.

For its part, processed food, beverages and tobacco prices moderated the growth rate by one tenth, to 1.3%.

According to the CPI flash estimate, inflation moderates by one tenth in April, to 1.1%

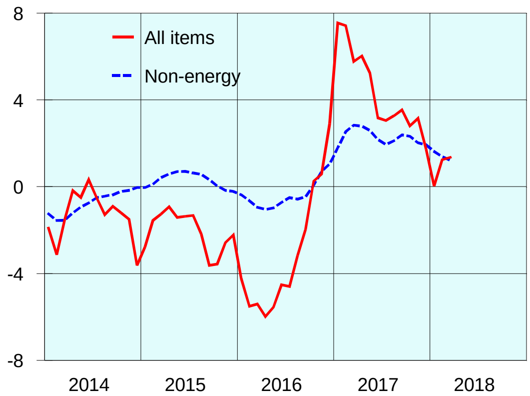
According to the flash estimate published by the INE, the y-o-y rate of the national CPI stood at 1.1% in April, one tenth lower than in March. This evolution is mainly due to the fall of the gas and tourist packages and prices, versus the rise that they experienced in 2017.

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



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

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



Source: INE.

Harmonised inflation, measured by the Spanish harmonised CPI flash estimate, stood at 1.1% y-o-y in April, a rate two tenths lower than in March. For its part, the Eurozone's Harmonised Index of Consumer Prices (HICP) flash estimate, published by Eurostat, recorded a y-o-y increase of 1.2% in April, one tenth lower than the figure registered in March. If the final data for April confirm the flash estimate figures, the favourable inflation differential for Spain with respect to the Eurozone would be of one tenth.

The PPI accelerates one tenth in March, up to 1.3%

The Producer Price Index (PPI) registered a 1.3% y-o-y increase in March, one tenth higher than in February. This was due to the acceleration of energy prices and, to a lesser extent, of equipment goods, partially offset by the slowdown recorded by intermediate and consumer goods prices.

Energy production prices rose by 3% y-o-y in March, a rate almost two points higher than that registered in the previous month, mainly due to the coke and oil refining component, whose prices increased by 4.8%, versus the 0.7% drop of the previous month, and to the prices of electricity, gas, steam and air-conditioning supply, which grew by 2.8%, eight tenths more than in February.

The non-energy PPI slowed down two tenths, to 1.2% y-o-y, due to the lower growth registered by intermediate and consumer goods prices, partially offset by the slight acceleration reported by equipment goods prices.

Intermediate goods prices moderated the growth rate four tenths, to 2.1% y-o-y, mainly as a result of the evolution of metallurgy, manufacture of iron, steel and ferroalloy products, whose prices slowed down 2.3 points, to 5.1% y-o-y.

Consumer goods prices slowed down one tenth in March, to 0.5%, due to the evolution of non-durable consumer goods (0.4% y-o-y, a rate two tenths lower than that of the previous month), especially the manufacture of olive oil, which intensified the rate of decline by more than ten points, to 13.7%, while the durable consumer goods prices growth rate goods remained at 1% y-o-y.

For its part, equipment goods prices intensified the y-o-y advance rate in March by two tenths, up to 0.9%, mainly due to the four-tenth acceleration in the prices of motor vehicles, trailers and semi-trailers manufacturing, up to 1.4%.

Labour market

According to the Labour Force Survey (LFS), employment rose by 2.4% in y-o-y terms in the first quarter of 2018, two tenths less than in the previous quarter, while unemployment decreased by 10.8% y-o-y, three tenths less than in the fourth quarter of 2017. For its part, the number of Social Security covered workers rose by 3.1% y-o-y in April, in comparison to the 3.3% recorded in March, and registered unemployment fell by 6.6%, which implies a rate of decrease one point less pronounced than in the previous month. With regard to costs, the average wage variation agreed in collective bargaining for 2018, with information up to the end of April this year, stood at 1.6%.

Employment increases in the first quarter by 435,900 people, in y-o-y terms

According to LFS data, published by the INE, the number of employed people decreased by 124,200 in the first quarter of 2018 (-69,800 in the same quarter of 2017). The employed population amounted to 18,874,200 people, a figure lower, by 0.7%, to the one of the previous quarter. With seasonally adjusted data, the q-o-q variation rate stood at 0.5%, a rate identical to the one registered in the previous quarter.

In comparison to the same quarter of 2017, employment increased by 435,900 people (2.4%, a rate two tenths lower than the one registered in the previous quarter). The employment rate fell four tenths during the quarter, reaching 48.7%, nine tenths higher than a year earlier.

By main activity branches, employment fell by 110,500 people in services and by 34,900 people in industry, while it increased in agriculture and construction, with 13,100 and 8,200 more employed people, respectively.

The two tenths y-o-y slowdown of total employment, to 2.4%, is due to the 1.6% fall of employment in agriculture, versus the 0.5% growth registered in the previous quarter, as well as to the lower employment growth rate in industry and services, whose rates moderated one point and one tenth, respectively, to 4.1% and 2%, partially offset by the half a point acceleration in construction employment. By NACE sections, it is worth noting, mainly, the employment drop in administrative activities and auxiliary services, by 2.6% y-o-y, after the 0.5% rise recorded in the previous quarter, and the 1.1 points slowdown in the manufacturing industry, to 4.3%. On the other hand, the most significant acceleration was registered in financial and insurance activities (1%, after the 6.2% decrease recorded in the previous quarter).

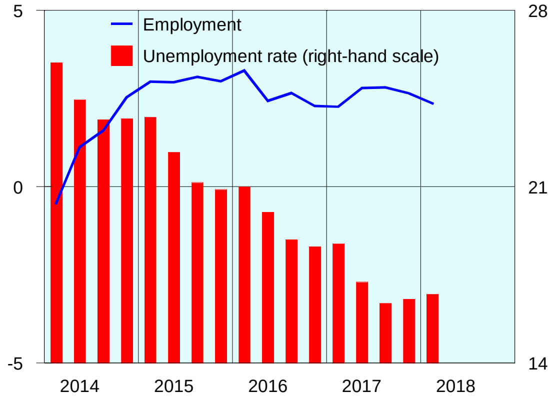
In the first quarter, employment fell in the private sector by 155,200 people in comparison to the previous quarter, while it increased by 31,100 in the public sector. In the last twelve months up to March, 69.7% of the employment created has been private, increasing by 304,000 people (2% y-o-y, a rate six tenths lower when compared to the previous quarter), and public employment has increased by 132,000 (4.4% y-o-y, after the 3% rise registered in the previous quarter).

Focusing on the professional status of workers, the quarterly decrease in employment fully corresponded to employees, with 130,400 less employed, while the number of self-employed workers rose by 6,200. Compared to a year earlier, the number of employees increased by 451,400 people, registering a y-o-y variation rate of 2.9%, six tenths lower than the previous quarter, and self-employed workers decreased by 15,500, 0.5%, a fall half a point lower compared to that of the previous quarter.

By type of contract, the decrease of employees in the first quarter mostly corresponded to temporary employees, decreasing by 128,900 people in that period, while permanent employees fell by 1,400 people. In comparison to a year earlier, 61.7% of the employees increase corresponded to open-ended contracts (278,500), with the temporary rate reaching 26.1%, three tenths higher compared to a year earlier.

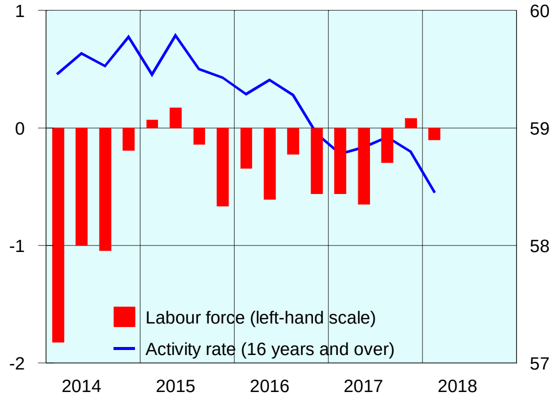
Regarding working hours, all employment destroyed in the first quarter of 2018 was full-time employment, with 133,100 employed people less, while part-time employment increased by 8,900. Compared to the same quarter of 2017, full-time employment increased by 3.2%, a rate one tenth lower compared to the previous quarter, and part-time workers fell by 2.1%, 1.1 points more versus the previous quarter. As a result, the part-time employment rate fell seven tenths in comparison to a year earlier, reaching 14.9%. The proportion of those who work part-time because they could not find a full-time job ("involuntary") stood at 8.2%, which is nine tenths lower than in the first quarter of 2017.

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



Source: INE (LFS).

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



Source: INE (LFS).

Considering the workers' nationality, the employment quarterly fall in the first quarter affected both Spanish workers, which decreased by 90,200 and foreign workers, with 33,800 less workers. In y-o-y terms, Spanish workers increased by 2.1% and foreign workers by 4.2%.

By age groups, it is worth noting the increase in youth employment (people aged between 16 and 24), 8.9% y-o-y, a growth rate 5.2 points lower compared to the previous quarter.

LFS unemployment falls at a y-o-y rate of 10.8%

Unemployment rose by 29,400 people in the first quarter of 2018, compared to the increase of 17,200 people registered in the same period of 2017. Thus, the total number of unemployed people stood at 3,796,100. With seasonally adjusted data by the INE, the q-o-q rate of the number of unemployed people stood at -3% (-1.7% in the previous quarter). In y-o-y terms, unemployment has decreased by 458,900 people, representing a rate of decline of 10.8%, a figure slightly below that of the previous quarter (-11.1%).

By activity branches, compared to the previous quarter, unemployment increased mainly in services (91,300 more people), followed by industry (8,500), agriculture (7,500) and construction (6,300). The group of unemployed looking for their first job or that have quit their last job more than a year ago, decreased by 84,300 people. In y-o-y terms, unemployment fell in all branches: 12% in construction, 5.5% in services, 5.2% in agriculture and 0.3% in industry, the group of unemployed looking for their first job or who had quit their last job more than a year ago also dropping, by 15.3%.

The unemployment rate increased 20 hundredths in the quarter and fell 2.01 points compared to the figure registered a year earlier, reaching 16.74% of the labour force.

By age groups, it is worth noting the fall in youth unemployment (people aged between 16 and 24), by 12.9% y-o-y, with the youth unemployment rate standing at 36.3%, 5.4 points lower than a year earlier.

The labour force fell by 94,700 people in the first quarter of 2018 compared to the fourth quarter of 2017 and by 23,000 during the last year, accumulating 22,670,300 people. For its part, the activity rate among the population over 16 years old stood at 58.5%, three tenths lower compared to the figure registered both in the previous quarter and in the first quarter of 2017.

The y-o-y increase of Social Security covered workers stands at 3.1% in April

The average number of Social Security covered workers increased by 176,373 people in April compared to the previous month, the number of Social Security covered workers reaching 18,678,461, a level not reached since the end of 2008.

By activity branches and with unadjusted data, the number of Social Security covered workers increased compared to the previous month in all sectors, mainly in services, with 134,053 Social Security covered workers more, followed by agriculture, construction and industry, where 21,532, 14,994 and 5,835 Social Security covered workers more were accounted respectively. By NACE activity sections, with unadjusted data and for the General (excluding Agrarian and Domestic Workers Special Systems) and Self-employed Regimes, the highest m-o-m increases in covered workers correspond to hospitality (77,458 more, compared to the 101,315 increase registered in April last year, in which the Easter Holidays was celebrated in April, while this year it has been held in March) and, to a lesser extent, construction (14,994 more covered workers, after the 7,195 increase registered in the same month of 2017), administrative activities and auxiliary services (14,004 more covered workers, compared to the 17,943 more recorded a year earlier) and wholesale and retail trade, motor vehicles and motorcycles repair (13,293 more, versus the 23,223 increase in April 2017).

With seasonally adjusted data, Social Security covered workers increased in April by 37,919 compared to the previous month, 0.2% m-o-m, a rate identical to that registered in March.

In y-o-y terms, Social Security covered workers rose by 556,239 people in April, 3.1%, a rate two tenths lower than that registered in March. By activity branches, the slight moderation in the growth rate of the Social Security covered workers was due to services and, to a lesser extent, to industry, both registering rates of 3.1% (four and one tenth lower, respectively, compared to the figures registered in March), partially offset by the lower fall of Social Security covered workers in agriculture (-0.6%, compared to the -1.1% registered in the previous month) and the acceleration in construction, which rose at a rate of 6.4%, compared to the 5.7% 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 of Social Security covered workers in hospitality, 1.8 points, to 2.4%, as well as in trade and health and social services activities, four tenths, both, down to 1.4% and 3.8%, respectively, stand out. On the other hand, it is worth noting the higher growth in construction Social Security covered workers (6.4% in comparison to the 5.7% registered in the previous month).

According to the professional situation, the slowdown in the number of Social Security covered people in y-o-y terms is due to wage-earners, whose growth rate reached 3.5%, three tenths less than in the previous month, while the increase in self-employed workers remained at 1%.

In the General Regime and for the total of 13.1 million covered workers whose type of contract is specified in the statistics, 65% of the y-o-y job creation in April was permanent and

35% temporary, with a y-o-y increase of 4.1% for the former (as in March) and of 4.5% for the latter (5.8% in the previous month).

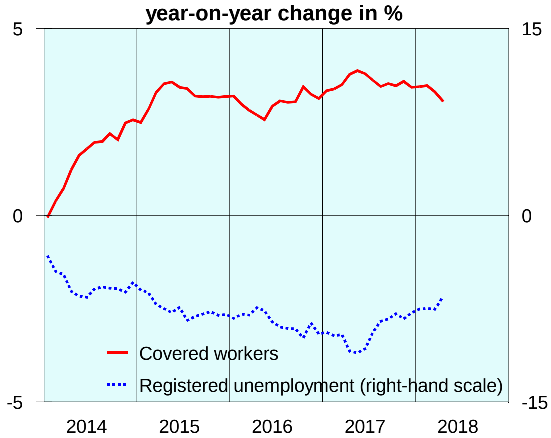
Registered unemployment falls by 6.6% y-o-y in April

Registered unemployment fell by 86,683 people in April compared to the previous month, reaching the total number of registered unemployed 3,335,868, the lowest figure since January 2009. By branches, and with unadjusted data, registered unemployment fell when compared to the previous month in all of them, where the drop in services should be noted, with 57,607 less unemployed, followed by construction, agriculture and industry, with 13,915, 9,562 and 7,040 unemployed less, respectively.

With seasonally adjusted data, unemployment fell by 24,149 people in April in comparison to the previous month, which implies a 0.7% m-o-m fall rate, for the fourth consecutive month.

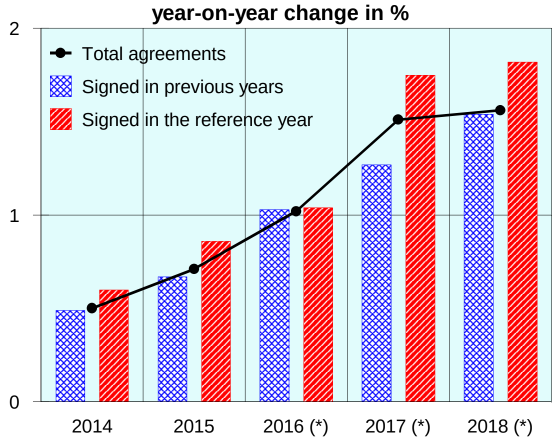
In y-o-y terms, unemployment dropped by 237,168 people in April, by 6.6%, a rate of decline one point less than the one registered in the previous month. By branches, the registered unemployment moderated its y-o-y rate of decline 1.4 points in services, to 5.1%, four tenths in agriculture, to 8.1%, and two tenths in industry, to 9.9%, while in construction the rate of decline increased 1.8 points, to 14.8%. Youth unemployment (people below 25 years old) fell by 13,214 people during the last year, which represents a 4.7% y-o-y drop (-8.4% in March).

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



Source: MESS.

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



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

The average agreed wage increase in collective bargaining stands at 1.6% for 2018

According to the Collective Bargaining Agreements Statistics published by the Ministry of Employment and Social Security, the average agreed wage rise for 2018 stood at 1.6% (with the information available up to the end of April), one tenth above the wage increase agreed in 2017, with revised data.

The number of workers affected by all the agreements signed up to April and with effects in 2018 reached 5,368,547, 29.5% higher than in the same period of 2017. Of all the workers affected by the agreements signed up to April and with effects in 2018, 92.8% correspond to agreements signed before the aforementioned year (4,980,858 workers, 1,965 agreements) and the remaining 7.2% to new agreements signed in 2018 (387,689 workers, 183 agreements), with wage increases of 1.5% and 1.8%, respectively.

With regards to the coverage, the agreed wage variation in company agreements (1.3%) was lower than that signed at a higher level (1.6%).

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

Up to April 2018, 403 opt-outs were registered affecting 8,039 workers, 12.2% less than in the same period of 2017.

External sector

The Spanish economy moderates the net borrowing to the rest of the world in February

According to the Balance of Payments data, in February 2018, the Spanish economy generated a net borrowing to the rest of the world of € 250 million, below the one registered a year earlier (€ 783 million). This evolution is due to the improvement of current and capital account balances.

The current account balance recorded a € 450 million deficit in February, in comparison to the deficit of € 896 million registered in the same month of 2017, as a result of an increase in the surplus of goods and services, which stood at € 1.2 billion, compared to the surplus of € 438 million registered in February 2017, more than offsetting the 23.8% y-o-y increase in the deficit of primary and secondary income. In parallel, the surplus in the capital account ended at € 200 million, € 87 million higher than in February last year.

The trade deficit decreases in February 2018

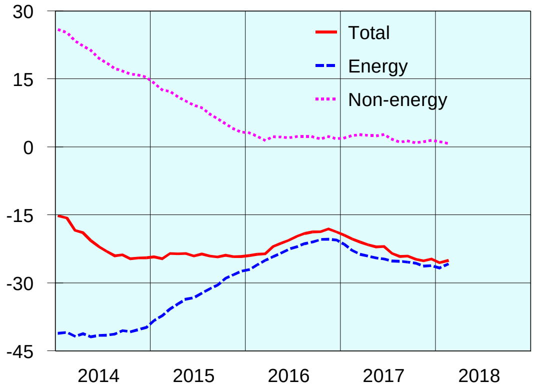
According to Customs data, the trade balance recorded a deficit of € 2.2 billion in February 2018, compared to a deficit of € 2.6 billion registered a year earlier. The trade deficit decrease was due to the energy component deficit decrease, of 27%, while the non-energy component went from registering a surplus of € 246 million to a deficit of € 85 million.

In cumulative terms for the last twelve months up to February 2018, the trade balance recorded a deficit of € 25.1 billion, compared with the € 20.3 billion deficit accumulated in the twelve months up to February 2017. The 23.4% worsening of the external balance is explained by the energy component deficit increase, of 13.4%, and to by the decrease in the non-energy surplus, of 67.7%.

Real exports and imports of goods slow down in February

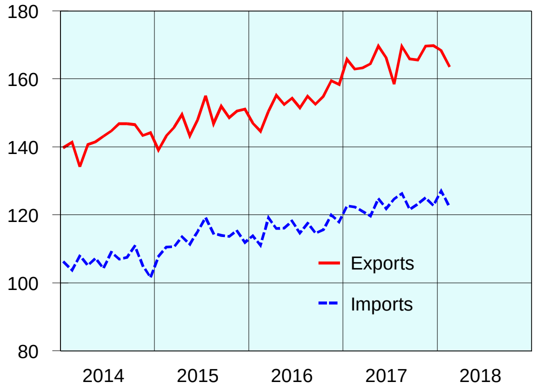
According to Customs figures, goods exports increased in February by 2.3% y-o-y, and their prices, approximated by unit value indices, rose by 2.1% (1.9% in the previous month), resulting in a 0.3% rise in real terms, after the 4.5% growth registered in January. The analysis by product groups in real terms and in y-o-y rates, showed in February an uneven performance in the different categories. Exports of intermediate energy goods and capital goods accelerated 31 and 6 points, respectively, up to 33.2% and 7.4%; those of non-food consumer goods and non-energy intermediate goods fell by 5.5% and 0.8%, respectively, after the increases recorded in January of 7.8% and 3.5%; and exports of food consumer goods slowed down four tenths, to 3.5%.

G 14. TRADE BALANCE
accumulated 12 months, billion euros



Sources: DA and SGACPE.

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



Sources: DA and SGACPE.

By geographical areas, exports in volume to the European Union decreased by 1.4% y-o-y in February, in comparison to the 4.8% rise registered in January, and exports outside the Union increased by 3.5% (3.7% in the previous month).

Goods imports increased by 0.3% y-o-y in nominal terms in February, and their prices rose by 0.1% (2.3% in January). Energy goods prices grew by 2.9%, while other products prices fell by 0.2%. As a result, imports in real terms, experienced a y-o-y increase of 0.2%, following the 6.5% increase registered in the previous month. The analysis by products of imports in real terms and in y-o-y rates also registered an uneven performance. Imports of energy intermediates goods and capital goods fell down to 14.8% and 2.2%, respectively in February, after the rises recorded in January (11.4% and 2.3% respectively); non-food consumer goods and non-energy intermediate goods slowed down 8.9 and 1.1 points, respectively, to 0.4% and 3.6%. On the other hand, food consumer goods imports accelerated 2.3 points, up to 6.8%.

By geographical areas and in real terms, imports from the European Union fell by 3.7% y-o-y in February, following the 3.2% rise registered in the previous month. Real imports from the rest of the world recorded a 6% growth, compared to the 10.6% registered in January.

The "momentum" of exports and imports 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 February (0.2%) for the fifth consecutive month, due to the positive contribution of EU and, to a lesser extent, of non-EU OECD countries, which more than offset the negative contribution of non-OECD countries. By products, the positive contribution of consumer goods stands out, especially non-food consumer goods. The "momentum" of imports was positive in February (0.7%), for the second consecutive month, due to the positive contribution of EU countries and, to a lesser extent, of non-OECD countries. By products, the positive contribution of non-energy intermediate goods stands out.

The financial balance generates net capital inflows in February

According to the Balance of Payments, in February the financial balance, excluding the Bank of Spain assets, generated net capital inflows of € 2.5 billion, versus the net outflows of 7.0 billion recorded a year earlier. This result is explained by the net inflows registered by other investment (€ 6.1 billion), while direct investment (€ 1.1 billion), portfolio investment (€ 1.6 billion) and financial derivatives (€ 883 million) recorded net capital outflows.

The assets net variation recorded net capital outflows (investments) of € 10.0 billion in February, versus the net outflows of € 17.8 billion registered in the same month of 2017. On the other hand, the liabilities net variation generated net inflows (investments) amounting to € 12.5 billion, higher than the net inflows of € 10.8 billion recorded a year earlier.

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

The net debtor position of the Bank of Spain vis-à-vis the rest of the world decreased by € 1.7 billion in February, due to the € 1.3 billion fall recorded in the net debtor position vis-à-vis the Eurosystem and the € 144 million and € 230 million increases in reserves and in the rest of net assets, respectively.

Public Sector

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

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

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

The General Government consolidated deficit, excluding Local Governments, stands at 0.82% of GDP up to February 2018

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded up to February 2018 a deficit of € 10 billion (0.82% of GDP), 11.4% lower in comparison to the same period of 2017 (0.97% of GDP). This deficit decrease is explained by a y-o-y increase of non-financial resources (6.9%) higher than the one recorded by non-financial uses (3.8%).

The increase in revenue was mainly due to the y-o-y rise in taxes (9.7%) and social contributions (4.6%). Regarding non-financial uses, all the main items rose, except for interests, which decreased by 1.6%, where the increases in social benefits other than transfers in kind (3.4%) and other uses (22.9%) stand out, among which the contribution to the EU based on VAT and GNI resources (34.1%) and the other capital transfers (73.0%) should be noted.

The Central Government ended the first two months of the year with a deficit of € 10.8 billion, equal to 0.89% of GDP, 0.09 points below the one recorded in the same period of 2017 (€ 11.4 billion, 0.98% of GDP). This slight deficit decrease is due to a rise of non-financial resources (11.5%, up to € 25.3 billion) higher than that of non-financial uses (6.1%, to € 36.1 billion).

The increase of resources is in turn due to the rise of tax revenues (12.6%), mainly, to the VAT growth, which rose by 14.1% and current taxes on income and wealth, which increased by 19.3%.

On the other hand, the increase in uses is mainly explained by the rise of capital transfers (73%, affected by the CAM's Asset Protection Scheme, known in Spanish as EPA), the contribution to the EU budget (34.1%) and the transfers to other General Government units (4.8%), in particular to the Regional Governments.

The State improved its balance by 12.4%. However, the Other Bodies of the Central Government increased their deficit by € 849 million, due to the expenses of the Deposit Guarantee Fund, affected by the CAM’s EPA, which up to February 2018 was more than double that registered in the same period of the previous year.

The expenditure of the Central Government eligible to be included in the calculation of the expenditure benchmark increased by 6.9% y-o-y, up of € 17.7 billion.

Up to February this year, the Regional Government accumulated a deficit of € 566 million, equivalent to 0.05% of GDP, versus the 0.12% of GDP deficit registered a year earlier (€ 1.4 billion). This balance improvement is explained by a y-o-y increase of non-financial resources (6.2%) higher than that of non-financial uses (2.6%).

The increase in resources is mainly due to the higher advanced payments of the financing system, which increased by € 537 million, as well as to the growth in certain transfers net of advanced payments, which rose by € 630 million.

The uses growth is mainly due to an increase of transfers made to other General Government units (18.7%), in particular to the Guarantee Fund and to the Local Governments.

The expenditure of the Regional Government eligible to be included in the calculation of the expenditure benchmark increased by 1.7% y-o-y, reaching € 21.8 billion.

As for Social Security Funds, these ended the first two month period of 2018 with a surplus of 1.4 billion, equal to 0.12% of GDP, one hundredth lower than in the same period of 2017 (€ 1.5 billion, equivalent to 0.13% of GDP). This slight surplus fall is due to an increase of non-financial resources (2.6%) lower than the one registered by non-financial uses (3.1%). The rise in revenues is explained by the favourable evolution of social contributions (5.0%), partially offset by the decrease in transfers received from the State (-10.3%) and by the fall in interest generated by the Social Security Reserve Fund (€ 62 million less).

On the other hand, the uses increase is due to the evolution of social benefits, which increased by 3.1%, driven by the upsurge of expenditure on contributory pensions, also by 3.1%, due to the rise in the number of beneficiaries and the monthly average pension.

The State’s deficit in terms of National Accounts falls by 14.4% y-o-y up to March

Up to March 2018, the budget execution of the State ended with a deficit, in terms of National Accounts, of € 4.5 billion (0.37% of GDP), 14.4% 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 (8.4%) higher than that registered by non-financial uses (5.9%).

The increase in non-financial resources is mainly due to the rise of tax revenues (8.5%), in particular, to the increase in current taxes on income and wealth (14.5%) and on taxes on production and imports (5.9%).

On the other hand, the increase in uses is due to the rise in gross fixed capital formation (91.8%), the higher contribution to the EU based on VAT and GNI resources (34.9%) and to the rise of current transfers to other General Government units (4.9%), in particular to the Regional Governments.

In terms of Cash, the State recorded a deficit of € 7.5 billion up to March 2018, lower by 13.0% to the figure recorded in the same period of 2017 (€ 8.6 billion). Non-financial revenues increased by 5.0% y-o-y, reaching € 28.4 billion, while non-financial payments increased by 0.7%, up to € 35.9 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 cash revenues in € 265 million up to the end of March.

Total tax revenue up to March increases by 5.0% in homogeneous terms, on Cash basis

Total tax revenue (including the Regional and Local Governments' share) recorded a y-o-y increase of 3.5% up to March. In homogeneous terms, that is, adjusted by the different tax refunds in both years, the IVMDH refunds (health cent) and the SII impact, tax revenues rose by 5.0%. The remaining non-financial revenue rose by 14.2%. Without including the Regional and Local Governments, and in non-homogeneous terms, tax revenues rose by 2.9%.

Within total taxes, revenue from Personal Income Tax, including the Regional and Local Governments' share, increased by 6.5% up to March, mainly due to the rise in labour income withholdings (6.8%) and Large Companies (7.6%). In homogeneous terms, after correcting the effect of tax refunds in both years, the Personal Income Tax increase stands at 6.3%.

Revenue from Corporate Income Tax recorded a negative figure of € 4.3 billion up to March (€ -3.9 billion in the same period of the previous year), due to the 11.4% increase in the refunds made, corresponding to the 2016 tax statement.

VAT revenue, including the Regional and Local Governments' share, increased by 2.7% y-o-y up to March. Correcting the impact related to the SII and tax refunds in both years, the net VAT collection in homogeneous terms increased by 3.5% y-o-y.

Excise duties collection, including the Regional and Local Governments' share, was 0.5% lower compared to the figure registered in the same period of 2017, mainly due to the decrease in the Excise on Tobacco Products (-4.2%), partially offset by the rise in Tax on Hydrocarbons (2.9%).

The State non-financial expenditure increases by 0.7% y-o-y up to March

With regard to expenditure, total non-financial payments increased by 0.7% up to March in y-o-y terms, as a result of the increase registered by all items except for financial expenses, which fell by 8.6%. The growth reported by capital transfers (49.1%) and real investments (44.7%) stands out.

The borrowing requirement of the State fell by 0.3% up to March, compared to the same period of last year, reaching € 16.6 billion, versus the € 16.7 billion recorded in the same period of 2017. This decrease is mainly due to the lower non-financial cash deficit (-13.0%), partially offset by the higher net increase in financial assets (13.4%). The borrowing requirement was mainly financed through mid and long term domestic debt (€ 26.7 billion).

The Social Security records a surplus up to March

On the other hand, up to March 2018, the Social Security System (Managing Entities, General Treasury and Mutual Insurers) recorded a surplus of € 3.1 billion in terms of Cash (0.26% of GDP), 15.4% above the figure recorded in the same period of 2017 (€ 2.7 billion). Revenues increased by 4.1% mainly due to the evolution of social contributions (5.9%, up to € 28.3 billion), more than offsetting the decrease of other revenues. On the other hand, payments increased by 3.1% mainly as a result of the rise registered by pensions (3.0%, up to € 27.5 billion).

The General Government EDP Debt accelerates in February in y-o-y terms

According to the Bank of Spain, the General Government Debt, according to the EDP methodology, reached € 1,158.4 billion in February. This figure represents a y-o-y increase of 3.8%, eight tenths higher than that registered in January.

By subsectors, the State EDP Debt stood at € 1,007.2 billion, a figure 5.3% higher in comparison to that registered a year earlier. The Debt of Other Bodies belonging to the Central Government reached € 35.0 billion, which implies a 12.7% decrease in comparison to February last year. On the other hand, the Regional Government EDP Debt reached € 287.6 billion, 2.9% higher in comparison to the figure registered in the same month of 2017. The Local Government subsector registered in February an EDP Debt equal to € 29.1 billion, 9.3% lower versus a year earlier. Finally, the EDP Debt of the Social Security Administrations reached € 27.4 billion, a figure 59.5% higher than the one registered in February 2017 (€ 17.2 billion). This increase is due to the loans received from the State in July and November 2017.

The State EDP Debt slows down in March 2018 in y-o-y terms

At the end of March, the State Debt, according to the EDP methodology, stood at € 1,013.4 billion, compared to the € 968.6 billion registered a year earlier, which represents a y-o-y increase of 4.6%, a rate six tenths lower in comparison to the figure registered in the previous month.

May 2018