June 2018

SPANISH ECONOMY REPORT

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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

Financial markets

The financial markets evolution in June was conditioned by the trade tensions across the world and the political uncertainty in Italy, as well as by the monetary policy meetings of the main central banks, where it is worth noting the interest rates increase in the United States and the announcement of the monetary stimuli withdrawal beginning in the Eurozone at the end of the year. In this context, the public debt yields decreased, the stock indices registered a mixed behaviour, where gains prevailed, and the euro depreciated against the dollar.

The ECB maintains the interest rates and announces the end of the debt purchase programme as of the end of this year

The Governing Council of the European Central Bank (ECB), on its meeting held on 14th June, 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 at least until the summer of 2019 and, in any case, during the time necessary to ensure that the inflation evolution remains in line with the current expectations of a sustained adjustment path.

Regarding non-standard monetary policy measures, the Governing Council will continue with the net asset purchases under the Asset Purchase Program (APP) at the current monthly pace of € 30 billion, until the end of September 2018. Likewise, it stated that, as of September 2018, provided that the data confirm the Governing Council inflation outlook in the mid-term, the monthly pace of net asset purchases will be reduced to € 15 billion until the end of December 2018, and that net purchases will cease from that date on.

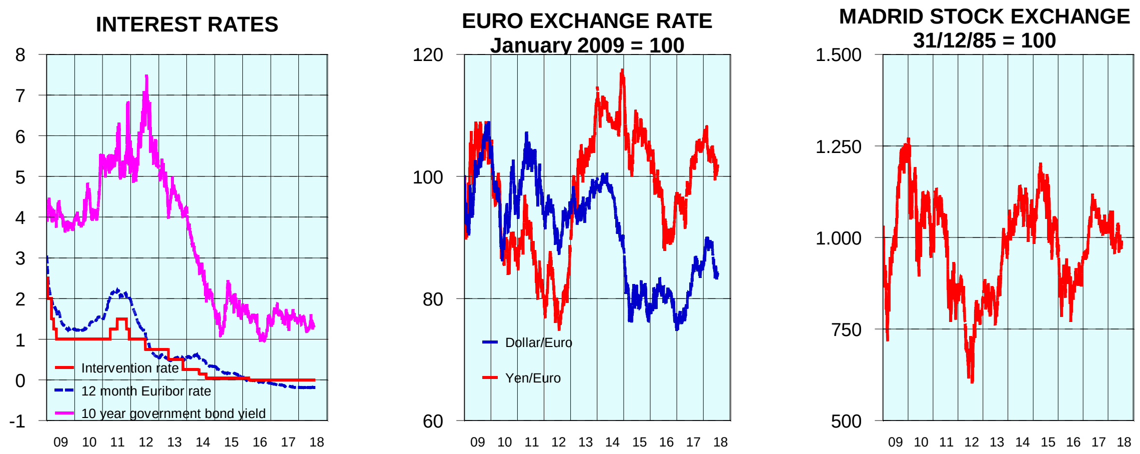
The Governing Council confirmed that it will maintain its policy of reinvesting the principal payments from maturing securities purchased under the Asset Purchase Program for an extended period of time after the end of its net asset purchases, and in any case for as long as necessary in order to maintain favourable liquidity conditions and a high degree of monetary accommodation.

According to the ECB, the monetary policy decisions adopted maintain the high degree of monetary accommodation that will ensure the continuation of the sustained inflation convergence towards lower levels, although close to 2% in the mid-term.

The Fed increases 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 12th and 13th June, decided to increase the Federal Funds interest rates by 25 b.p., up to the target range of 1.75%-2.00%, and to continue with the progressive reduction of its balance sheet, so, as of July, the amount of monthly maturities exceeding 40 billion dollars will be reinvested (24 billion in bonds and 16 billion in assets backed by mortgages), in comparison to the current threshold of 30 billion.

G1. MONETARY AND FINANCIAL INDICATORS (1)



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

The FOMC reiterated that the monetary policy continues to be accommodative, supporting the strength of the labour market and the sustained return to 2% inflation. In the statement, the FOMC highlighted that the labour market has continued to strengthen, the economic activity continues to grow at a solid pace, household consumption has rebounded, business investment has grown strongly and inflation is close to the 2% 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 two additional increases this year.

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 20th June, 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.

The BoJ maintains the interest rates and the monetary stimulus plans

In the meeting held on 14th and 15th June, 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, the favourable financial conditions and the increase in external demand due to the expansion of the world economy.

The 12-month Euribor remains stable, with negative values

In the interbank market of the Eurozone, interest rates registered minor changes in June and remained negative, in a context where the ECB maintained an accommodative monetary policy. Thus, on 4th July, the one, six and twelve-month Euribor stood at -0.372%, -0.269% and -0.181%, respectively, versus the -0.369%, -0.269% and -0.184% recorded at the end of May. The stability of the 12-month Euribor in this period is due to the expectations of stability in interest rates and risk premiums required in the market (the OIS and the Euribor-OIS differential did not change during this period).

European public debt yields decrease across the board

In the secondary public debt market, the political uncertainty in Europe and the announcement of the stimuli withdrawal by the ECB caused yields to boost in the first part of June. However, at the end of the month, yields edged downwards, especially in peripheral countries.

Thus, the 10-year Spanish bond yield stood at 1.31% on 4th July, 19 b.p. below the figure recorded on 31st May and the German bond yield fell by 3 b.p. in that period, down to 0.32%, the Spain-Germany differential standing at 99 b.p., 16 b.p. below the level recorded in late May. Meanwhile, the Spain-Italy differential stood at -136 b.p., compared to the -122 b.p. registered on 31st May. The decline in yields in Greece (65 b.p.) in this period should be noted, among other reasons, due to the agreement reached in the Eurogroup on the third adjustment programme. In the United States, the 10-year bond yield remained at 2.83% in this period.

T 1. Public debt yields and differentials

(in % and basis points)

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-29-17	May-31-18	Jul-04-18	Variation in spreads		Dec-29-17	May-31-18	Jul-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	0.35	0.32	-3	-11					
Holland	0.53	0.54	0.48	-6	-5	10	19	16	-3	6
Finland	0.60	0.59	0.52	-7	-8	17	24	20	-4	3
Austria	0.58	0.66	0.61	-5	3	15	31	29	-2	14
France	0.78	0.67	0.66	-1	-12	35	32	34	2	-1
Belgium	0.64	0.74	0.71	-3	7	21	39	39	0	18
Ireland	0.67	0.96	0.83	-13	16	24	61	51	-10	27
Spain	1.57	1.50	1.31	-19	-26	114	115	99	-16	-15
Portugal	1.94	1.96	1.78	-18	-16	151	161	146	-15	-5
Italy	2.00	2.72	2.67	-5	67	157	237	235	-2	78
Greece	4.12	4.60	3.95	-65	-17	369	425	363	-62	-6

Source: Financial Times.

Stock indices register a mixed behaviour, with a predominance of profits

In the stock markets, the main indices rose during the first part of June. However, in the second part of the month, the trade tensions and the political uncertainty in Italy pushed most of the indices downwards. In Europe, the Eurostoxx 50 index rose by 0.2% in the period between 31st May and 4th July this year. In Spain, the IBEX 35 registered a 3.1% increase in that period, standing at 9,757.50 points. On the other hand, stock indices fell in Germany, France, the United Kingdom and Italy (-2.3%, -1.4%, -1.4% and -0.4%, respectively). In the US market, the S&P 500 index ended the period registering positive rates (0.3%), so the annual gain stood at 1.5%.

T 2. International stock exchange

Countries	Index	Level Jul-04-18	% Variation May-31-18	% Variation Dec-29-17
Germany	DAX	12,317.61	-2.3	-4.6
France	CAC 40	5,320.50	-1.4	0.1
Italy	FTSE MIB	21,686.61	-0.4	-0.8
Spain	IBEX 35	9,757.50	3.1	-2.9
Eurozone	EUROSTOXX 50	3,412.03	0.2	-2.6
United Kingdom	FTSE 100	7,573.09	-1.4	-1.5
United States	S&P 500	2,713.22	0.3	1.5
Japan	NIKKEI 225	21,717.04	-2.2	-4.6
China	SHANGHAI COMP	2,759.13	-10.9	-16.6
Mexico	IPC	47,318.52	5.9	-4.1
Brazil	BOVESPA	74,743.12	-2.6	-2.2
Argentina	MERVAL	27,702.88	-3.0	-7.9

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

The euro depreciates against the dollar

With respect to the currency market, the increase in interest rates and the publication of favourable macroeconomic indicators in the United States, together with the political uncertainty in Italy, have strengthened the dollar exchange rate against the euro during June. Thus, in the period between late May and early July this year, the euro depreciated by 0.5% against the dollar and appreciated by 1% against the yen and by 0.5% against the pound, trading at the end of the 4th July session at 1.1642 dollars, 128.64 yen and 0.8811 pounds. In the same period, the euro appreciated by 1.1% in nominal effective terms vis-à-vis the group of industrialised countries.

The M3 broad monetary aggregate accelerates in May 2018...

The M3 broad aggregate intensified two tenths the y-o-y growth rate in May, up to 4.0%. This evolution is due to the acceleration of overnight deposits (six tenths, up to 8.3%) and currency in circulation (four tenths, up to 3.2%), as well as the lower rate of decline of other short-term deposits (-1.7%, compared to the -1.9% registered in the previous month), partially offset by the greater decrease of marketable instruments (-5.1%, compared to the -1.2% recorded in the previous month).

T 3. Eurozone monetary aggregates

Monetary aggregates	May 2018 Balance (Billion €)	% Year-on-year variation March 2018	April 2018	May 2018
1. Currency in circulation	1,128	2.4	2.8	3.2
2. Overnight deposits	6,849	8.4	7.7	8.3
M1 (= 1 + 2)	**7,978**	**7.5**	**7.0**	**7.5**
3. Other short-term deposits (= 3.1. + 3.2.)	3,429	-2.1	-1.9	-1.7
3.1. Term deposits up to two years	1,162	-8.6	-8.3	-7.7
3.2. Deposits redeemable at notice up to three months	2,266	1.7	1.8	1.7
M2 (= M1 + 3)	**11,406**	**4.4**	**4.2**	**4.6**
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	641	-7.0	-1.2	-5.1
4.1. Repurchase agreements	71	-1.6	5.3	-3.5
4.2. Money market funds shares/units	504	-4.8	-1.7	-2.9
4.3. Securities other than shares up to two years	65	-23.2	-4.1	-20.7
M3 (= M2 + 4)	**12,047**	**3.7**	**3.8**	**4.0**

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, accelerated two tenths in May, up to 3.1%. This evolution is mainly due to the acceleration of loans (three tenths, up to 3.0%), partially offset by the lower growth in securities other than shares (seven tenths less, down to 4.5%), while shares and other equity maintained the rate of advance at 1.9%. Within the loans, those received by households grew by 3.1%, one tenth more than in April; those received by non-financial corporations accelerated four tenths, up to 2.7%; those received by insurance companies and pension funds grew by 8.1%, compared to the 3.7% increase recorded in April; and those received by other financial intermediaries intensified the y-o-y growth rate by 1.1 points, up to 3.9%.

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

	May 2018 Balance (Billion €)	% Year-on-year variation March 2018	April 2018	May 2018
Credit to the private sector	**13,299**	**2.6**	**2.9**	**3.1**
Loans	**11,009**	**2.6**	**2.7**	**3.0**
Households	**5,653**	**3.0**	**3.0**	**3.1**
House purchases	*4,257*	*3.0*	*2.9*	*3.1*
Consumer credit	*670*	*7.2*	*7.4*	*7.2*
Other lending	*726*	*-0.4*	*-0.4*	*-0.2*
Non-financial corporations	**4,381**	**2.2**	**2.3**	**2.7**
Insurance companies & pension funds	**121**	**-0.4**	**3.7**	**8.1**
Other financial intermediaries	**855**	**2.4**	**2.8**	**3.9**
Securities other than shares	**1,490**	**4.0**	**5.2**	**4.5**
Shares and other equities	**800**	**-0.1**	**1.9**	**1.9**

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

The stock of financing to the private sector in Spain falls by 0.9% y-o-y in May

According to the data of financing to the non-financial sectors in Spain, published by the Bank of Spain, the stock of financing to the private non-financial sector in Spain fell by 0.9% y-o-y in May, a fall identical to the one registered in April. Financing received by firms intensified the rate of decline three tenths, down to 1.7%, mainly due to the higher fall registered by bank loans and foreign loans. On the other hand, financing received by households recorded a slightly positive y-o-y rate for the first time since December 2010, of 0.1%, compared to the 0.3% decline registered in April, due to the acceleration of bank loans for purposes other than housing, as well as the lower drop in loans for housing purposes.

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

	May 2018 Balance (Billion €)	% Year-on-year variation		
		March 2018	April 2018	May 2018
Non-financial corporations and Households	**1,581**	**-0.4**	**-0.9**	**-0.9**
Non-financial corporations	**875**	**-0.5**	**-1.4**	**-1.7**
Bank loans	*493*	*-1.3*	*-2.2*	*-2.4*
Securities(1)	*98*	*2.6*	*2.7*	*2.3*
External loans	*284*	*-0.1*	*-1.3*	*-1.9*
Households	**706**	**-0.3**	**-0.3**	**0.1**
Bank loans. Housing	*525*	*-2.5*	*-2.2*	*-2.1*
Bank loans. Other	*181*	*6.5*	*5.6*	*7.1*
General Government	**-**	**3.1**	**3.3**	**-**
Total financing	**-**	**1.0**	**0.8**	**-**

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

New loan and credit operations to households and non-financial corporations accelerate

The amount of new loan and credit operations to households, in cumulative terms for the last twelve months, increased by 19.4% y-o-y in May, two points more in comparison to the figure registered in the previous month. This evolution is due to the acceleration of its three components: loans for housing (2.1 points, up to 18.0%), for consumption (0.8 points, up to 22.5%) and for other purposes (3.4 points, up to 17.5%). The amount of new loan and credit operations to SMEs (using as a proxy for these credits those under one million euros) slowed down, in cumulative terms for the last twelve months up to May, 1.1 points, down to 8.5% y-o-y. On the other hand, the amount of new loan and credit operations exceeding one million euros increased by 8.6% y-o-y, a rate 2.7 points higher than that of April.

T 6. New loan and credit operations to households and non-financial corporations (1)

	Balance May 2018 (Million €)	% Year-on-year variation		
		March 2018	April 2018	May 2018
TOTAL	**449,695**	**7.4**	**9.7**	**10.7**
Loan and credit operations to households	**95,917**	**9.2**	**17.4**	**19.4**
House purchase	*42,384*	*4.7*	*15.9*	*18.0*
Consumer credit	*32,739*	*15.6*	*21.6*	*22.5*
Other lending	*20,794*	*9.2*	*14.0*	*17.5*
Loan and credit operations to non-financial corporations	**353,778**	**6.9**	**7.9**	**8.5**
Up to 1 million euros	*189,656*	*8.2*	*9.6*	*8.5*
Above 1 million euros	*164,122*	*5.4*	*5.9*	*8.6*

(1) Accumulated data for the last 12 months.
Source: Banco de España.

Spanish economy

Domestic demand and production

The available information points to an extension of the expansionary profile of the Spanish economy in the second quarter of the year. Amongst the GDP components on the demand side, the strength of private consumption indicators should be noted, in an environment of strong job creation and maintenance of favourable financial conditions, as well as the acceleration of investment indicators in construction, which reach double-digit growth rates, and the extension of a high dynamism of those for equipment investment.

From the supply point of view, the available indicators related to the industrial sector show mixed signals. On the other hand, the recovery of the construction sector continues, and activity in the services sector maintains a high growth rate, especially in the tourism sector.

The Bank of Spain forecasts growth rates for the Spanish economy of 2.7% in 2018 and 2.4% in 2019

The Bank of Spain (BoS) in its 2018-2020 Macroeconomic projections for the Spanish economy, published in June, maintains its real GDP growth forecast for 2018 unchanged in comparison to what was estimated three months ago, at 2.7%, and revises that for 2019 slightly upwards, one tenth, up to 2.4%. For 2020, the BoS foresees a real GDP growth of 2.1%, a figure identical to the one recorded in March. Therefore, for the period 2018-2020 it foresees that a strong, sustained and balanced growth will be maintained, although it will be more moderate than in recent years, in line with the evolution of the world economy and, particularly, of the Eurozone.

For the second quarter of 2018, the BoS foresees a q-o-q real GDP growth rate of 0.7%, a figure identical to that registered in the previous three quarters, with a seven tenth contribution from domestic demand and null contribution from the net external demand. From the domestic demand point of view, with the information available for the second quarter, the BoS highlights the extension of private consumption dynamism, although it shows a slightly more moderate trend than in the previous quarter, supported by the continuation of the employment creation process and the favourable financing conditions. Likewise, investment in housing maintained a high growth rate in the second quarter, although significantly lower than that registered at the beginning of the year, while equipment goods investment rebounded by 1%, after the fall recorded in the first quarter. In line with this evolution of activity, employment registered a q-o-q increase of 0.6%, one tenth higher in comparison to the previous quarter.

Global activity indicators extend the expansionary trend in the second quarter of the year

Global activity indicators point in the same direction, indicating the maintenance of the growth rate in the second quarter of the year. Amongst qualitative indicators, the Economic Sentiment Indicator of the European Commission stood at 109.4 in June (average 1990-2017 = 100), as in the previous month, ending the second quarter with an average value of 109.8 points, a rate very similar to the one recorded in the previous quarter (110). On the other hand, the Composite PMI for Spain registered a level of 54.8 in June, 1.1 points lower than in the previous month, due to the less expansionary trend of the services activity. The second quarter of the year ended with an average level of 55.4 points, 1.1 points lower than that of the first quarter, although it remains above the figure recorded by the Eurozone, which experienced a drop of 2.3 points, down to 54.7. Likewise, the OECD Composite Leading Indicator for Spain, designed to anticipate the turning points in the economic activity with regards to its trend, fell one tenth in May, to 99.6, a figure very close to its long term average (100) and slightly below that corresponding to the OECD countries and the Eurozone as a whole (99.9 in both cases). In the two-month period from April to May, the leading composite activity indicator for Spain registered an average level of 99.7, just two tenths lower than the figure recorded in the first quarter of the year.

Quantitative indicators maintained a high growth in April, although slightly more moderate than in previous months, partly affected by the different timing of the Easter Holidays, which this year were celebrated in March and last year in April. Thus, the Business Turnover Index (BTI), with calendar adjusted data, rose by 4.1% y-o-y, a rate 2.8 points lower than in March, as a result of the lower dynamism of the turnover in the trade and non-financial market services sectors, while in the extractive and manufacturing industries branches it accelerated, and that of electricity and water supply, sanitation and waste management sectors increased, after the fall registered in the previous month. 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, slowed down half a point in April, down to 3.4% y-o-y, due to the less expansionary trend of both domestic sales and exports. On the other hand, imports recorded a 3.4% y-o-y increase, 1.4 points lower than that of the previous month.

The Spanish economy increases its net lending vis a vis the rest of the world in the first quarter of the year

According to the Quarterly Non-Financial Accounts for the Institutional Sectors (QNFAIS) for the first quarter of 2018, published by the INE, the Spanish economy showed net lending vis a vis the rest of the world in this period amounting to € 622 million (equal to 0.2% of the quarterly GDP), € 591 million higher in comparison to the figure registered in the first quarter of the previous year (€ 31 million, 0% of GDP). This improvement of the external balance is explained by the increase in the surplus of the foreign trade balance in goods and services (€ 766 million, up to € 3.2 billion) and capital transfers (€ 587 million in the first quarter, compared to the € 362 million registered in the same period of 2017), partially offset by the greater deficit of the income and current transfers balance (it increased by € 400 million, reaching € 3.2 billion).

By institutional sectors, the net lending of the Spanish economy y-o-y increase in the first quarter of the year is explained by the lower net borrowing of the General Government (it has decreased from 1.9% of the quarterly GDP in January-March 2017 down to 1.4% of GDP) and to the greater net lending of financial institutions (it rose one tenth, up to 2% of the GDP), while the net lending of non-financial corporations has decreased (from 6.2% of GDP in the first quarter of 2017 down to 5.9% in the same period of 2018) and the net borrowing of households and non-profit institutions serving households increased one tenth, up to 6.3% of GDP

Private consumption indicators intensify the expansionary trend

Amongst the GDP components on the demand side, with regard to private consumption, the signals from available indicators point to an intensification of the expansionary trend in the second quarter of 2018.

With regards to qualitative indicators, the Consumer Confidence Indicator published by the European Commission rose 1.3 points in June, up to 1.8, as a result of the improvement of most of its partial components. Likewise, the Consumer Confidence Index (CCI), published by the CIS, rebounded that month, rising 9.3 points, up to 107 (above 100 reflects an optimistic perception of consumers), due to the improvement of the current situation component and the expectations component. Thus, in the second quarter of 2018 both indicators, that of the Commission and that of the CIS, showed an improvement in consumer confidence in comparison to the first quarter.

The positive evolution of private consumption has also been reflected, in general, in the quantitative indicators, such as domestic sales of consumer goods and services, which grew by 4.3% in April, two tenths more than in the previous month, with fixed-sample, deflated and adjusted for calendar and seasonal variations data, and passenger car registrations, according to the figures provided by ANFAC (Spanish Association of Vehicles Manufacturers), which accelerated eight tenths in June, up to a y-o-y rate of 8%. The performance of retail sales has been less favourable, as it fell by 0.4% in May in y-o-y terms, after the slight 0.1% rise registered in the previous month, due to the higher rate of decline of the non-food component, partially offset by the acceleration of the food group.

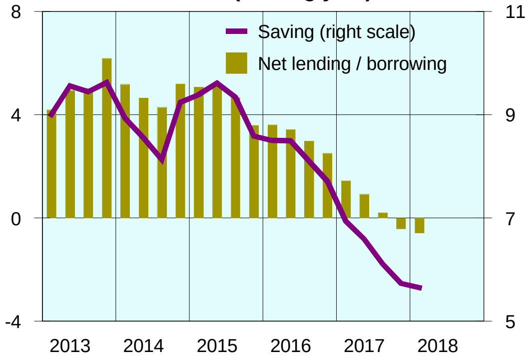
The households´ savings rate remains at low levels

According to the QNFAIS, households and non-profit institutions serving households (NPISHs) registered net borrowing in the first quarter of 2018 amounting to € 18.2 billion, 6.7% more than a year ago, from -6.2% of the quarterly GDP in the first quarter of 2017 to -6.3% of the GDP in the same period of 2018. This evolution is explained by the higher sector negative savings (3.4% y-o-y) and the increase in investment (7.8% y-o-y), as well as the decrease in other net capital income (45.3%). In turn, the higher negative savings is explained by an increase in final consumption expenditure (3.9% y-o-y), similar to that of households´ gross disposable income.

The growth in households and NIPSHs gross disposable income (GDI) was due to the wage income growth (3.5%) and non-wage income growth (6.9%), as well as to the rise in current transfers received (3.4%), while current taxes on income and wealth increased by 5.6% and current transfers paid by 4.7%.

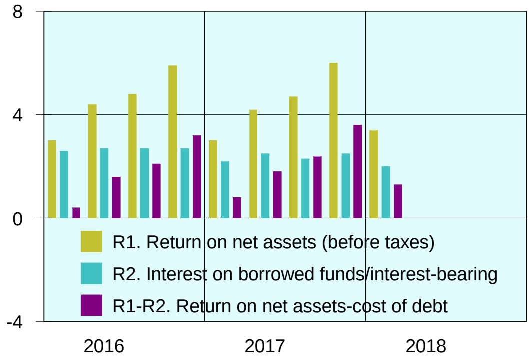
The gross saving rate of households and NIPSHs stood at -4.2% of its GDI in the first quarter of 2018, a figure identical to that registered in the same period of 2017. With calendar and seasonally adjusted data, the savings rate rose one tenth in comparison to the previous quarter, up to 5%.

G 2. HOUSEHOLD SECTOR
% GDI (moving year)



Source: INE.

G 3. CBQ. PROFIT RATIOS (%)



Source: BE (Central Balance Quarterly).

Indicators of investment in equipment maintain a high dynamism

The available short-term indicators related to investment in equipment continue to show strong growth rates. Thus, truck registrations, according to the figures provided by the ANFAC, rose by 12% y-o-y in May, almost fifteen points less than the previous month. On the other hand, domestic large firms´ sales of equipment and software, deflated, and with fixed-sample and seasonal and calendar adjusted data, slowed down 6.3 points in April, down to 2.6% y-o-y. With regard to the qualitative information, according to the Business Tendency Survey, the Industry Climate Indicator for investment goods, with data adjusted for seasonal variations, recorded in June a balance of 2.8 points, 3.8 points lower than that of previous month, due to the evolution of all its components (orders portfolio, production forecasts and stock level), ending the second quarter of 2018 with an average balance of 8.2 points, compared to the balance of 10.1 points recorded in the previous quarter.

Non-financial corporations register net lending close to 6% of the quarterly GDP in the first quarter of 2018,…

According to the QNFAIS data, non-financial corporations showed a net lending position equal to € 17.0 billion (5.9% of the quarterly GDP) in the first quarter of 2018, € 87 million lower than that registered a year earlier (6.2% of the GDP). This slight net lending decrease of the sector is mainly due to an increase in investment (3.3%) higher than the gross savings of companies (2.6%). In turn, the increase in companies savings is explained by the growth of the gross operating surplus (3.6%) and by the fall of net property income paid (-3.2%), partially offset by the increase in corporate tax payments (€ 1.1 billion, compared to the € 354 million recorded a year earlier) and net current transfers paid (16.2%). The rise of the companies´ gross value added (3.9%) contributed to the gross operating surplus growth, while taxes net of subsidies on production rebounded, recording a rate of 9.2% and the compensation of employees grew by 4.1%.

...and the Central Balance Sheet results show an acceleration of their productive activity

According to the Quarterly Central Balance Sheet data published by the BoS, the non-financial companies' nominal gross value included in the sample recorded a 2.7% y-o-y increase in the first quarter of 2018, four tenths more than in the previous quarter. The greater dynamism of the overall productive activity, together with the slowdown of staff expenses (2.6% y-o-y, compared to the 3.8% recorded in the previous quarter), resulted in an intensification of the gross economic result (GER) growth rate, two points up to 2.9%. The more expansionary trend of the GER, together with the greater drop in financial expenses (-10.7%, compared to the -9.8% recorded in the fourth quarter of 2017), explains the behaviour of the net ordinary income (NOI), which accelerated five points, up 15.9% y-o-y.

The ordinary return on net assets for all the companies in the sample stood at 3.4% in the first quarter of 2018, 2.6 points lower than the figure recorded in the previous quarter. On the other hand, the ratio that measures the financial cost of external resources (financial expenses over liabilities) stood at 2%, half a point lower than in the previous quarter, so the differential between them (which is an indicator of companies' economic incentives to invest), fell 2.3 points, reaching 1.3 percentage points.

The solid growth of construction investment indicators continues

With regard to residential investment, the available indicators point to an extension of its expansionary trend, even though its evolution in y-o-y terms has been partly conditioned by the possible upward bias of the data corresponding to April, affected by the different timing of the Easter Holidays, which this year were celebrated in March and last year in April. Thus, the number of mortgages on housing experienced a strong y-o-y increase in April, of 34.2%, after the 5.2% decrease recorded in the previous month. The average amount per mortgaged property amounted to € 123,256, 9.1% higher in comparison to the figure recorded in the same month of 2017, so that the borrowed capital stood at € 3.5 billion, representing an increase of 46.5%, compared to the 0.8% fall registered in the previous month. On the other hand, according to the INE Statistics, based on the properties recorded in the Property Registers, the number of housing sales moderated the y-o-y growth rate in May, 25 points to 4.7%, due to the slowdown of both new and used housing purchases.

The industrial production index accelerates in May

From the supply point of view, amongst the industrial activity indicators, the Industrial Production Index (IPI), with calendar adjusted data, accelerated two tenths in May, reaching a y-o-y rate of 1.6%. This was due to the more expansionary trend of intermediate and equipment goods, partially offset by the fall in consumer goods, after the slight increase registered in the previous month, as well as by the slowdown recorded by energy.

On the other hand, the Industry New Orders Index (INOI) and the Industry Turnover Index (ITI) registered a more expansionary trend in April. Thus, the INOI, adjusted for calendar effects, accelerated one point, up 4.8% y-o-y, and the ITI registered a 5.2% y-o-y increase, three tenths higher than in the previous month. Both indicators point to a strong rise in energy and a more expansionary trend of equipment goods, while intermediate goods slowed down and consumer goods fell slightly, following the increase recorded in the previous month.

However, the most recent qualitative indicators of the industry activity have registered a less favourable evolution. According to Markit, the Manufacturing PMI for Spain remained at 53.4 in June, although it continues recording an expansionary trend, as it stands above 50, and the Industrial Confidence Index, published by the European Commission, fell 1.3 points in June. Both indicators worsened in the second quarter of the year compared to the first one.

The recovery of activity continues in the construction sector

The activity in the construction sector continues the recovery path. Thus, the Production Index in the Construction Industry (PICI), published by Eurostat, rebounded by 3.8% in the first four-month period of 2018, compared to the 5.8% fall registered in the last quarter of 2017, as a result of the building component evolution, whose y-o-y rate reached 6% compared to the -4.2% registered in the last quarter of 2017, and the civil works component, which moderated the fall rate almost seven points, to -5.8%.

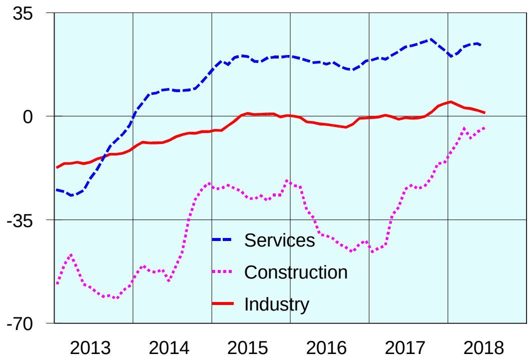
With regards to construction activity leading indicators, according to construction new permits of the Ministry of Public Works, floorage approvals in new construction intensified the y-o-y growth rate by 22.7 points in April, recording a rate of 51.1%, due to the different timing of the Easter Holidays. This acceleration was mainly due to the strong growth registered by the non-residential component, and, to a lesser extent, the more expansionary trend of the residential component.

Activity in the services sector continues to grow strongly, although more moderately

With regards to the services sector, the Services Sector Turnover Index (SSTI), with work calendar adjusted data, decreased its growth rate in April by half, down to 3.4% y-o-y. The SSTI lower dynamism is explained by the slowdown of its two components, trade and other services.

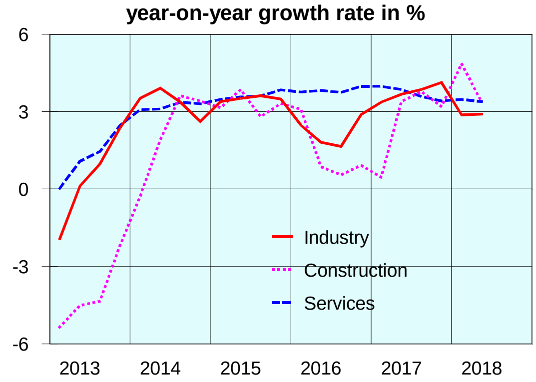
On the other hand, amongst the qualitative indicators, the Services PMI decreased by one point in June, down to 55.4, although it continued pointing to a strong increase in trade activity, where the transport and storage and the financial intermediation sectors stood out. Likewise, new orders grew more, although more moderately than in May, and the pace of job creation registered one of the highest rates in the last eleven years. The second quarter of 2018 ended with an average Services PMI value of 55.8, one point lower than in the first quarter.

G 4. CONFIDENCE INDICATORS: SPAIN
Moving average (3 months)



Source: European Commission.

G 5. COMPOSITE SUPPLY INDICATORS
year-on-year growth rate in %



Source: SGACPE.

The tourism sector indicators rise in May

According to the data published regarding tourism, the sector indicators resume their positive rates in May, after the falls registered in the previous month. Thus, among the indicators published and according to the Survey of Tourist Movements on Border, the arrival of 8.1 million international tourists to Spain stands out, a figure 1% higher than the one recorded a year earlier, after the 4.4% decrease registered in April. On the other hand, the total expenditure by tourists who visited Spain in May was 2.9% higher than in the same month of 2017, according to data from the Tourist Expenditure Survey, compared to the 1.8% fall recorded in the previous month. The expenditure growth has been greater than that of tourist arrivals, which resulted in a y-o-y increase in the average expenditure per tourist of 1.8%, nine tenths less versus the previous month. In any case, the possible downward bias of the data of April due to the different timing of the Easter Holidays should be noted.

Similarly, overnight stays in hotels registered a y-o-y rate of 1.6% y-o-y in May, following the 8.1% fall recorded in the previous month. This improvement is due to the recovery of both domestic and foreign overnight stays, which grew again after the setbacks registered in April. Air traffic points in the same direction, which recorded a y-o-y growth of 6.4% in May, 3.5 points higher than in the previous month, due to the evolution of both domestic and international traffic.

Prices

Inflation rises by one point in May, up to 2.1%

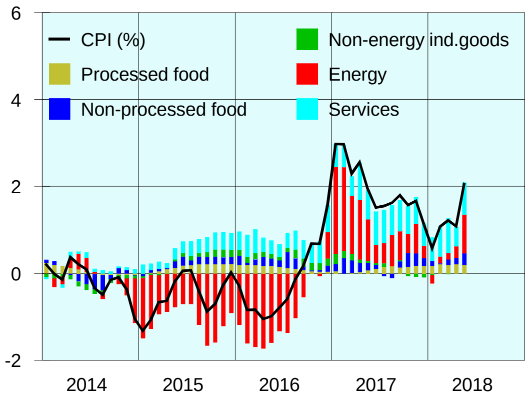
Inflation, measured by the general Consumer Price Index (CPI), rose one point in May, up to 2.1% y-o-y, a rate one tenth higher than the flash estimate issued by the INE. The inflation increase in May is mainly due to the acceleration of energy prices and, to a lesser extent, of services and food prices, while the prices of non-energy industrial goods (BINE) remained stable.

Energy products prices accelerate in May

Energy products prices rose by 7.8% y-o-y in May, five points and a half more than in April. This acceleration is largely due to fuels and lubricants prices, which increased by 11% y-o-y, after the 3.9% rise registered in April, influenced by the evolution of the price of the Brent oil barrel, which averaged 78 dollars in the month as a whole, and the lower appreciation of the euro against the dollar.

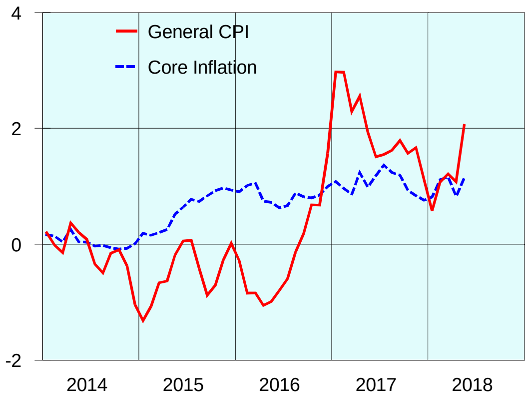
On the other hand, the prices of non-processed food grew by 3.5% y-o-y, one point and a half more than in the previous month, mainly due to the evolution of fresh vegetables and pulses, as well as fresh fruits prices.

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.

Core inflation rises by three tenths in May, up to 1.1%

Core inflation, which excludes the most volatile elements from the CPI (non-processed food and energy products), rose by three tenths in May, up to 1.1% y-o-y, mainly due to the higher growth rate in services prices, seven tenths to 1.8%, especially tourism packages prices, which is partly explained by the disappearance of the Easter Holidays effect.

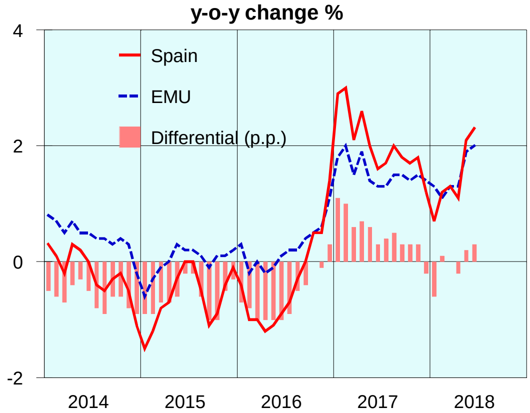
Prices of processed food, beverages and tobacco rose by 1.3% y-o-y, one tenth less than in April, where the moderation in the growth rate of olive oil prices should be noted. On the other hand, BINE prices remained stable.

According to the CPI flash estimate, inflation rose by two tenths in June, up to 2.3%

According to the flash estimate published by the INE, the y-o-y rate of the national CPI stood at 2.3% in June, two tenths higher in comparison to May. This evolution is mainly explained by the rise in fuel prices, compared to the drop experienced in the same period of 2017.

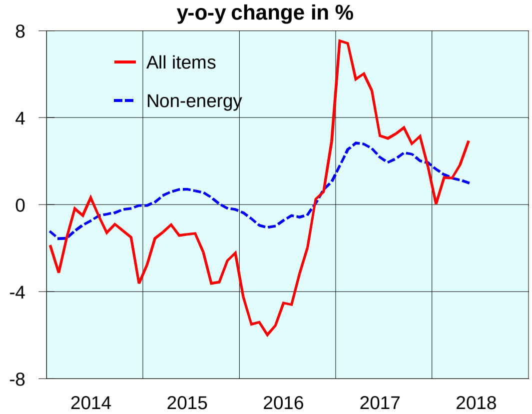
In harmonised terms, if June final data confirm the figures of the flash estimate published by the INE for Spain (2.3%) and by the Eurostat for the Eurozone (2%), the inflation differential for Spain against the Eurozone stands at 0.3 percentage points.

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



Last month's figures are provisional.
Sources: INE and Eurostat.

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



Source: INE.

The producer price index accelerates in May, up to 2.9%, due to energy prices

The Producer Price Index (PPI) registered a 2.9% y-o-y increase in May, 1.1 points higher than in April, mainly due to the acceleration of energy prices, particularly those for oil refining (25.3% y-o-y, a rate 10.2 points higher in comparison to the figure registered in the previous month), in line with the evolution of Brent and the euro-dollar exchange rate.

The non-energy PPI moderated the y-o-y rate by one tenth, to 1%, largely due to the evolution of olive oil production prices (intensify the fall 10.5 points, down to 28.1%) and of meat processing and preservation and preparation of meat products (fell by 0.8%, after the 0.5% rise recorded the previous month).

Labour Market

The number of Social Security covered workers exceeded 19 million in June for the first time since October 2008

The number of Social Security covered workers, with seasonally adjusted data, maintained the q-o-q growth rate at 0.8% in the second quarter of 2018. In y-o-y terms, and with unadjusted data, the number of Social Security covered workers increased by 3.1%, a rate three tenths lower than in the previous quarter, a slowdown that may be influenced by the calendar effect of the Easter Holidays, which in 2017 were celebrated in the second quarter, while this year they were held in the first one.

In June 2018, with unadjusted data, the number of Social Security covered workers exceeded 19 million for the first time since October 2008, after increasing by 91,322 people compared to the previous month, reaching a figure of 19,006,990, mainly supported by the sectors of hospitality (37,043 Social Security covered workers more), as usual in June, and trade (30,309 Social Security covered workers more).

With seasonally adjusted data, Social Security covered workers increased in June by 53,236 compared to the previous month, 0.3% m-o-m, a rate one tenth lower to that registered in May.

In y-o-y terms and with unadjusted data, Social Security covered workers rose by 573,884 people in June, a rate of 3.1% for the third consecutive month, where the evolution of agriculture should be noted, as its number of Social Security covered workers virtually stabilised (0.1%), after falling by 0.7% on y-o-y average during the previous six months. Non-agricultural Social Security covered workers grew by 3.3%, one tenth less than in the previous month, due to services, where the number of Social Security covered workers moderated the rate of rise by one tenth, to 3.1%.

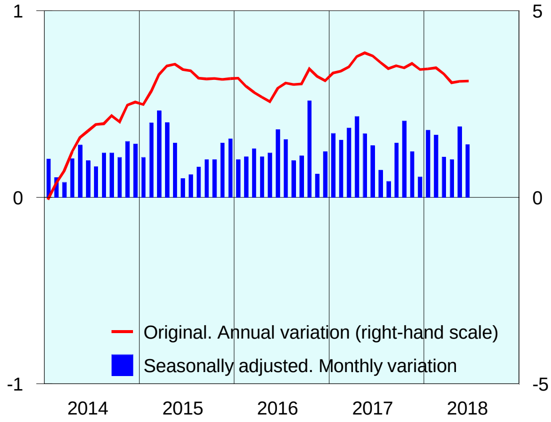
With twelve-month moving averages, the sections driving the pace of job creation the most are construction and, to a lesser extent, education, while the ones pushing downwards the most are hospitality and trade. With regards to Social Security covered workers in the hospitality and trade sectors, it should be noted that in recent months they have registered the lowest y-o-y rates (2.7% and 1.3%, respectively, in June 2018) since the beginning of the recovery, after having represented the main drivers of job creation in the period between 2015 and 2017.

Considering contract duration, temporary contracts represented in June 73% of the y-o-y increase of the General Regime Social Security covered workers for which the type of contract is specified, the greater weight since the beginning of the recovery, after growing at a rate of 4.6% (3.3% temporary workers).

Registered unemployment falls by 6% y-o-y in June

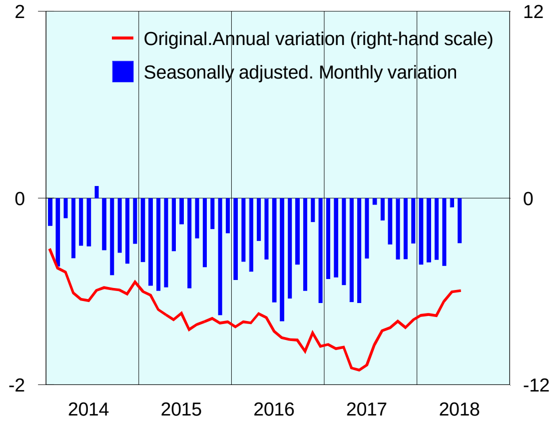
The favourable evolution of Social Security covered workers was reflected in the registered unemployment figures, which fell by 6.2% y-o-y in the second quarter of 2018 as a whole, a fall 1.3 points less pronounced than the one registered in the first quarter of the year. With seasonally adjusted data, registered unemployment fell by 1.6% q-o-q in comparison to the 1.9% decrease registered in the previous month.

G 10. SOCIAL SECURITY-COVERED WORKERS
change in %



Source: MTMS.

G 11. REGISTERED UNEMPLOYMENT
change in %



Source: MTMS.

In June 2018, registered unemployment fell by 89,968 people compared to the previous month, registering a total of 3,162,162 people, the lowest figure since January 2009. With seasonally adjusted data, unemployment fell by 15,865 people in June in comparison to the previous month, which implies a 0.5% m-o-m fall rate (-0.1% in May).

In y-o-y terms and with unadjusted data, unemployment dropped by 6%, a rate of decline identical to the one registered in the previous month. By branches, the intensification of 2.5 points to 8.9% in the fall of agriculture should be highlighted. In the group without previous employment, registered unemployment moderated the decline intensity by eight tenths, to 4.3%.

The labour cost per hour increases by 0.8% y-o-y in the first quarter of 2018

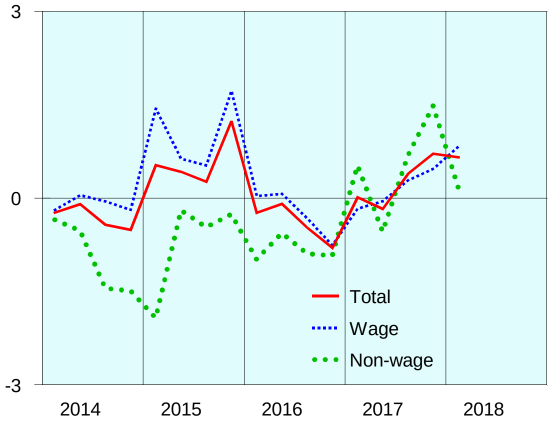
According to the Quarterly Labour Cost Survey, the employment evolution in the first quarter of 2018 took place in a context of slight nominal growth of wages, in which the labour cost per worker increased 0.6% y-o-y, two tenths less than in the previous quarter, with calendar and seasonally adjusted data. In real terms, adjusted by the private consumption deflator of the Quarterly National Accounts, the labour cost fell by 0.5% y-o-y. With seasonally and calendar adjusted data, the labour cost per effective worked hour increased in the first quarter of 2018 by 0.8% y-o-y, a rate one tenth higher in comparison to the figure registered in the previous period.

With unadjusted data, the average labour cost rose by 0.7% y-o-y, a rate identical to the one recorded in the previous quarter. This evolution is due to the fact that the wage cost acceleration (three tenths, up to 0.7%) offset the slowdown recorded by the other costs (1.3 points, to 0.2%), in particular the dismissal costs. From a sectorial point of view, the labour cost in construction should be noted, which increased by 1.4% y-o-y, the highest rate since the beginning of the recovery, after the 0.2% fall recorded in the previous quarter.

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

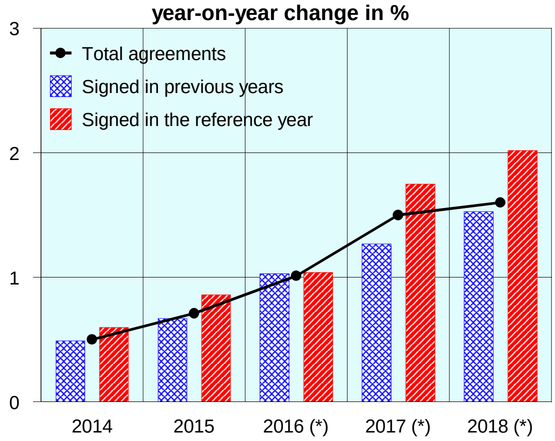
According to the Collective Agreements Statistics, published by the Ministry of Employment, Migrations and Social Security, the average agreed wage rise stood at 1.6% for 2018 (with the information available up to the end of June 2018). The increase reaches 2% in the 405 new agreements signed in 2018, affecting 911,040 people (14.5% of the total number of workers covered by agreements with effects in 2018).

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 June.
Source: MTMS.

The 1.6% agreed wage variation for 2018 is one tenth higher than the figure registered in 2017 (1.5%, with data from agreements registered up to June 2018). By sectors, this slight acceleration is mainly explained by the services sector, where the wage increase agreed for 2018 is 1.7%, three tenths higher than the one agreed for 2017 (1.4%, with data of registered agreements up to December 2017), where hospitality particularly stood out (2% in 2018, compared to 1.4% in 2017). Among the other sectors, the increase agreed for 2018 reaches 2% in construction, as in the previous year; 1.5% in the industry, a rise also identical to the one recorded in 2017; and 1.1% in agriculture, a growth rate one tenth higher than the one recorded the previous year.

External sector

The Spanish economy generates net borrowing to the rest of the world in April

According to the Balance of Payments data, in April 2018, the Spanish economy generated a net borrowing to the rest of the world of € 1.4 billion, in comparison to the net lending of € 1.3 billion registered a year earlier.

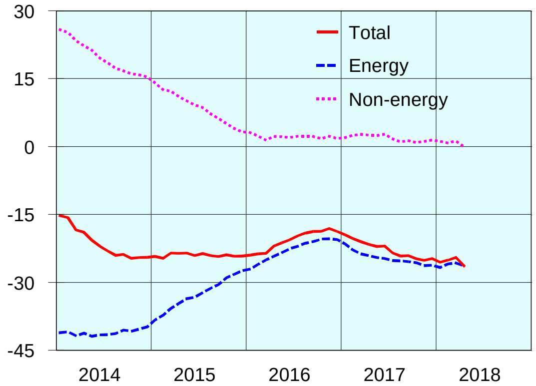
The current account balance recorded a € 1.5 billion deficit in April, in contrast with the € 1.1 billion surplus registered in the same month of 2017, as a result of the reduction in the surplus of goods and services, which stood at € 940 million, compared to the surplus of € 3.1 billion recorded in April 2017, and the 25.5% y-o-y increase of the deficit of primary and secondary incomes, reaching € 2.5 billion. In parallel, the capital account reached a surplus of € 113 million, € 117 million lower in comparison to the figure recorded in April last year.

The trade deficit increases

According to Customs data, the trade balance recorded a deficit of € 3.1 billion in April 2018, compared to the deficit of € 1.2 billion registered a year earlier. The trade deficit increase was due to the greater energy deficit, which increased by 30.7%, up to € 2.7 billion, and to the worsening of the non-energy balance, which registered a deficit of € 335 million, compared to the surplus of € 878 million registered in April 2017.

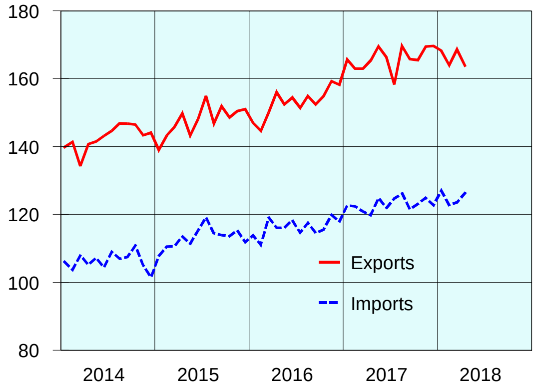
In cumulative terms for the last twelve months up to April 2018, the trade balance recorded a deficit of € 26.3 billion, compared with the € 21.6 billion deficit accumulated in the twelve months up to April 2017. The 22.1% worsening of the external balance is explained by the energy component deficit increase, of 9.3%, and by the decrease in the non-energy surplus, of 99.6%.

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 and imports of goods rebound in April due to the calendar effect of the Easter Holidays

According to Customs figures, goods exports increased in April 2018 by 9.5% y-o-y, and their prices, approximated by unit value indices, rose by 1.8% (2.6% in the previous month), resulting in a 7.5% rise in real terms, after the 4.8% fall registered in March. These rates are affected by the calendar effect of the Easter Holidays, which in 2017 were celebrated in April and in 2018 were held in March. The analysis by product groups in real terms and in y-o-y rates, showed a positive evolution in all the categories except in energy intermediate goods, which decreased by 12.8%, after the increase of a similar magnitude (12.9%) registered in March. Exports of food and non-food consumer goods, and non-energy intermediate goods went from registering negative rates in March to positive rates of 8%, 14.7% and 9%, respectively, while capital goods moderated the fall rate by two percentage points, down to 10%.

By geographical areas, exports in volume to the European Union increased by 8.9% y-o-y in April (-1.7% in March) and exports outside the Union increased by 4.9%, in comparison to the 10.6% fall recorded in the previous month.

Goods imports increased by 17% y-o-y in nominal terms in April 2018, and their prices rose by 3.2% (0.5% in March). Energy goods prices grew by 17.6% and other products prices by 0.9%. As a result, imports in real terms, experienced a y-o-y increase of 13.4%, following the 4.9% decrease registered in the previous month. These rates were also affected by the calendar effect of the Easter Holidays. The analysis by products of imports in real terms and in y-o-y rates registered strong progress in all the groups, except in energy intermediate goods, where they virtually stabilised (-0.1%, versus the -2.6% recorded in March). Imports of food and non-food consumer goods, capital goods and non-energy intermediate goods increased by 10.2%, 16.5%, 8% and 17.3%, respectively, after the declines registered in March.

By geographical areas and in real terms, imports from the European Union rose by 12.6% y-o-y in April, following the 4.5% fall registered in the previous month. Real imports from the rest of the world recorded a 14.4% growth, compared to the 5.6% fall registered in March.

The "momentum" of exports and imports turn negative

The "momentum" (change during the last three months in comparison to the previous three months) of exports, in real terms, registered a negative rate in April (-2.1%) for the second consecutive month, due to the negative contribution of EU and, to a lesser extent, of non-EU OECD countries. By products, the negative contribution of all goods, except capital goods stands out. The "momentum" of imports was negative in April (-0.5%), after three months registering positive rates, due to the negative contribution of EU countries and non-OECD countries. By products, the negative contribution of energy intermediate goods stands out, which more than offset the positive contribution of the rest of goods.

The financial balance records net capital outflows in April

According to the Balance of Payments, in April the financial balance, excluding the Bank of Spain assets, generated net capital outflows of € 8.2 billion, versus the net inflows of 2.8 billion recorded a year earlier. This result is explained by the net outflows registered by direct investment (€ 366 million), other investments (€ 12.7 billion) and financial derivatives (€ 13 million), while portfolio investment recorded net capital inflows (€ 5.0 billion).

The assets net variation recorded net capital inflows (disinvestments) of € 4.5 billion in April, versus the net outflows of € 6.9 billion registered in the same month of 2017. On the other hand, the liabilities net variation generated net outflows (disinvestments) amounting to € 12.7 billion, versus the net inflows of € 9.7 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 € 6.4 billion in April, due to the € 5.5 billion rise recorded in the net debtor position vis-à-vis the Eurosystem and the decreases of € 50 million and € 946 million in reserves and in the rest of net assets, respectively.

The ratio of the debtor balance of the Net International Investment Position on GDP falls in the first quarter of 2018 in y-o-y terms

On the other hand, the Bank of Spain published the Net International Investment Position (NIIP) figures for the first quarter of 2018. This quarter ended with a ratio of the net debtor balance of the International Investment Position (IIP) on GDP of 81.3%, 2.9 percentage points lower in comparison to the figure registered in the first quarter of 2017.

The ratio of the gross external debt on GDP fell 2.4 points, from 169.1% (€ 1.91 billion) in the first quarter of 2017, down to 166.7% in the same period of 2018 (€ 1.96 billion).

Public sector

On 28th June, the Ministry of Finance published the data of non-financial transactions of the General Government, in terms of National Accounts, for the first quarter of 2018, as well as the non-financial transactions of the Central Government, the Regional Governments and the Social Security Funds, with consolidated data, for April 2018. It also published the State monthly budget execution data, in terms of both National Accounts and Cash, corresponding to May.

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

On the other hand, the Bank of Spain (BoS) published the General Government Debt data, following the Excessive Deficit Procedure (EDP) methodology, for the first quarter of 2018 as well as those corresponding to April and the Debt data for the State, corresponding to May.

The General Government deficit in the first quarter of 2018 stands at 0.33% of GDP

In the first quarter of 2018, the General Government recorded a deficit, in terms of National Accounts, of € 4 billion (0.33% of GDP), 26% lower compared to the figure registered in the same period of 2017 (€ 5.4 billion). This lower deficit is explained by an increase in non-financial resources (5.4% y-o-y) higher than the one registered by non-financial uses (3.8% y-o-y).

Excluding the support to financial institutions (€ 62 million), the deficit in the first quarter reached € 3.9 billion (0.32% of GDP), compared to the € 5.2 billion (0.45%) registered a year earlier.

Within the non-financial resources of the General Government, tax revenues rose by 6.8% in the first quarter compared to the same period of the previous year, mainly due to the increase of the Personal Income Tax and VAT. On the other hand, social contributions rose by 4.2%.

Non-financial uses of the General Government sector as a whole increased by 3.8% y-o-y in the first quarter, mainly due to the increase in social benefits (3.0%), gross fixed capital formation (23.8%) and other uses (16.0%), despite the fall of interest expenditure (-4.1%).

By subsectors, the Central Government recorded a deficit of 0.43% of GDP, two hundredths lower in comparison to the figure registered in the first quarter of 2017; the Regional Government has registered a deficit of 0.12% of GDP, in comparison to the deficit of 0.20% registered in the same period of the previous year; the Local Government has maintained its surplus at 0.06% of GDP; and the Social Security Funds subsector has increased its surplus slightly, by three hundredths, up to 0.16% of GDP.

The General Government consolidated deficit, excluding Local Governments, stands at 0.56% of GDP up to April

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded up to April 2018 a deficit of € 6.8 billion (0.56% of GDP), 27.6% lower in comparison to the same period of 2017 (0.80% of GDP). This deficit decrease is explained by a y-o-y increase of non-financial resources (6.6%) higher than the one recorded by non-financial uses (4.2%).

The increase in revenue was mainly due to the y-o-y rise in taxes (7.6%) and social contributions (5.1%). Regarding non-financial uses, almost all items rose, except for interests (-4.0%), the largest increases being recorded in gross fixed capital formation (38.1%), other uses (14.9%) and social benefits (3.0%).

By subsectors, the Central Government ended the first four months of 2018 with a deficit of € 6.6 billion, equal to 0.54% of GDP, 0.14 points below the one recorded in the same period of 2017 (0.68% of GDP). This lower deficit is explained by an increase in non-financial resources (9.0%) higher than that of non-financial uses (6.0%).

The increase in resources is in turn due to the rise of tax revenues (9.3%), and, in particular, to the Personal Income Tax, Corporate Income Tax and VAT, which grew at double-digit rates (11.7%, 10.9% and 10.0%, respectively).

The increase in uses is mainly explained by the rebound in gross fixed capital formation (81.5%), as well as by the rise in social benefits (4.1%), transfers to other General Government units (3.4%), the contribution to the EU budget (25.7%) and the other capital transfers (39.1%, affected by the CAM's Asset Protection Scheme, known in Spanish as EPA).

The State improved its balance by 20.8% y-o-y. However, the Other Bodies of the Central Government increased their deficit by two hundredths of GDP, due to the expenses of the Deposit Guarantee Fund, in turn affected by the CAM’s EPA, which in 2018 was more than double that registered in the previous year.

The expenditure of the Central Government eligible to be included in the calculation of the expenditure benchmark increased by 9.8% y-o-y, up to € 34.9 billion.

Up to April this year, the Regional Government accumulated a deficit of € 2.4 billion, equivalent to 0.20% of GDP, improving the balance of the same period in 2017 by € 1.1 billion. This improvement is explained by a y-o-y increase of non-financial resources (5.9%) higher than that of non-financial uses (3.3%). The increase in revenue is mainly due to the evolution of the resources obtained from the financing system (higher advanced payments, which represent € 802 million more than in the previous year and higher transfers net of advanced payments, which improve revenues by € 1.3 billion). The uses growth is mainly due to an increase of its main items, except interests.

The expenditure of the Regional Government eligible to be included in the calculation of the expenditure benchmark increased by 2.8% y-o-y up to April, reaching € 45.1 billion.

As for Social Security Funds, these ended the first four months of 2018 with a surplus of 2.3 billion, equal to 0.19% of GDP, slightly higher than the figure registered in the same period of 2017 (€ 2.1 billion, equivalent to 0.18% of GDP). This higher surplus is due to an increase of non-financial resources (3.1%) greater than the one registered by non-financial uses (2.8%). Social contributions increased by 5.6%, more than offsetting the decreases recorded by transfers received from the State (-12.3%) and interest generated by the Social Security Reserve Fund (€ 126 million less). On the other hand, the uses increase is mainly due to the evolution of expenditure on social benefits, which increased by 2.8% y-o-y, due to the rise in the number of beneficiaries and the annual average pension, while unemployment benefits and those of the Wage Guarantee Fund (known in Spanish as FOGASA) fell.

The State's deficit in terms of National Accounts stands at 1.19% of GDP up to May

Up to May 2018, the budget execution of the State ended with a deficit, in terms of National Accounts, of € 14.5 billion (1.19% of GDP), 8.2% 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 (5.1%).

The increase in non-financial resources is mainly due to the rise of taxes (7.4%), especially VAT (6.6%) and current taxes on income and wealth (12.7%), as well as to the increase in dividends and other income (85.5%). On the other hand, the rise in uses is due to the growth in gross fixed capital formation (105.5%), the rise of current transfers to other General Government units (4.1%), in particular to the Regional Governments, and the higher contribution to the EU budget based on VAT and GNI resources (15.9%).

In terms of Cash, the State recorded a deficit of € 5.9 billion up to May 2018, 0.4% higher in comparison to the figure recorded in the same period of 2017. Non-financial revenues increased by 3.7% y-o-y, reaching € 52.4 billion, while non-financial payments increased by 3.3%, up to € 58.3 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 of € 421 million up to the end of May.

Tax revenue up to May increases by 4.8% in homogeneous terms, on Cash basis

Total tax revenue (including the Regional and Local Governments' share) recorded a y-o-y rate of 3.8% up to May. 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 4.8%. Without including the Regional and Local Governments, and in non-homogeneous terms, tax revenues rose by 3.9%. The remaining non-financial revenue rose by 2.8%.

Within total taxes, revenue from Personal Income Tax, including the Regional and Local Governments' share, increased by 6.9% up to May, mainly due to the evolution of labour income withholdings (6.7%) and of Large Companies (7.6%). In homogeneous terms, after correcting the effect of tax refunds in both years, the Personal Income Tax increase stands at 7.4%.

Up to May, revenue from Corporate Income Tax was 20.4% lower compared to the same period of 2017, due to the increase in the refunds made (14.6%), corresponding to the 2016 tax statement, while the amount of the first instalment payment was virtually identical to the amount paid in the previous year.

VAT revenue, including the Regional and Local Governments' share, increased by 3.5% y-o-y up to May. Correcting the impact related to the SII and tax refunds in both years, the net VAT collection in homogeneous terms increased by 4.1% y-o-y.

Excise duties collection, including the Regional and Local Governments' share, almost stabilised (0.1%) compared to the figure registered in the same period of 2017, due to the fact that the decrease in the Excise on Tobacco Products (-3.3%) was offset by the rise in Tax on Hydrocarbons (2.7%).

The State non-financial payments increase by 3.3% y-o-y up to May

With regard to expenditure, total non-financial payments increased by 3.3% up to May in comparison to the same period of 2017, in which the increase of current transfers (4.2%) and real investments (120.0%), as well as the decrease of interest rates (-6.7%) stood out.

The borrowing requirement of the State fell by 37.5% y-o-y up to May, reaching € 11.4 billion, versus the € 18.2 billion recorded in the same period of 2017. This decrease is due to the fall in the net variation of financial assets (-55.3%), while the cash deficit remained virtually at the same level as last year. The borrowing requirement was mainly financed through mid and long term domestic debt (€ 28.6 billion).

The Social Security records a surplus up to May

On the other hand, up to May 2018, the Social Security System (Managing Entities, General Treasury and Mutual Insurers) recorded a surplus of € 3.3 billion in terms of Cash (0.27% of GDP), 19.3% above the figure recorded in the same period of 2017 (€ 2.8 billion). Revenues increased by 4.3% mainly due to the evolution of social contributions (5.6%, up to € 47.3 billion), more than offsetting the decrease of other revenues. On the other hand, payments increased by 3.5% mainly as a result of the rise registered by pensions (3.0%, up to € 45.9 billion).

The General Government Debt-to-GDP ratio falls in the first quarter of 2018 in y-o-y terms

The General Government Debt, according to the EDP methodology, reached 98.8% of GDP in the first quarter of 2018, a percentage nine tenths lower than that of the same quarter of the previous year (99.7%). By subsectors, the Central Government Debt stood at 87.5% of GDP in the first quarter of 2018, two tenths above the figure registered in the same period of 2017 (87.3%). On the other hand, the Regional Government EDP Debt reached 24.7% of GDP, a figure identical to the one registered in the first quarter of 2017. Local Government registered an EDP Debt equivalent to 2.5% of GDP in the first quarter of 2018, three 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 2.3% in March 2018, compared to the 1.5% registered in the same period of 2017. This increase is due to the loans granted by the State to the General Treasury of the Social Security in July and November 2017.

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

According to the Bank of Spain, the General Government Debt, according to the EDP methodology, reached € 1,150.9 billion in April. This figure represents a y-o-y increase of 3.3%, two tenths higher than that registered in March.

By subsectors, the State EDP Debt stood at € 1,004.4 billion, a figure 5.0% higher in comparison to that registered a year earlier. The Debt of Other Bodies belonging to the Central Government reached € 32.7 billion, which implies a 15.3% decrease in comparison to April last year. On the other hand, the Regional Government EDP Debt reached € 290.2 billion, 3.1% higher in comparison to the figure registered in the same month of 2017. With regards to the Local Government subsector, it registered an EDP Debt equal to € 28.8 billion in April, 11.0% 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 April 2017 (€ 17.2 billion). This increase is due to the loans granted by the State to the General Treasury of the Social Security in July and November 2017.

At the end of May, the State Debt, according to the EDP methodology, stood at € 1,009.4 billion, compared to the € 967.8 billion registered a year earlier, which represents a y-o-y increase of 4.3%, a rate seven tenths lower in comparison to the figure registered in the previous month.

July 2018