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SPANISH ECONOMY REPORT

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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

1.- FINANCIAL MARKETS

The financial markets evolution in July and August was conditioned by the trade tensions across the world and the depreciation of emerging countries' currencies, as well as by the monetary policy meetings of the main central banks, where it is worth noting the interest rates increase by the Bank of England (BoE). In this context, the public debt yields increased, the stock indices registered a mixed behaviour and the euro depreciated against the dollar.

The ECB maintains the interest rates and confirms the end of the asset purchases announced for the end of the year at its previous meeting

The Governing Council of the European Central Bank (ECB), on its meeting held on 26th July, 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 interest rates to remain at their current 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 monthly pace of € 30 billion, until the end of September 2018. Likewise, it confirmed 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 expects to reinvest 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.

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 31st July and 1st August, decided to maintain the Federal Funds interest rates at the target range of 1.75%-2.00%, and to continue with the progressive reduction of its balance sheet, so 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 the statement, the FOMC highlighted that the labour market has continued to strengthen, the economic activity continues to grow at a solid pace and inflation is close to the 2% target. The dynamism of the US economy gives room for the FOCM to continue with the progressive tightening of its monetary policy, and additional rate increases are expected this year.

The BoE increases the interest rates and maintains the asset purchase programme

The Monetary Policy Committee of the Bank of England (BoE), in its meeting held on 1st August, unanimously decided to increase the Official Bank Rate by 25 b.p., up to 0.75%, after the increase recorded in November 2017, thus setting the rates at record highs since 2009. Likewise, it unanimously decided to continue with the public debt and corporate debt purchase programmes, which stand at 435 billion and 10 billion pounds, respectively.

Table 1.1. **Financial and monetary indicators**

			2018					
	2016	2017	Apr.	May.	Jun.	Jul.	Aug.	Sep.
A) Interest rates (percentages)(1)								
Official rates (2)								
Eurozone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	0.75	1.50	1.75	1.75	2.00	2.00	2.00	2.00
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euribor rates								
3 months	-0.26	-0.33	-0.33	-0.33	-0.32	-0.32	-0.32	-0.32
12 months	-0.03	-0.15	-0.19	-0.19	-0.18	-0.18	-0.17	-0.17
Debt market (3)								
3 years	0.07	-0.08	-0.15	-0.05	-0.06	-0.13	-0.07	-0.03
5 years	0.40	0.36	0.20	0.41	0.41	0.33	0.37	0.46
10 years	1.39	1.56	1.22	1.39	1.37	1.32	1.37	1.43
Bank rates (3)								
Loans and credit. Synthetic rate	2.67	2.55	2.49	2.33	2.34	2.42	-	-
Mortgage loans (households)	2.32	2.20	2.23	2.18	2.17	2.13	-	-
Deposits. Synthetic rate	0.15	0.08	0.06	0.06	0.06	0.05	-	-
B) Spreads (basis points)(1)								
Spain-Germany 10 years	125	118	67	87	97	97	101	110
USA-Germany 10 years	169	197	234	249	253	256	255	255
C) Eurozone monetary aggregates(4)								
M1	8.80	8.70	7.00	7.50	7.50	6.90	-	-
M2	4.80	5.10	4.20	4.60	4.80	4.40	-	-
M3	5.00	4.60	3.80	4.00	4.50	4.00	-	-
D) Exchange rates(1)								
Dollar/euro	1.107	1.129	1.228	1.181	1.168	1.169	1.155	1.161
% (4)	-3.1	12.3	14.5	6.8	4.0	1.5	-2.2	-2.6
Yen/euro	120.3	126.7	132.2	129.6	128.5	130.2	128.2	129.0
% (4)	-7.5	9.2	11.7	4.4	3.2	0.6	-1.2	-2.2
Yen/dollar	108.8	112.2	107.7	109.7	110.1	111.4	111.0	111.2
%(4)	-4.6	-2.8	-2.4	-2.3	-0.8	-0.9	1.0	0.4
Effective nominal euro rate	94.4	96.6	99.5	98.1	97.9	99.2	99.0	99.3
% (4)	2.0	5.4	5.7	2.6	1.6	1.6	-0.1	0.3
E) Stock market indexes % (5)								
Madrid General Index	-2.2	7.6	-0.3	-5.5	-3.9	-1.6	-6.2	-6.5
IBEX 35	-2.0	7.4	-0.6	-5.8	-4.2	-1.7	-6.4	-6.6
Eurostoxx – 50	0.7	6.5	0.9	-2.8	-3.1	0.6	-3.2	-3.1
Dow Jones	13.4	25.1	-2.2	-1.2	-1.8	2.8	5.0	5.0
Standard & Poors 500	9.5	19.4	-1.0	1.2	1.7	5.3	8.5	8.5
Nikkei 225	0.4	19.1	-1.3	-2.5	-2.0	-0.9	0.4	-0.3

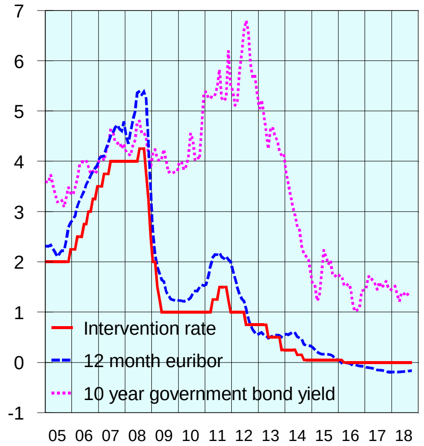
(1) Average available daily data for each period. (2) At the end of each period. (3) Spanish market. (4) Year-on-year variation as %. For years. Dec./Dec. variation. (5) Percentage variation over the period of the year that has gone by.
Source: European Central Bank and Banco de España.

The BoJ maintains its expansionary monetary policy and provides it with greater flexibility

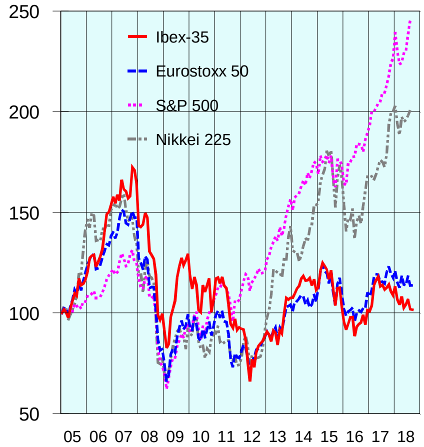
In the meeting held on 30th and 31st July, the Bank of Japan (BoJ) decided to keep the negative interest to current accounts that financial institutions hold at the Bank (-0.1%). Similarly, the BoJ decided to keep its asset purchase programme unchanged, which expands the monetary base at an annual pace 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.

Even though the BoJ has maintained 0% as a target for the 10-year bond yield, it has introduced certain flexibility in the government bonds purchase policy, admitting that the yields can move up and down to a certain extent, depending on the economic activity and price evolution. In addition, the entity stated that it will review the purchase amount of each ETF and it will increase that of the ETFs linked to the Topix.

G 1.1 INTEREST RATES
monthly averages (a)



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



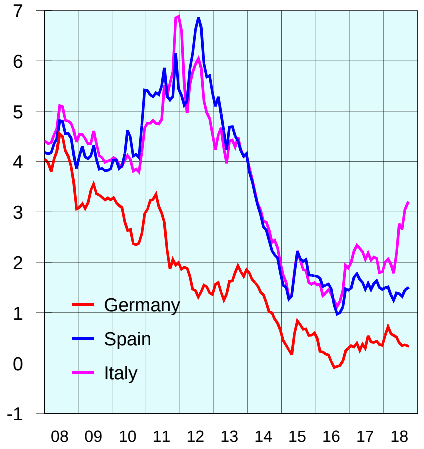
(a) Except the corresponding ECB intervention rate at the end of each month.
Source: ECB and Banco de España.

Source: Bolsa de Madrid, Nasdaq and Stoxx.

The 12-month Euribor continues registering negative values and records a slight rise

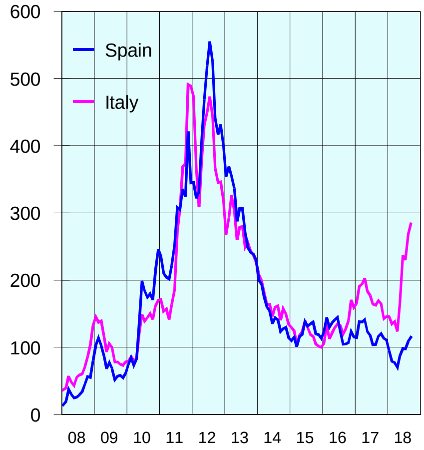
In the interbank market of the Eurozone, interest rates registered minor changes in July and rebounded slightly in August, due to the expectations of a tightening of the monetary policy. Thus, on 3rd September, the one, six and twelve-month Euribor stood at -0.370%, -0.268% and -0.166%, respectively, versus the -0.370%, -0.270% and -0.181% recorded at the end of June. The slight increase of the 12-month Euribor in this period is due to the increase both in the expectations of interest rates rises and in the risk premiums required in the market (the OIS and the Euribor-OIS differential both rose by one b.p.).

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



For the 10-year Bond.
Source: Financial Times.

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



For the 10-year Bond.
Source: Financial Times.

Peripheral European public debt yields rise

In the secondary public debt market, the trade tensions, the expectations of normalisation of the monetary policy and the political uncertainty in Italy caused yields to increase in the period between the end of July and the beginning of September, especially in peripheral countries. Thus, the 10-year Spanish bond yield stood at 1.49% on 3rd September, 16 b.p. above the figure recorded on 29th June and the German bond yield rose by 3 b.p. in that period, up to 0.34%, the Spain-Germany differential standing at 115 b.p., 13 b.p. above the level recorded in late June. Meanwhile, the Spain-Italy differential stood at -169 b.p., compared to the -135 b.p. registered on 29th June. The rise in yields in Italy and Greece (50 and 49 b.p., respectively) in this period should be noted. In the United States, the 10-year bond yield stood at 2.86% on 3rd September, two b.p. above the level registered at the end of June.

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

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-29-17	Jun-29-18	Sep-03-18	Variation in bp		Dec-29-17	Jun-29-18	Sep-03-18	Variation in bp	
				Period	Annual				Period	Annual
	(1)	(2)	(3)	(3)-(2)	(3)-(1)	(4)	(5)	(6)	(6)-(5)	(6)-(4)
Germany	0.43	0.31	0.34	3	-9					
Holland	0.53	0.46	0.46	0	-7	10	15	12	-3	2
Finland	0.60	0.55	0.53	-2	-7	17	24	19	-5	2
Austria	0.58	0.58	0.58	0	0	15	27	24	-3	9
France	0.78	0.67	0.69	2	-9	35	36	35	-1	0
Belgium	0.64	0.70	0.71	1	7	21	39	37	-2	16
Ireland	0.67	0.84	0.87	3	20	24	53	53	0	29
Spain	1.57	1.33	1.49	16	-8	114	102	115	13	1
Portugal	1.94	1.78	1.92	14	-2	151	147	158	11	7
Italy	2.00	2.68	3.18	50	118	157	237	284	47	127
Greece	4.12	3.96	4.45	49	33	369	365	411	46	42

Source: Financial Times.

Stock indices register a mixed behaviour

In the stock markets, the main indices rose during July, driven by the relaxation of trade tensions, the start of the business results season and the favourable evolution of the US economy. However, during August, most of the indices edged downwards, in a context of high volatility, pushed by the increase in trade tensions and the uncertainty in relation to emerging economies. In Europe, the Eurostoxx 50 index remained stable in the period between 29th June and 3rd September this year. In Spain, the IBEX 35 fell by 2.6%, standing at 9,376.10 points. A mixed behaviour was registered in the rest of European markets, stock indices advanced in France and Germany (1.7% and 0.3%, respectively) and fell in Italy and the United Kingdom (-5.7% and -1.7%, respectively). In the US market, the S&P 500 index recorded an increase of 6.7% in the period, so the annual profit stood at 8.5%.

Table 1.3. **International stock exchanges**

Countries	Indexes	Level Sep-03-18	% Variation Jun-29-18	% Variation Dec-29-17
Germany	DAX	12,346.41	0.3	-4.4
France	CAC 40	5,413.80	1.7	1.9
Italy	FTSE MIB	20,395.79	-5.7	-6.7
Spain	IBEX 35	9,376.10	-2.6	-6.6
Eurozone	EUROSTOXX 50	3,394.99	0.0	-3.1
United Kingdom	FTSE 100	7,504.60	-1.7	-2.4
United States	S&P 500	2,901.52	6.7	8.5
Japan	NIKKEI 225	22,707.38	1.8	-0.3
China	SHANGHAI COMP	2,720.73	-4.4	-17.7
Mexico	IPC	49,488.48	3.8	0.3
Brazil	BOVESPA	76,192.73	4.7	-0.3
Argentina	MERVAL	28,807.29	10.6	-4.2

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

The euro depreciates against the dollar

With respect to the currency market, the expectations of rate rises in the United States, the favourable evolution of the US economy and the macroeconomic indicators in the Eurozone, worse than expected, have strengthened the dollar exchange rate against the euro during July and August. Thus, in the period between late June and early September, the euro depreciated by 0.4% against the dollar, remained stable against the yen and appreciated by 1.7% against the pound, trading at the end of the 3rd September session at 1,1609 dollars, 129.03 yen and 0.9016 pounds. In the same period, the euro appreciated by 0.4% in nominal effective terms vis-à-vis the group of industrialised countries.

The M3 broad monetary aggregate slows down in July 2018,...

The M3 broad aggregate slowed down half a point in July, down to 4% y-o-y. This evolution is due to the slowdown of overnight deposits (seven tenths, down to 7.5%) and the largest decrease in marketable instruments and other short-term deposits (-3.1% and -1.1%, compared to the -2% and -0.9% registered in the previous month, respectively), despite the acceleration of cash in circulation (3.6%, compared to the 3.5% registered in June).

Table 1.4. **Eurozone monetary aggregates**

Monetary aggregates	July 2018 Balance (Billions €)	% Year-on-year variation May 2018	June 2018	July 2018
1. Currency in circulation	1,136	3.2	3.5	3.6
2, Overnight deposits	6,913	8.3	8.2	7.5
M1 (= 1 + 2)	**8,050**	**7.5**	**7.5**	**6.9**
3, Other short-term deposits (= 3,1, + 3,2,)	3,436	-1.7	-0.9	-1.1
3,1, Term deposits up to two years	1,158	-7.6	-5.3	-6.5
3,2, Deposits redeemable at notice up to three months	2,277	1.7	1.7	1.9
M2 (= M1 + 3)	**11,486**	**4.6**	**4.8**	**4.4**
4, Marketable instruments (= 4,1,+ 4,2,+4,3,)	644	-5.1	-2.0	-3.1
4,1, Repurchase agreements	67	-3.6	5.2	-2.1
4,2, Money market funds shares units	511	-2.9	-1.3	-1.3
4,3, Securities other than shares up to two years	66	-20.9	-13.0	-16.1
M3 (= M2 + 4)	**12,130**	**4.0**	**4.5**	**4.0**

Source: European Central Bank,

…while financing to the private sector in the Eurozone accelerates slightly

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, accelerated two tenths in July, up to 3.0%. This evolution is due to the acceleration of loans (one tenth, up to 3.0%), and securities other than shares (5.0%, compared to the 4.8% recorded in the previous month), as well as the lower rate of decline in shares and other equity (-1.0%, in comparison to the -1.3% registered in the previous month). Within the loans, those received by non-financial corporations grew by 3.0% and those received by households by 3.3%, rates five and three tenths higher than those registered in the previous month, respectively. On the other hand, those received by other financial intermediaries and by insurance companies and pension funds slowed down 2.1 and 1.2 points, respectively, down to 1.2% and 5.6%.

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

	July 2018 Balance (Billions €)	%Year-on-year variation May 2018	June 2018	July 2018
Financing to the private sector	**13,334**	**3.2**	**2.8**	**3.0**
Loans	**11,025**	**3.1**	**2.9**	**3.0**
Households	**5,677**	**3.1**	**3.0**	**3.3**
House purchases	*4,287*	*3.0*	*3.1*	*3.4*
Consumer credit	*675*	*7.2*	*7.2*	*7.3*
Other lending	*715*	*-0.5*	*-1.2*	*-0.7*
Non-financial corporations	**4,383**	**2.8**	**2.5**	**3.0**
Insurance companies & pension funds	**121**	**8.1**	**6.8**	**5.6**
Other financial intermediaries	**845**	**3.8**	**3.3**	**1.2**
Securities other than shares	**1,520**	**4.6**	**4.8**	**5.0**
Shares and other equities	**789**	**2.0**	**-1.3**	**-1.0**

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

The stock of financing to the private sector in Spain falls by 0.2% y-o-y in July

The stock of financing to the non-financial private sector in Spain fell by 0.2% y-o-y in July, in comparison to the null variation registered in June. Financing received by firms intensified the fall rate by three tenths, down to 0.5%, due to the higher decrease registered by bank and foreign loans, partially offset by the acceleration of securities other than shares. On the other hand, financing received by households increased in July for the second consecutive month, registering a y-o-y rate of 0.2%, a figure one tenth higher in comparison to the one registered in the previous month, due to the acceleration of bank loans for purposes other than housing (three tenths, up to 6, 2%), while bank loans for housing maintained the rate of decline at 1.8%.

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

	July 2018	% Year-on-year variation		
	Balance (Billions €)	May 2018	June 2018	July 2018
Non-financial corporations and households	**1,585**	**-0.8**	**0.0**	**-0.2**
Non-financial corporations	**878**	**-1.4**	**-0.2**	**-0.5**
Bank loans	*493*	*-2.1*	*-0.7*	*-1.2*
Securities (1)	*99*	*2.6*	*4.5*	*5.5*
External loans	*287*	*-1.3*	*-0.7*	*-1.3*
Households	**707**	**-0.1**	**0.1**	**0.2**
Bank loans. Housing	*525*	*-2.2*	*-1.8*	*-1.8*
Bank loans. Other	*181*	*6.2*	*5.9*	*6.2*
General Government	**-**	**2.7**	**2.5**	**-**
Total financing	**-**	**0.6**	**1.0**	**-**

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

New loan and credit operations to households and non-financial corporations continue to grow strongly

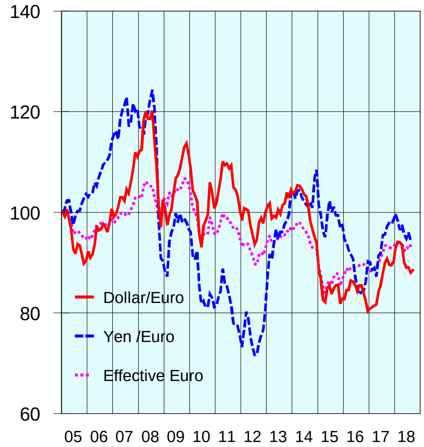
The amount of new loan and credit operations, in cumulative terms for the last twelve months, increased by 9.9% y-o-y, two tenths less in comparison to the figure registered in June, due to the evolution of the loans and credits granted to non-financial corporations, which grew by 7.8% y-o-y in July, four tenths less than in June. Sorting by operation amount, those above one million euros rose by 8.6% y-o-y, a rate seven tenths lower in comparison to that registered in June, while those below one million euros (used as a proxy for the loans and credits granted to SMEs) maintained a rate of 7.2% y-o-y. On the other hand, the amount of new loan and credit operations to households, in cumulative terms for the last twelve months, increased by 18.2% y-o-y in July, half a point more in comparison to the figure registered in the previous month. This evolution is due to the acceleration of the loans for other purposes (2.8 points, up to 20.8%) and consumption (half a point, up to 20.4%), while loans for housing grew at a rate of 15.3%, slightly lower than in June (15.9%).

Table 1.7. **New loan and credit operations to households and non-financial corporations (1)**

	Balance July 2018 (Millions €)	% Year-on-year variation		
		May 2018	June 2018	July 2018
TOTAL	**453,688**	**10.2**	**10.1**	**9.9**
Loan and credit operations to households	**96,887**	**17.0**	**17.7**	**18.2**
House purchase	*42,533*	*15.6*	*15.9*	*15.3*
Consumer credit	*32,991*	*20.0*	*19.9*	*20.4*
Other lending	*21,363*	*15.3*	*18.0*	*20.8*
Loan and credit operations to non-financial corporations	**356,801**	**8.5**	**8.2**	**7.8**
Up to 1 million euros	*190,829*	*8.5*	*7.2*	*7.2*
Above 1 million euros	*165,972*	*8.6*	*9.3*	*8.6*

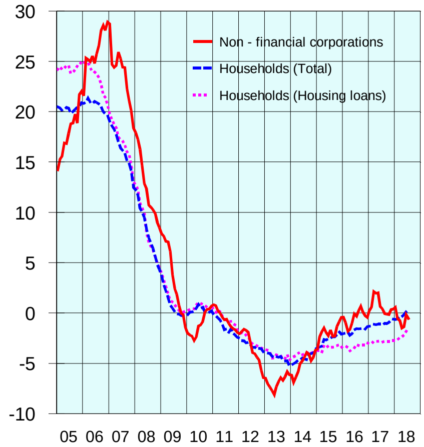
(1) Accumulated data for the last 12 months.
Source: Banco de España.

G 1.5 EXCHANGE RATES
monthly averages. January 2005 = 100



Source: European Central Bank (ECB).

G 1.6 CREDIT IN SPAIN
year on year percentage change



Source: Banco de España (BE).

2.- DEMAND AND PRODUCTION

The growth of the Spanish economy remains strong in the second quarter of 2018

In the second quarter of 2018, the real GDP of the Spanish economy extended the expansionary trend started at the end of 2013, linking almost five years of positive q-o-q rates, despite the persistence of some external sources of uncertainty, especially in international trade. Among the factors that boosted this growth we can underline, at the domestic level, the employment dynamism and the confidence of economic agents, though in the second quarter of this year, the economic activity slowed down slightly, affected by the rise in oil prices and by the slowdown in international trade.

According to the Quarterly National Accounts (QNA) flash estimate figures, published by the National Statistics Institute (INE, by its Spanish abbreviation) at the end of July, GDP, in volume and with calendar and seasonally adjusted data, recorded a q-o-q rate of 0.6% in the second quarter of 2018, one tenth lower compared to the first quarter. In y-o-y terms, GDP increased by 2.7%, three tenths less than in the first quarter, maintaining a favourable growth differential with respect to the Eurozone average (2.2%).

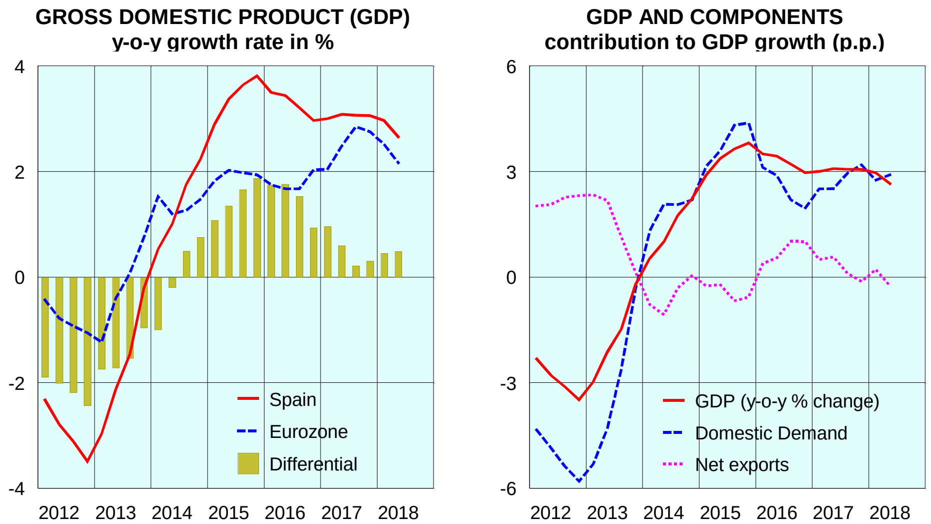
The domestic demand contribution to GDP growth increases

Economic growth continued to be supported by domestic demand, which increased by one tenth its contribution to the GDP y-o-y rise in the second quarter, up to 0.9 percentage points (p.p.), while the net external demand contribution subtracted two tenths to growth, after the positive contribution of the same amount registered in the previous quarter. According to demand components, the rebound of business investment should be noted, while exports of goods and services, and private consumption lost dynamism.

In the second quarter of 2018, the nominal GDP moderated the pace of growth by nine tenths to a y-o-y rate of 3.4%, due to a three tenths slowdown of the GDP in volume and six tenths of the GDP deflator; the latter registering a rate of 0.7%.

Regarding the primary distribution of income, and with calendar and seasonally adjusted data, a higher rate of increase can be noticed in the compensation of employees during the second quarter, by four tenths up to 4%. On the other hand, the gross operating surplus and mixed income rose by 2.3%, a rate two and a half points lower than the previous quarter, and taxes net of subsidies on production and imports increased by 5.1%, three tenths less than in the previous quarter.

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



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

The indicators of the third quarter point to an extension of the dynamism, although at a more moderate pace

The indicators of the third quarter of the year point to an extension of the dynamism observed in the second quarter, although at a more moderate rate. Amongst the qualitative indicators, the Business Confidence Indicator, published by the INE, recorded a q-o-q increase in the third quarter of 0.5%, one tenth higher compared to the figure registered in the second quarter. However, the economic sentiment index fell two points and a half in the two month period from July to August compared to the second quarter, as a result of the confidence deterioration in all its components, except in retail and the Composite PMI for Spain ended such two-month period with an average level of 52.9, two and a half points lower than that of the second quarter.

2.1.- Domestic demand

Domestic demand remains the main driver of growth

As noted above, domestic demand remains the main driver of growth in the Spanish economy. Its contribution to the y-o-y GDP growth was 2.9 percentage points in the second quarter of 2018 (2.8 points in the first one), while the net external demand subtracted two tenths, after the contribution of the same magnitude registered in the previous quarter.

Among the domestic demand components, the acceleration of investment, particularly in equipment goods and, to a lesser extent, in public consumption, stands out in the second quarter, while private consumption moderates its dynamism.

Private consumption expenditure moderates in the second quarter,...

Within domestic demand, real private consumption expenditure (households and non-profit institutions serving households) slowed down by six tenths in the second quarter, reaching a y-o-y rate of 2.2% and, in q-o-q terms, the private consumption growth stood at 0.2%, half a point below the figure recorded in the previous quarter.

Thus, private consumption growth moderates slightly, but remains strong, due to the employment dynamism, the high confidence of consumers and the favourable financial conditions, in a context in which households have extended the deleveraging process started in mid-2010. Indeed, the debt of households and NPISH represented 60.5% of GDP in the first quarter of 2018, almost three points below that of a year earlier, reaching levels similar to those registered in mid-2004.

…and the most recent indicators related to the third quarter show mixed results

Among the qualitative indicators of the third quarter related to consumer confidence, mixed signals can be observed. The Consumer Confidence Indicator (CCI), published by the CIS, rose by 2.8 points in the two month period from July to August in comparison to the second quarter, mainly due to the improvement of the current situation component (5.2 points) and, to a lesser extent, to the expectations component (0.2 points). On the other hand, the consumer confidence indicator, published by the European Commission (EC), fell one point and a half in the aforementioned two month period, reaching a balance of -2.5 points, as a result of the worse outlook on the general situation and unemployment, despite the improvement in the consumer's assessment over the savings and household situation trends.

Table 2.1. **Quarterly National Accounts**

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

				year-on-year change				q-o-q change	
	2016(*)	**2017(*)**	**2018(4)**	**III-17**	**IV-17**	**I-18**	**II-18**	**I-18**	**II-18**
DEMAND									
Domestic consumption	2.5	2.2	2.4	2.1	2.5	2.6	2.2	0.7	0.3
- Private consumption	3.0	2.4	2.5	2.4	2.5	2.8	2.2	0.7	0.2
- Public consumption	0.8	1.6	2.0	1.4	2.4	1.9	2.1	0.5	0.7
Gross fixed capital investment	3.3	5.0	4.6	5.6	5.6	3.5	5.6	0.8	2.6
- Equipment (1)	4.9	6.1	5.0	6.6	7.7	2.2	7.7	-1.6	5.5
- Construction	2.4	4.6	4.7	5.1	4.8	4.7	4.8	2.4	1.1
- Intelectual Property Products	2.7	3.7	3.2	5.0	3.3	2.9	3.5	1.0	1.3
Change in inventories (2)	0.0	0.1	0.1	0.2	0.1	0.1	0.1	0.0	0.0
Domestic demand (2)	2.5	2.8	2.8	3.0	3.2	2.8	2.9	0.7	0.8
Exports of goods and services	4.8	5.0	2.2	5.6	4.4	3.2	1.2	1.3	-1.0
- Goods (fob)	3.1	5.0	1.4	5.7	5.3	1.9	1.0	0.2	-0.8
- Services	8.8	5.1	3.8	5.5	2.3	6.2	1.6	3.8	-1.4
Imports of goods and services	2.7	4.7	2.4	5.9	5.2	2.8	2.1	1.3	-0.3
- Goods (fob)	1.3	5.0	1.6	6.5	6.2	2.3	0.8	0.8	-0.9
- Services	9.3	3.0	6.3	3.3	1.4	5.0	7.6	3.7	2.4
Net foreign balance (2)	0.7	0.3	0.0	0.1	-0.1	0.2	-0.2	0.0	-0.2
GROSS VALUE ADDED									
Agriculture (3)	6.9	3.7	4.5	4.2	2.0	3.3	5.6	3.7	1.9
Industry. Total	3.6	3.7	2.9	3.9	4.6	2.8	3.0	-0.9	1.4
- Manufacturing	3.5	3.8	3.2	4.3	4.7	2.9	3.5	-1.0	1.8
Construction	1.9	4.9	6.3	4.9	5.4	6.0	6.6	2.1	1.6
Services	3.0	2.6	2.3	2.5	2.5	2.5	2.1	0.8	0.3
GDP m.p.	**3.3**	**3.1**	**2.8**	**3.1**	**3.1**	**3.0**	**2.7**	**0.7**	**0.6**
GDP at current prices	3.6	4.0	3.8	4.1	4.3	4.3	3.4	0.6	0.4

(*)The annual rates do not include the revision of the Annual National Accounts (CNA) 2015-2017, published by the INE on September 6, 2018. (1) Equipment and cultivated assets. (2) Contribution to GDP growth (percentage points). (3) Agriculture, forestry and fishing. (4) First semester.

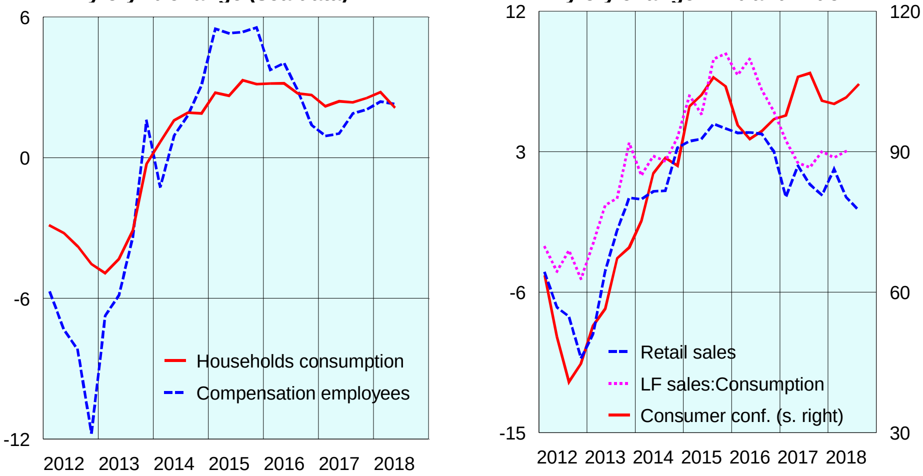
Source: INE *(CNE-2010).*

On the other hand, among the quantitative indicators, retail sales, with work calendar and price adjusted data, registered a y-o-y fall of 0.7% in July in comparison to the 0.3% rise recorded in the previous month. By groups, this drop is explained by the decrease of the same magnitude (-0.7%) registered by its two components, food and non-food, after the increases recorded in the previous month (0.5% and 1%, respectively). On the other hand, passenger car registrations, according to the figures provided by the ANFAC (Spanish Association of Vehicles Manufacturers), rebounded in the period between July and August, registering a y-o-y rate of 31%, more than triple that of the second quarter (9.7%). This was partly due to the advancement of purchases with regards to the change in the regulation of consumer approvals and more restrictive emissions (WLTP), which came into force for all cars registered on 1st September and caused heavy discounts to be applied by authorised dealers to reduce the stock of vehicles approved with the previous regulations.

G 2.2 PRIVATE CONSUMPTION INDICATORS

REAL CONSUMPTION AND WAGES
y-o-y % change (sca data)

SALES AND CONFIDENCE
y-o-y change in % and index



Sources: INE, CIS and AEAT.

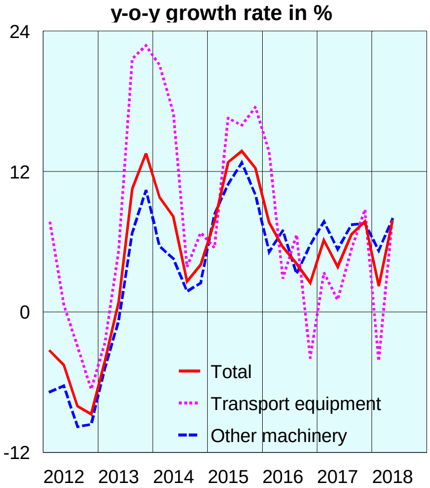
The Final Consumption Expenditure of the General Government accelerated two tenths in the second quarter, up to 2.1% y-o-y and 0.7% q-o-q, according to QNA flash estimate figures.

Investment grew strongly in the second quarter,...

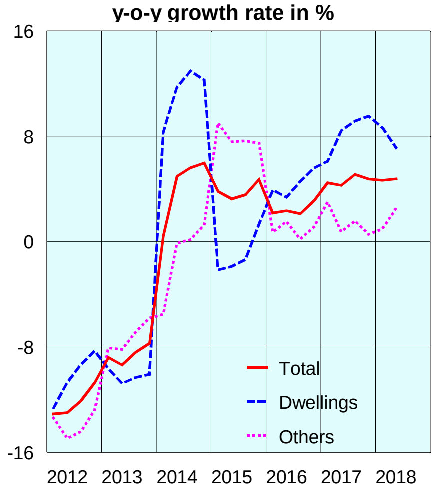
With regard to investment, Gross Fixed Capital Formation (GFCF) grew by 5.6% y-o-y in the second quarter, due to the strong dynamism of equipment investment (7.7%) and the expansionary trend, both in construction investment (4.8%) and in intellectual property products (3.5%). In the second quarter of the year, the q-o-q growth of total fixed investments reached 2.6%, 1.8 points higher than the figure registered in the previous quarter.

The conditions remain favourable for investment decisions, in a context of continuation of the deleveraging of firms, favourable financial conditions and good momentum of domestic demand.

G 2.3 GFCF IN EQUIPMENT
y-o-y growth rate in %



G 2.4 GFCF IN CONSTRUCTION
y-o-y growth rate in %



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

...mainly due to the rebound of investment in equipment goods

The equipment investment rebounded by 5.5% q-o-q in the second quarter, in comparison to the 1.6% fall recorded in the previous quarter, due to the strong increase in transport material investment, which went from registering a decrease of 6.6% in the first quarter of the year, to grow by 11.3% in the second quarter and, to a lesser extent, to the acceleration of other machinery investment, whose rate reached 3.3%, 2.7 points higher than in the previous quarter.

The most recent indicators point to the continuation of the expansionary trend of equipment investment, although more moderate than in the first half of the year. Thus, the qualitative indicator of investment goods climate showed a negative balance in the period from July to August (-5.2 points), after nine consecutive quarters registering positive rates, and truck registrations, according to the figures provided by the DGT, continue registering a strongly expansionary evolution in July, and experienced a y-o-y growth of 15.4%, higher than in the previous month (13.2%).

Table 2.2 **Domestic demand indicators**

Year-on-year change or balances in %

			2017		2018			Latest
	2017	**2018(1)**	**III**	**IV**	**I**	**II**	**III(1)**	**Data**
Households & bussiness financing (2)	-3.3	-3.4	-3.4	-3.0	-2.9	-3.9	-3.8	Jul.18
Private Consumption								
Composite Consumption Indicator (3)	2.0	2.2	2.0	2.3	2.4	1.9	-	Q.II.18
Consumer Goods. Apparent cons. (3)	1.7	4.3	3.0	3.5	4.4	4.2	-	Jun.18
IPI consumer goods (adjusted)	1.0	-0.3	0.3	2.1	1.4	-1.5	-1.5	Jul.18
Consumer goods imports (vol.)	2.5	3.2	2.5	3.7	2.3	4.2	-	Jun.18
Retail sales index (4)	0.9	0.8	1.0	0.3	1.9	0.2	-0.7	Jul.18
Passenger car registrations	7.7	14.6	5.8	10.6	10.5	9.7	31.0	Aug.18
Real wages (5)	1.5	2.3	1.9	2.1	2.4	2.3	-	Q.II.18
Consumer goods. Capacity utiliz. (%)	72.2	74.4	74.4	68.1	75.6	74.6	72.9	Q.III.18
Consumer confide. indicator (balances)	-0.7	-0.3	0.2	-1.5	-0.6	0.5	-1.0	Aug.18
Large firms sales. Consumption (6)	2.7	2.8	2.0	3.0	2.6	3.0	-	Jun.18
Households financing (2)	-3.3	-2.1	-3.1	-2.6	-1.9	-2.3	-2.4	Jul.18
Equipment Investment								
Composite Equipment Indicator (3)	6.8	5.7	6.5	7.8	6.6	4.8	-	Q.II.18
Capital Goods. Apparent cons.(3)	4.9	8.3	11.2	5.3	6.5	10.1	-	Jun.18
IPI consumer goods (adjusted)	4.1	3.5	5.7	8.6	3.5	3.5	3.3	Jul.18
Capital goods imports (vol.)	6.4	0.2	4.1	4.3	-4.5	4.7	-	Jun.18
Corporations financing (2)	-5.5	-5.2	-5.1	-4.4	-3.5	-6.3	-7.0	Jul.18
Truck registrations	13.6	10.1	15.1	11.1	8.9	13.1	4.9	Jul.18
Capital goods. Capacity utilization (%)	83.7	87.0	84.2	84.7	87.1	87.8	86.2	Q.III.18
Large firms sales. Capital (6)	3.6	5.0	5.2	5.3	8.8	1.3	-	Jun.18

(1) Available period data. (2) Deflated by CPI. (3) Adjusted for seasonal, calendar and outliers effects. (4) Adjusted for calendar effects, at constant prices. (5) QNA series; seasonal and calendar effects adjusted divided by household consumption deflator. (6) Calendar adjusted, deflated & fixed sample.

Sources: SGCPE (MECE), BE, INE, DA, ANFAC, MICT, CE and AEAT.

The investment recovery continues in the construction sector

Construction investment remained dynamic, although it eased the pace of q-o-q growth between April and June by 1.3 points, to 1.1%. The lower dynamism was due to investment in housing, whose 0.3% increase was much lower than that recorded in the first quarter (3.5%), while investment in other buildings and constructions accelerated six tenths, up to 1.8%.

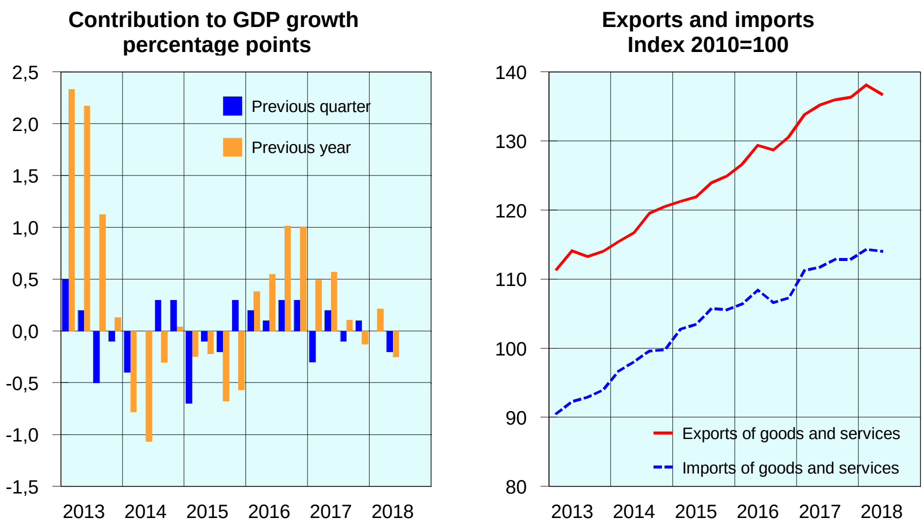
The short-term indicators related to residential investment were very dynamic. The number of housing sales and the number of new housing mortgages grew in the second quarter at y-o-y rates exceeding 10%. In parallel, the price of private housing boosted the increasing path initiated four years earlier, with the price of private housing registering a 6.8% y-o-y rise in the second quarter, a rate that dropped down to 4.9% in real terms.

2.2.-External Demand

The foreign sector lowers the GDP y-o-y growth by two tenths in the second quarter of 2018

In the second quarter of 2018, according to QNA flash estimate figures, the foreign sector subtracted two tenths to the GDP q-o-q growth, after the null contribution in the previous quarter, as a result of a fall in goods and services exports (-1%, q-o-q, after the 1.3% increase registered in the first quarter) above that of imports (-0.3%, compared to the 1.3% rise registered in the previous quarter). In y-o-y terms, the net external demand subtracted two tenths to the GDP variation in the second quarter of 2018, after contributing two tenths in the previous quarter, because exports experienced a slowdown above that of imports (2 points and 0.7 tenths, respectively, to 1.2% and 2.1%).

G 2.5 EXTERNAL SECTOR



Source: INE.

Compared to the major economies of the European Union, the q-o-q rate of Spanish real exports (-1%) was higher than that of the United Kingdom (-3.6%), and lower than those of Germany (0.7%), France (0.2%) and Italy (-0.2%). Similarly, the y-o-y rate of exports from Spain

(1.2%) was higher than those of Italy (0.9%) and the United Kingdom (-1.8%), and lower than those of Germany (3.3%) and France (3.1%).

Real exports of goods and services slow down, although they continue to grow in y-o-y terms

Real exports of goods and services moderated the growth rate in the second quarter of 2018, in a context in which a clear and widespread activity recovery of the main trading partners and the main emerging economies is not observed.

In y-o-y terms, real exports of goods and services rose by 1.2% in the second quarter of 2018, compared to the 3.2% rise registered in the first quarter. Goods exports experienced a 1% rise, nine tenths lower compared to the one registered in the previous period, while services slowed down by 4.6 points, to 1.6%. In q-o-q terms, exports fell by 1%, compared to the 1.3% rise registered in the previous quarter, goods exports registering decreases of 0.8% and services exports of 1.4% (increases of 0.2% and 3.8% in the previous quarter, respectively).

In the second quarter of 2018, the evolution of the activity of Spain’s main trading partners was uneven. The q-o-q GDP growth moderated one tenth in Italy (0.2%), remained constant in France (0.2%) and intensified one tenth in Germany (0.5%), two tenths in the United Kingdom (0.4%) and five tenths in the United States (1%). In the major emerging economies a generalized pattern was neither observed, with accelerations of one tenth in Taiwan (0.4%), four tenths in China (1.8%) and of more than four points in Indonesia (4.2%), while a moderation of 1.2 points was observed in the case of Mexico (-0.2%) and of three tenths in the case of Korea (0.7%).

On the other hand, in the second quarter of 2018 the competitiveness trend index, based on consumer prices against the developed countries and prepared by the Secretary of State for Trade, reported a loss of competitiveness of 3.2% y-o-y, thus extending the trend of the previous four quarters, due to the 3.5% improvement of the nominal effective exchange rate, while relative prices fell by 0.2%. Regarding the European Union, a competitiveness loss of 0.3% was recorded, which represents a trend change after two consecutive quarters of competitiveness gains, as a result of the evolution of the nominal effective exchange rate, which increased by 0.3%, while the relative consumer prices index remained unchanged. Finally, a competitiveness loss of 3.8% with regards to the BRICS countries was recorded, continuing the trend started three quarters ago, due to the appreciation of the nominal exchange rate index (4.2%), partially offset by the 0.3% decrease in the relative price index.

Real exports of goods grow by 0.6% in the second quarter

In this context, the real goods exports y-o-y growth (1%) in the second quarter of 2018 was lower than that recorded by world trade in goods (3.7%, according to the Central Planning Bureau of the Netherlands), with the real market share standing at 1.90%.

According to Customs figures, deflated by unit value indices, which are more volatile than the QNA figures, the "momentum" of exports (variation in volume in the last three months compared to the previous three months) reached -0.9% in June, after the -0.7% registered in March, due to the negative contribution from the countries belonging to the European Union and from the rest of the world. By products, the negative contribution of capital and consumer goods stands out.

In y-o-y terms and according to Customs figures, real exports of goods grew by 0.6% in the second quarter of 2018, following the 0.4% fall registered in the first quarter. By product type, in the second quarter of 2018, the 7.7% drop in energy intermediate goods exports, in volume, should be noted, after the 14.6% increase recorded in the first quarter, and the slight loss of dynamism in exports of food consumer goods (1%, a rate six tenths lower than that in the previous quarter). On the other hand, capital goods exports continued registering falls (-8.8%, after the -2.3% reported in the previous quarter). Furthermore, exports of non-energy intermediate goods and non-food consumer goods recovered moderately (which went from -1.3% and -1.2%, to 1.7% and 2.9%, respectively).

Within the non-food consumer goods group, car exports increased by 4.8% y-o-y, after the 5.1% fall registered in the first quarter, contributing with half a percentage point to total exports growth.

Exports of goods to the European Union grow slightly

By geographic destination, according to Customs data, in the second quarter of 2018, exports to the European Union (EU) and the Eurozone, in volume and in y-o-y terms, grew by 1% and 0.4%, respectively, after the slight growth of 0.5% and 0.2% recorded in the previous quarter. The nominal sales growth to new EU partners, Portugal, Italy and Benelux should be noted. Exports to the rest of the world, in real terms, moderated their fall by 1.8 points, to 0.2%. The breakdown by geographic destination outside the European Union reveals significant growths of nominal sales to Argentina, India, OPEC countries and Russia, while those to Venezuela continued to fall. Consequently, contributions to the total increase of exports of those to the EU was of 0.6 percentage points (0.3 points in the previous quarter), while those to the rest of the world contributed negatively, 0.1 percentage points, compared to the negative contribution of seven tenths registered in the previous quarter.

The y-o-y growth rate of final consumption expenditure of non-residents in the economic territory moderate

According to QNA flash estimates figures, the expenditure of non-resident households in the economic territory, in volume, decreased by 0.1% q-o-q in the second quarter of 2018, compared to the 2.3% increase registered in the previous quarter and rose by 2.6% y-o-y, half the growth registered in the previous quarter. For the third quarter of 2018, the main indicators of foreign tourism, - inbound tourists and foreign overnight stays in domestic hotels - show unfavourable signals, registering y-o-y rates in July of -4.9% and -2.7%, respectively.

For the second quarter of the year, real exports of non-tourism services fell by 2.3% q-o-q, in comparison to the 4.9% increase registered in the first quarter. In y-o-y terms, the advance was of 0.8%, 6.1 points less than in the previous quarter. According to the International Trade in Services Survey published by the INE, referring to the first quarter of 2018, the services with greater contribution to the nominal growth of exports were telecom, computer and information technology services (1.7 p.p.), goods transformation without transfer of ownership (1.2 p.p.) and business services (0.7 p.p.), while insurance and pension services (-0.5 p.p.) and financial services (-0.2 p.p.) contributed negatively.

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

	Weight in Total	**Year-on-year change (%)**					**Contribution to growth**		
	2017	**2017**			**2018**		**2017**	**2018**	
		II	**III**	**IV**	**I**	**II**	**IV**	**I**	**II**
Total exports	**100.0**	**6.3**	**6.4**	**6.9**	**-0.4**	**0.6**	**6.9**	**-0.4**	**0.6**
Consumer goods	*38.2*	*-0.1*	*0.4*	*4.3*	*-0.2*	*2.3*	*1.5*	*-0.1*	*0.8*
Foods	13.9	3.6	1.7	2.1	1.6	1.0	0.3	0.2	0.1
Others goods	24.4	-2.1	-0.3	5.4	-1.2	2.9	1.2	-0.3	0.6
Cars	11.4	-9.8	-12.1	-0.2	-5.1	4.8	0.0	-0.5	0.5
Capital goods	*8.7*	*5.8*	*10.9*	*7.5*	*-2.3*	*-8.8*	*0.7*	*-0.2*	*-1.0*
Excl. heavy trans. equipment	8.5	2.8	10.1	11.6	-0.6	-6.6	1.1	-0.1	-0.7
Intermediate goods	*53.1*	*11.3*	*10.1*	*8.9*	*-0.3*	*1.0*	*4.9*	*-0.2*	*0.6*
Energy	4.2	78.5	30.8	35.7	14.6	-7.7	1.3	0.5	-0.3
Non-energy	48.9	8.1	8.8	6.9	-1.3	1.7	3.5	-0.7	0.9
Total imports	**100.0**	**3.0**	**6.0**	**5.1**	**0.4**	**4.2**	**5.1**	**0.4**	**4.2**
Consumer goods	*28.2*	*0.8*	*2.5*	*3.7*	*2.3*	*4.2*	*0.9*	*0.6*	*1.0*
Foods	7.2	0.1	2.1	0.0	1.7	5.1	0.0	0.1	0.3
Others goods	21.0	1.1	2.7	5.0	2.5	3.8	0.9	0.5	0.7
Cars	5.9	-1.4	6.1	13.4	6.0	10.5	0.6	0.3	0.5
Capital goods	*8.6*	*4.4*	*4.1*	*4.3*	*-4.5*	*4.7*	*0.5*	*-0.4*	*0.5*
Excl. heavy trans. equipment	8.4	1.2	4.5	4.5	-1.2	8.1	0.5	-0.1	0.8
Intermediate goods	*63.2*	*3.7*	*7.9*	*5.7*	*0.1*	*4.2*	*3.7*	*0.1*	*2.7*
Energy	13.3	19.3	13.3	13.2	-1.9	-2.1	1.6	-0.3	-0.3
Non- energy	49.9	0.6	6.7	4.0	0.6	5.6	2.1	0.3	3.0

Sources: Customs and SGCPE.

Lower dynamism of real imports of goods and services in the second quarter

Furthermore, goods and services imports, in real terms and according to QNA flash estimates figures, fell by 0.3% q-o-q in the second quarter of 2018, following the 1.3% growth registered in the previous quarter. By components, goods imports fell by 0.9% (increase of 0.8% in the first quarter), while services imports increased by 2.4%, 1.3 points less than in the previous quarter. In y-o-y terms, goods and services imports grew by 2.1%, seven tenths less than in the first quarter, in which goods and services imports recorded increases of 0.8% and 7.6%, respectively.

According to Customs figures, deflated by unit value indices, the "momentum" of goods imports (change in imports of goods in volume during the last three months versus the previous three months) became positive in June (0.6%), following the 0.8% recorded in March, mainly due to the positive contribution of EU countries. By products, the positive contribution of consumer goods should be noted, especially non-food consumer goods, partially offset by the negative contribution of energy intermediate goods.

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

	Weight in Total	Year-on-year change (%)					Contribution to growth		
	2017	2017			2018		2017	2018	
		II	III	IV	I	II	IV	I	II
Total exports	**100.0**	**6.3**	**6.4**	**6.9**	**-0.4**	**0.6**	**6.9**	**-0.4**	**0.6**
EU	*65.7*	*5.9*	*3.2*	*4.9*	*0.5*	*1.0*	*3.3*	*0.3*	*0.6*
Euro-area	51.6	6.0	3.9	3.4	0.2	0.4	1.8	0.1	0.2
Non-EU	*34.3*	*7.0*	*12.6*	*10.9*	*-2.0*	*-0.2*	*3.7*	*-0.7*	*-0.1*
USA	4.5	-1.1	17.0	9.1	-6.4	-0.6	0.4	-0.3	0.0
Latin America	5.6	13.4	17.0	13.8	0.6	-3.0	0.8	0.0	-0.2
China	2.3	19.9	18.9	27.7	-0.8	-8.5	0.5	0.0	-0.2
Other countries (1)	10.6	2.2	14.6	8.7	3.3	3.0	1.9	0.3	0.3
Total imports	**100.0**	**3.0**	**6.0**	**5.1**	**0.4**	**4.2**	**5.1**	**0.4**	**4.2**
EU	*54.9*	*-1.1*	*1.1*	*4.5*	*-1.9*	*4.6*	*2.6*	*-1.1*	*2.7*
Euro-area	44.4	0.8	1.4	4.5	-0.7	3.9	2.0	-0.3	1.7
Non-EU	*45.1*	*8.9*	*12.6*	*5.9*	*3.5*	*3.7*	*2.5*	*1.5*	*1.6*
USA	4.6	-1.8	26.7	-9.4	-11.3	1.5	-0.6	-0.6	0.1
Latin America	5.8	10.0	9.6	16.2	-2.2	11.8	0.8	-0.1	0.6
China	8.5	4.1	7.1	2.8	7.7	-9.1	0.2	0.6	-0.7
Other countries (1)	10.8	7.3	6.8	11.1	9.4	12.8	1.0	0.9	1.2

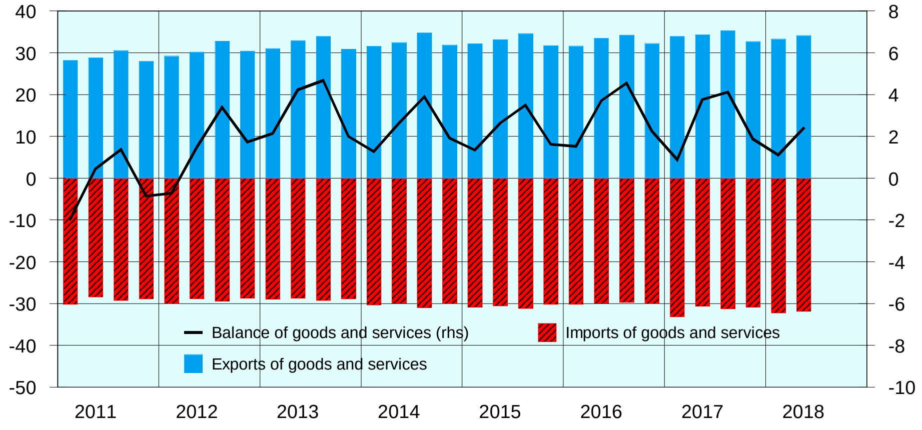
(1) Maghreb, Middle East and Russia.
Sources: Customs and SGCPE.

In y-o-y terms, imports of goods in volume, deflated by unit value indices, rose by 4.2% in the second quarter of 2018, after the 0.4% registered in the previous quarter. By product type and in volume, the contribution of all the groups increases: four tenths that of consumer goods (up to 1 point), nine tenths that of capital goods (up to 0.5 points) and 2.6 points that of intermediate goods imports (2.7 points). Consumer goods registered a growth rate of 4.2%, 1.9 points higher in comparison to the figure registered in the previous quarter, where the 10.5% growth of cars stood out.

By geographical areas, real imports of goods from the European Union rose by 4.6% in the second quarter of 2018 and those from the Eurozone by 3.9%, following the 1.9% and 0.7% falls, respectively, registered in the previous quarter. In nominal terms, the purchases to new partners from the EU, Germany, Portugal and France stand out. On the other hand, real imports from the rest of the world accelerated two tenths, up to 3.7%. In the breakdown by geographic origin, and in nominal terms, the growth, above 20%, of purchases from Argentina, the Middle East, OPEC countries, sub-Saharan Africa and Mexico stands out.

According to QNA flash estimate figures, in the second quarter of 2018, real spending of households residents abroad fell by 0.1% q-o-q, following the 3.7% growth observed in the previous quarter. On the other hand, imports of non-tourism services increased by 3.3% q-o-q, four tenths less than in the previous quarter. According to the latest data released by the INE, the services with the highest positive contribution to this rate in the first quarter of 2018 were business (3.2 p.p.), and intellectual property services (2.3 p.p.).

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



Source: INE.

The balance of goods and services record a surplus of 2.4% of the quarterly GDP

In the second quarter of the year, the surplus of the goods and services balance, calculated with gross data at current prices of the QNA, stood at 2.4% of the quarterly GDP, 1.4 points less than in the previous year, due to the greater deficit of goods (2.2% of GDP, compared to the 1.4% registered a year earlier) and the lower surplus of services (4.6% of GDP, six tenths less than the figure registered in the same period of the previous year). Within the services sector, the tourism net revenue surplus (3.1% of GDP) fell one tenth, compared to the percentage recorded in the previous year, while the non-tourism services (1.5% of GDP) decreased five tenths.

2.3.-Productive Activity

Activity accelerates in all branches, except in the services sector

From the supply point of view, all major branches of activity registered positive contributions to the GDP growth in the second quarter of the year, especially construction, whose gross value added, in volume, experienced a y-o-y increase of 6.6%, six tenths higher than the figure registered in the previous quarter. Likewise, the GVA growth of the primary and industry sectors accelerated 2.3 and 0.2 points, respectively, registering y-o-y growths of 5.6% and 3%, while the GVA of the services sector slowed down four tenths, down to 2.1%. Nevertheless, the latter is the sector that contributed the most to the GDP y-o-y growth (1.4 points).

Productivity rises, especially in the manufacturing industry

The apparent productivity per employee in terms of National Accounts, grew by 0.2% in the first half of the year as a result of the 2.8% GDP increase and a rise of 2.6% of full-time equivalent employment. In the breakdown by major activity branches, the higher advance in productivity in the manufacturing industry between January and June stands out, reaching 0.6%, one tenth more than in 2017 as a whole. This result is largely due to the boost of the added value in the sector. On the other hand, productivity in the construction sector increased the pace of decline by eight tenths, registering a 1% setback, as a result of the strong employment acceleration. On the other hand, productivity in the services sector registered a null variation, in comparison to the slight 0.1% increase registered in the previous year.

Table 2.5 **Employment and productivity**

Year-on-year change (%)

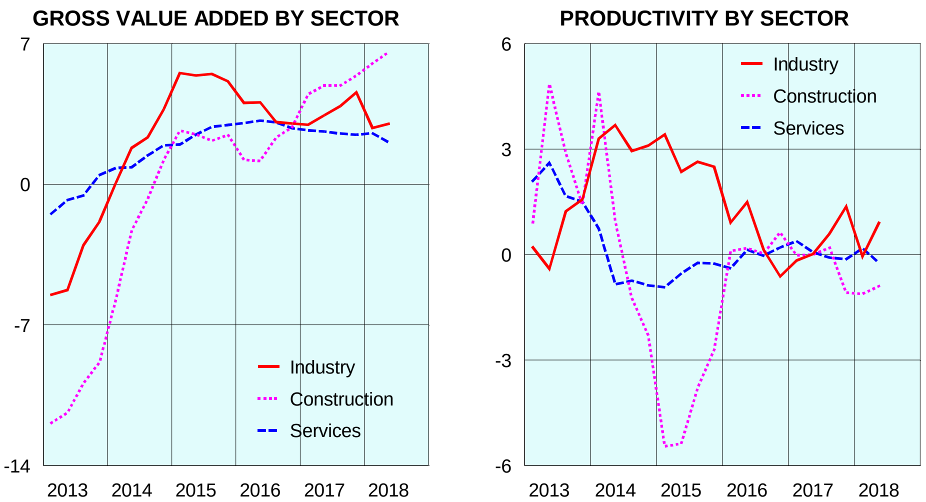
	2016(*)	2017(*)	2018(4)	2017 I	2017 II	2017 III	2017 IV	2018 I	2018 II
EMPLOYMENT (1)									
Agriculture (2)	3.8	3.7	0.3	4.5	5.0	3.4	2.0	0.7	-0.1
Industry total	3.1	3.2	2.5	3.1	3.4	3.3	3.2	2.9	2.1
Manufacturing	3.3	3.3	2.6	3.1	3.4	3.3	3.3	2.9	2.2
Construction	1.6	5.2	7.4	4.5	4.9	4.7	6.6	7.2	7.5
Services	3.0	2.5	2.3	2.3	2.5	2.6	2.6	2.4	2.3
Total	3.0	2.8	2.6	2.6	2.9	2.9	2.9	2.6	2.5
PRODUCTIVITY (3)									
Agriculture (2)	3.0	0.0	4.2	0.4	-1.3	0.8	0.0	2.6	5.7
Industry total	0.5	0.5	0.4	-0.2	0.0	0.6	1.4	-0.1	0.9
Manufacturing	0.2	0.5	0.6	-0.5	0.1	1.0	1.4	0.0	1.2
Construction	0.2	-0.2	-1.0	0.0	0.0	0.2	-1.1	-1.1	-0.9
Services	0.0	0.1	0.0	0.4	0.1	-0.1	-0.1	0.2	-0.2
GDP per employee	0.3	0.2	0.2	0.4	0.2	0.2	0.2	0.3	0.1

(*)The annual rates do not include the revision of the Annual National Accounts (CNA) 2015-2017, published by the INE on September 6, 2018. (1) Full-time equivalent jobs. National Accounts. (2) Agriculture, forestry and fishing. (3) GVA per employee (adjusted series and full-time equivalent jobs). (4) First semester.
Source: INE *(CNE-2010).*

Activity indicators in the industry show mixed results

The industrial activity showed a less expansionary trend in the period from April to June. Amongst the main indicators of the sector, the Industrial Production Index (IPI) reduced its rate of increase in recent months, experiencing a y-o-y variation of 0.1% in June, with calendar adjusted data. This figure was lower than the one registered in the previous months (1.2% in May).

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



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

Table 2.6 **Activity and Production Indicators**

Year-on-year change or balances in %

INDICATORS	2017	2018(1)	2017 III	2017 IV	2018 I	2018 II	2018 III(1)	Latest data
Composite Activity Indicator (2)	3.1	2.8	3.1	2.9	2.9	2.7	-	Q.II.18
Electric power consumption (3)	1.7	1.1	0.5	3.2	1.9	0.1	1.2	Aug.18
Non energy imports (vol.)	3.9	2.9	5.1	4.0	0.7	5.1	-	Jun.18
Economic Sentiment Indicator (90-17=100)	108.6	109.3	108.7	110.1	110.0	109.8	107.4	Aug.18
Large Firms Sales (4)	3.7	3.3	3.6	3.7	3.4	3.3	-	Jun.18
Large Firms Sales. Domestic (4)	3.1	2.9	2.9	3.4	3.0	2.7	-	Jun.18
Industry								
Composite Industry Indicador (2)	3.7	2.9	3.9	4.1	2.9	2.9	-	Q.II.18
IPI calendar adjusted	3.2	1.5	2.8	5.2	2.7	0.9	-0.1	Jul.18
Large Firms Sales. Industry (4)	2.3	1.5	1.6	3.7	1.7	1.3	-	Jun.18
Industry goods Exports (vol.)	5.3	-1.0	2.8	6.3	-0.9	-1.0	-	Jun.18
Employment (LFS)	5.0	3.7	5.5	5.1	4.1	3.3	-	Q.II.18
Social Security covered workers (5)	3.1	3.0	3.1	3.2	3.3	3.0	2.6	Aug.18
Industry confidence indicator (balances)	1.0	0.9	-0.1	4.3	2.8	1.2	-2.4	Aug.18
Industry capacity utilization %	78.7	79.8	78.7	79.1	79.7	80.3	79.3	Q.III.18
Construction								
Composite Construction Indicator (2)	2.7	4.2	3.8	3.2	4.9	3.5	-	Q.II.18
Production in Construction Index (ca)	-1.6	3.8	4.1	-5.5	6.4	1.4	-	Jun.18
Large Firms Sales.Construction (4)	0.6	3.5	1.2	1.9	3.6	3.4	-	Jun.18
Employment (LFS)	5.1	6.9	4.3	6.0	6.5	7.2	-	Q.II.18
Social Security covered workers (5)	6.2	6.8	6.1	7.1	6.8	6.6	6.9	Aug.18
Official bidding (at current prices)	38.0	3.0	36.3	107.0	76.8	-64.4	-	Jun.18
Floorage approvals: total	21.8	26.7	25.2	24.5	19.1	38.8	-	May.18
Floorage approvals: housing	24.8	23.6	28.9	24.8	18.9	30.8	-	May.18
Construction confidence indicator (balances)	-26.9	-6.6	-23.5	-15.7	-4.3	-4.1	-13.8	Aug.18
Mortgages. Amount borrowed	13.6	7.9	15.0	13.8	3.6	12.3	-	Jun.18
Housing Prices	6.2	6.5	6.6	7.2	6.2	6.8	-	Q.II.18
Services								
Composite Services Indicator (2)	3.7	3.3	3.6	3.4	3.4	3.1	-	Q.II.18
Large Firms Sales. Services (4)	3.6	3.4	3.4	3.5	3.6	3.1	-	Jun.18
Railway passengers	3.0	2.9	1.8	2.5	2.3	3.1	3.6	Jul.18
Railway traffic goods (Tm per km)	0.7	-5.8	-1.4	-1.4	-9.2	-4.5	0.8	Jul.18
Air traffic passengers	8.3	6.1	7.2	8.0	9.8	4.8	3.2	Jul.18
Hotel overnight stays	2.9	-0.7	1.4	1.4	3.5	-2.3	-2.2	Jul.18
Foreign tourists	8.7	0.3	8.2	2.7	6.0	-0.5	-4.9	Jul.18
Employment (LFS)	1.9	2.3	2.1	2.1	2.0	2.6	-	Q.II.18
Social Security covered workers (5)	3.6	3.2	3.6	3.6	3.5	3.1	2.9	Aug.18
Services confidence indicator (balances)	22.5	23.3	25.2	22.3	23.5	23.5	22.8	Aug.18
Retail trade confidence indicator (balances)	11.0	11.0	10.9	10.4	11.7	10.4	11.0	Aug.18

(1) Available period data. (2) Adjusted for seasonal, calendar and outliers effects. (3) Adjusted for calendar and temperature effects. (4) Calendar adjusted, deflated and fixed sample. (5) Total system. Monthly average.

Sources: SGCPE (MECE), REE, DA, CE, AEAT, INE, MTMS, Eurostat, MFOM, RENFE and AENA.

The second quarter of the year ended with a y-o-y increase of 0.9%, 1.8 points lower than the figure recorded in the first quarter. This was due to the lower momentum of its main groups, except equipment goods, which grew at a similar rate. This trend continued in July, with a virtual stabilisation of the IPI with calendar adjusted data (-0.1% y-o-y).

The Industry New Orders, a leading indicator of the activity in the sector, showed a lower dynamism in June (5% y-o-y, with work calendar adjusted data, compared to the 6.8% registered in the previous month), mainly due to the decline in the equipment goods component. However, the second quarter ended with an average annual advance of 5.5%, eight tenths higher than the figure registered in the previous quarter.

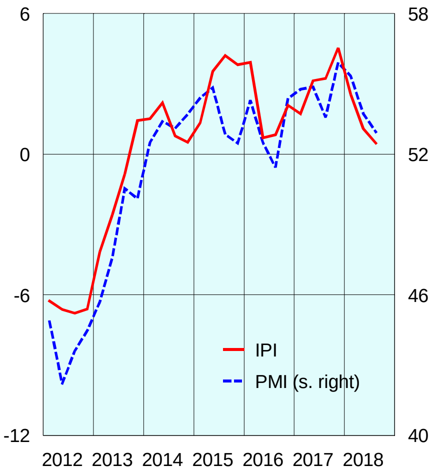
The most recent qualitative indicators of the industrial branch show mixed signals. The industrial confidence indicator has edged downwards in the last four months, reaching a net balance in August of -3.5 points, 2.2 points lower than the figure registered in July; while the manufacturing PMI advanced one tenth in August and reached a level of 53, higher than the 50 threshold indicating an expansion.

Leading indicators point to the continuation of the construction activity dynamism

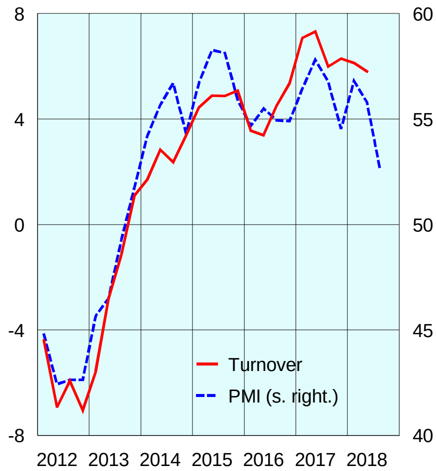
Leading indicators point to the continuation of the strong dynamism in the construction activity, especially in the residential construction segment. Floorage approvals for new construction, according to construction new permits, increased by 30.6% y-o-y in May, an rate of 34.3% corresponding to the non-residential component, higher than that of the residential component (29.7%).

On the other hand, the Production Index in the Construction Industry (PICI), showed a more moderate y-o-y growth in June, with an increase of 1.8%. This figure was lower than the one recorded in the previous month (4.6%), with calendar adjusted data. This slowdown was due to the less expansionary trend of the building component, which increased by 3.2%, one point and a half less than in May, and to the 4.6% drop of civil works, after the 5.8% rise registered in the previous month.

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



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



Sources: INE and Markit Group.

However, confidence in the sector shows more favourable signs in August, as it improved more than seven points with respect to the previous month, reaching a balance of -10.2 points, according to data from the European Commission.

Activity in services remains strong…

With regards to the services sector, the activity continues to be very dynamic. The Services Sector Turnover Index (SSTI), with work calendar adjusted data, rose by 6.9% y-o-y in June, one tenth more than in the previous month. This acceleration affected the trade branch, whose rise was 7.7%, six tenths higher than in May, while other services moderated the growth pace eight tenths, to 5.5%. The Services Sector Turnover Index reflects a particularly expansionary evolution of professional, scientific and technical activities, as well as those related to wholesale trade and trade intermediaries, during that period.

Among the most recent qualitative indicators, retail trade confidence registered a six tenths improvement in the two month period from July to August over the second quarter. The improvement was of 11 points, while the services confidence recorded a positive balance in that two-month period (22.8 points), but lower than the figure registered in the second quarter (23.5). In the same line, the services PMI reached 52.7 in August, a figure one tenth higher than in the previous month, as a result of the extension of the trade activity dynamism, while new orders increased at a slower pace, just as employment creation.

...and tourism indicators moderate their expansion

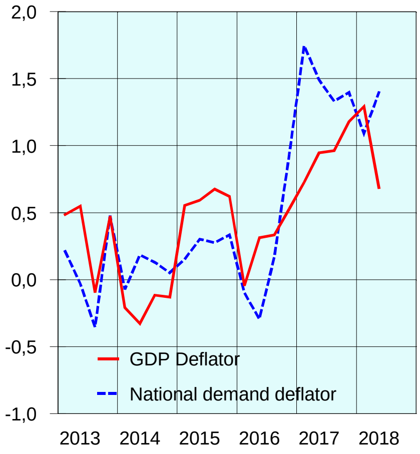
The indicators related to the tourism sector show a less favourable trend. According to the flash estimate of the QNA, consumption in Spain by non-residents registered a y-o-y increase in the second quarter of 2.6%, in real terms and with calendar and seasonal adjusted data, half the figure registered in the first quarter. This lower boost sharpened in July, influenced, among other factors, by the tourism recovery in other competing countries, such as Turkey and Tunisia, as well as the unusual heat wave that affected Northern European countries, which slowed the last minute reservations. Thus, almost ten million tourists visited Spain during the abovementioned month, 4.9% less in comparison to the figure registered a year before and their expenditure fell by 0.9%. In the same month, the rate of increase in air traffic passenger moderated almost two points, to 3.2%, and hotel overnight stays decreased by 2.2%, one point more than in June.

3.- PRICES

The price growth rate in the economy as a whole, measured by the GDP deflator, moderated in the second quarter of 2018, after the continued acceleration observed since 2016. This moderation can be to a large extent explained by the strong rise of oil import prices. Excluding the net external demand, it can be observed that the domestic demand deflator accelerated slightly.

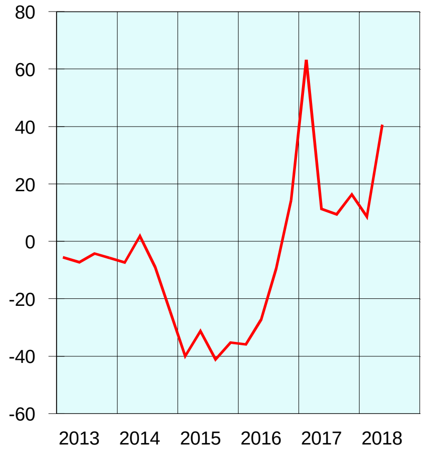
For its part, consumer prices accelerated in the second quarter, both in terms of the private consumption deflator and the Consumer Price Index (CPI). For the latter, the rate of increase is above 2% since May, which represents more than one percentage point over the rates registered at the beginning of the year. This evolution is mainly explained by the behaviour of fuel and electricity prices.

G 3.1 DEFLATORS
year-on-year change in % (sca data)



Source: INE.

G 3.2 BRENT OIL PRICE (EUROS)
year-on-year change in %



Source: Thomson Reuters Datastream.

In terms of the harmonised general CPI, the Spanish inflation was slightly higher than the Eurozone inflation in the second quarter as a whole, while the core inflation differential was favourable for the Spanish economy.

The price growth rate in the economy as a whole moderates in the second quarter,…

The GDP deflator slowed down six tenths in the second quarter of 2018, to 0.7% y-o-y, according to QNA flash estimate figures, with seasonal and calendar adjusted data, mainly due to the imports deflator, which went from falling by 0.1% in the first quarter to rise by 3.1% in the second quarter. This evolution of the imports deflator took place in a context of a strong upturn of the international Brent price, which averaged € 62.5 in the second quarter, representing a y-o-y increase of 40.9% (8.6% in the first quarter). For its part, the domestic demand deflator increased by 1.4% y-o-y, three tenths more than in the previous period.

...but consumer prices accelerate, driven by energy

For its part, the private consumption deflator accelerated four tenths in the second quarter of 2018, up to 1.6%, with QNA seasonally and calendar adjusted data. The general CPI increase rate pointed in the same direction, accelerating in the second quarter up to 1.8% (1% in the previous period), boosted by energy prices, especially fuel and electricity prices.

Inflation stands above 2% in July and August

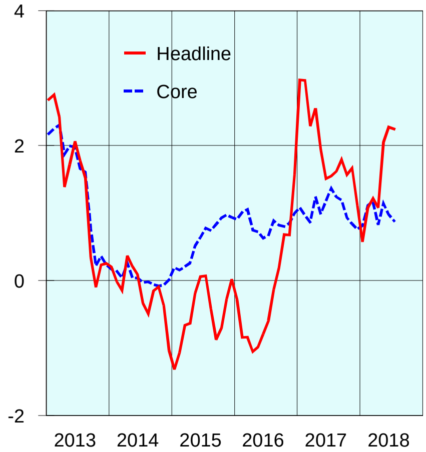
The consumer price acceleration continued during the available period of the third quarter. The inflation measured by the general CPI reached 2.2% in July, which represents an upturn of 1.1 points compared to the end of the previous year (1.1% in December 2017). This evolution responds almost completely to the energy component, especially fuel prices, which went from growing by 3% y-o-y in December 2017 to 14.4% in July 2018. This was in turn due to the acceleration of the Brent price in euros (50.4% y-o-y in July 2018, compared to the 9% registered in December 2017).

Table 3.1 **Main price indicators**

	Annual average			Year-on-year change in %					
				2017			2018		
	16	**17**	**18** (1)	**Jul.**	**Sep.**	**Dec.**	**Mar.**	**Jun.**	**Jul.**
CPI: Total	-0.2	2.0	1.5	1.5	1.8	1.1	1.2	2.3	2.2
Core inflation (2)	0.8	1.1	1.0	1.4	1.2	0.8	1.2	1.0	0.9
CPI excl. food and energy	0.8	1.1	0.9	1.4	1.3	0.7	1.1	1.0	0.9
CPI excl. energy	0.9	1.2	1.1	1.2	1.3	0.9	1.2	1.3	1.2
CPI food	1.3	1.3	1.7	0.3	1.3	1.7	1.4	2.5	1.9
- Non-processed	2.3	2.6	2.6	-1.0	2.2	2.8	1.6	5.4	4.0
- Processed	0.8	0.7	1.2	1.0	0.9	1.2	1.3	1.0	0.8
CPI excl. food	-0.6	2.1	1.5	1.9	1.9	0.9	1.2	2.2	2.4
- Industrial goods	-2.4	2.5	1.4	1.5	1.8	0.6	0.4	3.0	3.5
- Energy	-8.6	8.0	4.5	4.1	5.8	2.6	1.3	9.9	11.2
- Non-energy industrial goods	0.5	0.2	-0.1	0.3	0.1	-0.3	-0.1	-0.1	0.0
- Total services	1.1	1.6	1.5	1.9	1.8	1.3	1.9	1.6	1.5
CPI manufactured goods (3)	0.6	0.4	0.4	0.5	0.4	0.2	0.5	0.3	0.3
Industrial Producer Prices: Total	-3.1	4.4	2.3	3.0	3.5	1.7	1.2	4.1	4.6
Energy	-10.8	10.4	5.5	5.8	6.5	1.1	2.6	12.1	14.1
Non-energy IPP	-0.4	2.3	1.3	1.9	2.4	1.9	1.2	1.3	1.2
Consumer goods	0.2	1.9	0.1	1.9	2.0	1.1	0.5	-0.5	-0.5
- Durable	1.2	0.1	1.1	-0.1	0.1	0.2	1.1	1.3	1.1
- Non-durable	0.2	2.0	0.0	2.1	2.2	1.1	0.4	-0.6	-0.6
- Food	-0.1	2.5	-0.2	2.6	2.6	1.3	0.4	-1.1	-1.1
- Non-food	0.8	0.8	0.8	0.8	0.9	0.6	0.7	0.8	0.8
Capital goods	0.6	0.9	0.8	0.8	0.9	0.8	0.9	0.8	0.9
Intermediate goods	-1.5	3.4	2.7	2.5	3.5	3.4	2.2	3.4	3.2
Unit Value Indices (UVI): Imports	-3.1	4.7	2.6	2.0	4.4	2.0	0.5	6.7	-
- Consumer goods	1.4	3.2	0.9	3.5	3.9	2.2	-1.3	2.0	-
- Consumer food	-0.9	4.5	0.6	6.4	5.2	1.6	-0.4	1.1	-
Exports	-1.7	0.7	2.7	-0.5	2.6	1.2	2.6	5.1	-
Prices received by farmers (4)	-3.3	7.9	-	2.3	7.1	7.0	4.8	-	-
GDP Deflator	0.3	1.0	1.0	-	1.0	1.2	1.3	0.7	..
Private Consumption Deflator	-0.1	1.8	1.4	-	1.5	1.4	1.2	1.6	..

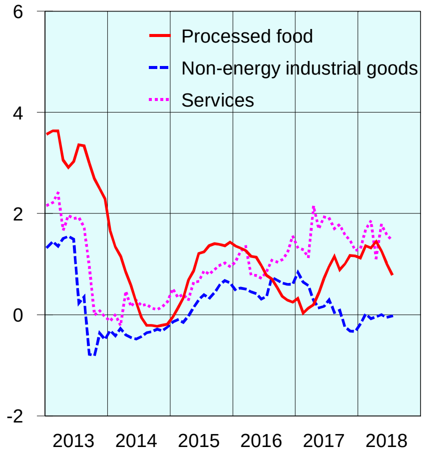
Average of the period with available data over the same period of the previous year.
General CPI excluding non-processed food and energy.
Processed food and non-energy industrial goods.
Change reference year 2010=100. MAPA only supplies data from January 2014.
Sources: INE, DA, MAPA and SGCPE.

G 3.3 CONSUMER PRICES
year-on-year change in %



Source: INE.

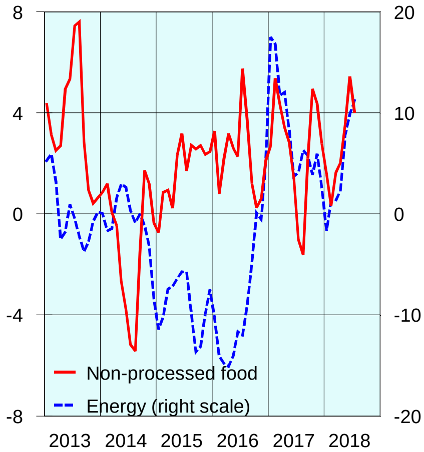
G 3.4 CORE INFLATION BREAKDOWN
year-on-year change in %



Source: INE.

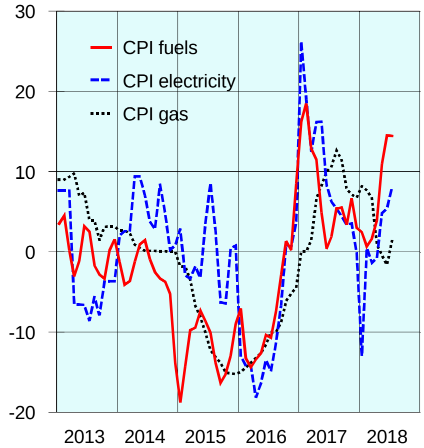
For its part, core inflation increased by one tenth during the same period, from 0.8% y-o-y in December 2017 up to 0.9% in July 2018, thus remaining close to 1% and maintaining the trend observed during the last three years.

G 3.5 CPI VOLATILE COMPONENTS
year-on-year change in %



Source: INE.

G 3.6 ENERGY PRICES
year-on-year change in %

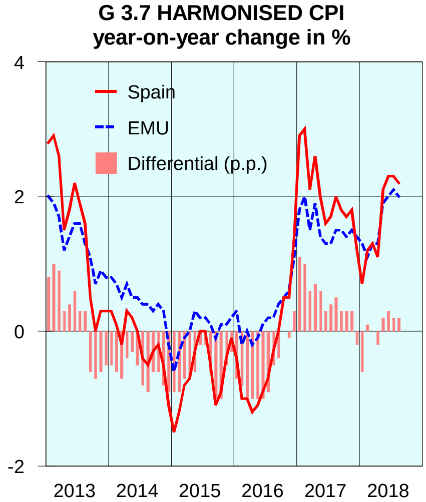


Sources: INE and Reuters.

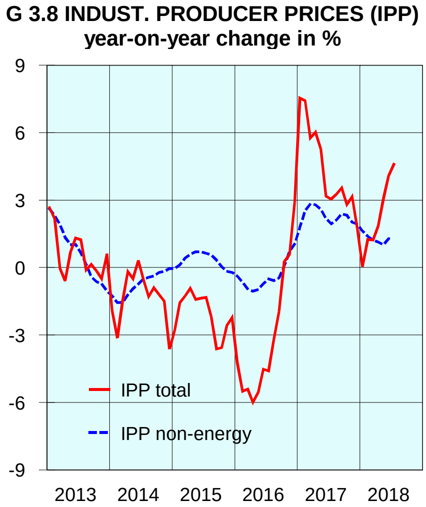
In August, according to the INE leading indicator, the y-o-y variation rate of the general CPI remained at 2.2%. This was affected by the rise in electricity prices, as well as the lower m-o-m increase in fuels prices in this month than in August 2017.

The inflation differential with respect to the Eurozone stands at 0.2 points in July and August

In August, inflation in Spain stood two tenths above that of the Eurozone. This differential is equal to the one registered in the previous month, since the Spanish harmonised inflation stood at 2.2%, compared to the 2% recorded by the Eurozone, according to the INE and Eurostat flash estimates, respectively. It should be noted that, in terms of core inflation, the differential in July, the last available month, was favourable in three tenths to the Spanish economy.



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



Source: INE.

Non-energy production prices resume their gradual slowdown trend

Production prices, measured by the Industrial Price Index (IPRI), accelerated in July for the sixth consecutive month, and went up half a point to 4.6% y-o-y, mainly due to the acceleration of electricity prices. This can be largely explained by the decrease in the weight of the hydraulic and wind energies in electricity generation (low cost sources) in July, in favour of coal (high cost source).

However, when excluding energy, it can be seen that the non-energy IPRI moderated the y-o-y growth rate by one tenth, to 1.2%. In this behaviour, intermediate goods prices are specially relevant, particularly copper prices, in line with the sharp fall in the price of this metal in international markets (-10.2% between June and July, in euros). The non-energy IPRI takes up again the progressive slowdown trend that began in mid-2017.

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

	2016	**2017**	**2018** (2)	**2017**			**2018**		
				Jul.	**Sep.**	**Dec.**	**Mar.**	**Jun.**	**Jul.**
Eurozone	-0.5	0.5	0.0	0.4	0.3	-0.2	0.0	0.3	0.2
Core inflation	-0.1	0.0	-0.1	0.3	-0.1	-0.2	0.0	-0.1	-0.3
- Proc. food.	0.1	-1.1	-1.3	-1.2	-1.2	-1.0	-1.4	-1.5	-1.5
- Non-energy industrial goods	-0.1	-0.2	-0.1	-0.2	-0.8	-0.5	-0.1	-0.1	-0.1
- Services	-0.2	0.3	0.2	0.5	0.6	0.1	0.4	0.2	0.0
Non-proc. food.	0.6	0.0	0.6	-0.6	0.3	0.3	0.6	1.0	0.3
Energy	-3.5	3.1	-0.1	2.0	1.9	-0.4	-0.7	1.9	1.7
EU	-0.6	0.3	-0.2	0.2	0.0	-0.5	-0.2	0.2	0.1
OECD	-1.4	-0.2	-0.8	-0.3	-0.5	-1.1	-1.0	-0.5	-0.6
USA	-1.6	-0.1	-0.9	0.0	-0.4	-0.9	-1.1	-0.6	-0.6

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

4.- LABOUR MARKET

The pace of job creation stood close to 3% y-o-y in the second quarter of 2018. Specifically, employment, according to the Labour Force Survey (LFS) grew by 2.8% y-o-y and, according to Social Security covered workers, by 3.1%. Thus the y-o-y rates of both indicators converge after several quarters in which LFS employment grew significantly less than employment according to Social Security covered workers. The figures available for registrations in the Social Security during the third quarter confirm the continuation of the job creation process, although at a slightly more moderate pace.

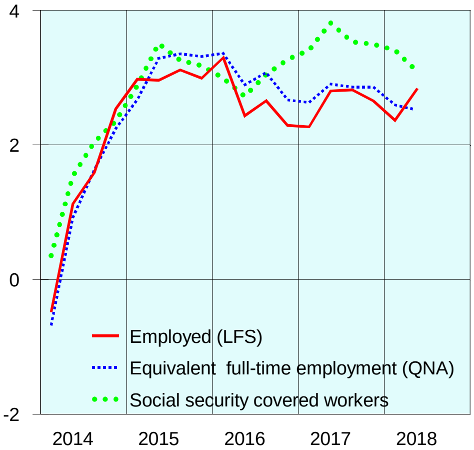
With regard to wages, according to the QNA flash estimate figures, compensation per employee accelerated three tenths in the second quarter of the year, up to 0.7% y-o-y, and the average wage variation agreed in collective bargaining for 2018 stands at 1.7% with information up to August of this year.

LFS employment accelerates up to 2.8% y-o-y, ...

Employment, according to the LFS, accelerated four tenths in the second quarter of 2018, up to 2.8% y-o-y (530,800 more people), reaching 19.3 million employed. It should be noted that this acceleration occurred despite the calendar effect of the Easter Holidays, which in 2017 were celebrated in the second quarter, while this year it has held in the first quarter.

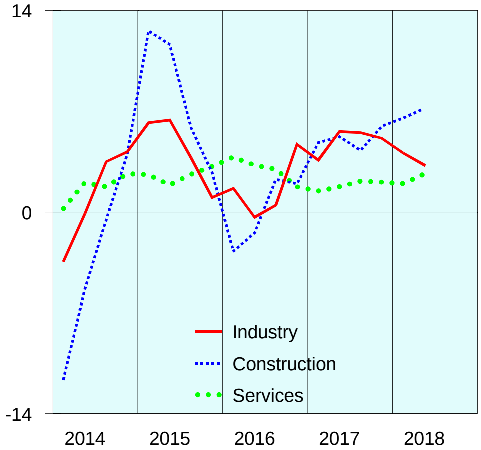
Thus the differential between the growth rate of Social Security covered workers (3.1% in the second quarter of 2018, a rate three tenths lower than in the first quarter) and that of the LFS employment fell down to three tenths, below the average recorded in recent quarters (one percentage point on average since the fourth quarter of 2016), as well as the average absolute differential for the period between 2007 and 2016 (0.4 points).

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



Sources: INE (LFS and QNA) and MTMS.

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



Source: INE (LFS).

These figures contrast with those of the QNA flash estimate for the second quarter of 2018, according to which, employment, in terms of people and with unadjusted data, maintained the y-o-y growth rate at 2.2%. By branches, the greatest contribution to the differential between the y-o-y variation rate of LFS employment and that of QNA employment comes from the set of sections including public administration, education and health (1.7% y-o-y according to the QNA, in comparison to the 3.7 % according to the LFS), followed by the manufacturing industry section (1.9% according to the QNA and 3.6% according to the LFS).

With seasonal adjusted data by the INE and the Ministry of Employment, Migrations and Social Security, LFS employment recorded a q-o-q variation rate of 1% in the second quarter of 2018 (0.6% in the previous quarter), slightly higher than the figure registered by Social Security covered workers (0.8%, as in the previous quarter) and QNA employment (0.7%, three tenths more than in the first quarter).

...mainly due to the services sector

By branches, the y-o-y acceleration of LFS employment in the second quarter of 2018 was mainly focused on the services sector, whose employment creation rate intensified six tenths, up to 2.6%. In this sense, the auxiliary services and, to a lesser extent, transport, trade and hospitality sections, should be highlighted. The q-o-q employment growth in hospitality stands out, as it was the highest in a second quarter of the employment series by QNA activity branches published by the INE, which begun in 2008. All this despite having celebrated the Easter Holidays in the previous quarter.

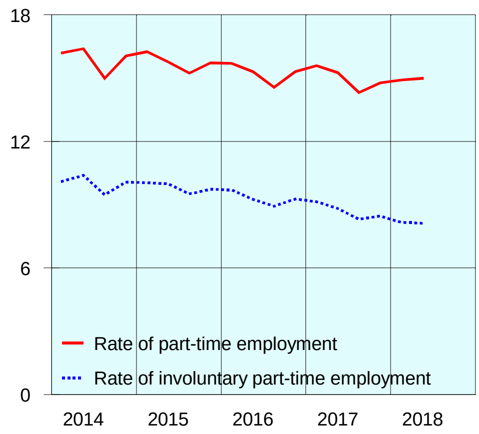
Involuntary part-time employment continues to fall

Regarding working hours, the weight of part-time workers over the total increased by one tenth in the second quarter of 2018 but decreased by three tenths in comparison to the figure registered a year earlier, with the partiality rate standing at 15%.

Within part-time employment, the share of involuntary workers (those who work part-time because they could not find a full-time job) continues to fall, reaching 8.1% of the total people employed in the second quarter of 2018, seven tenths less than in the same period of 2017.

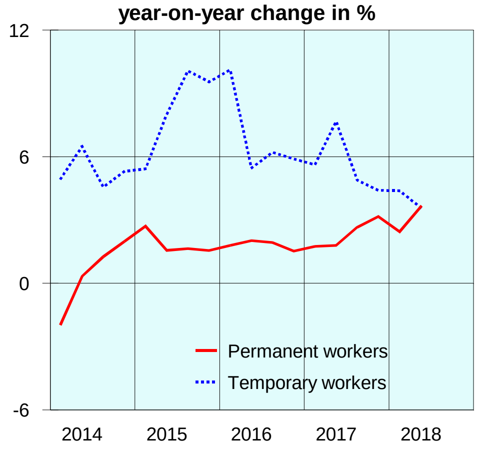
With regards to working time, it should be added that, according to the QNA and with calendar and seasonally adjusted data, full-time equivalent jobs moderated the y-o-y growth rate one tenth, reaching 2.5%.

G 4.3 EMPLOYED PART-TIME
% of total employment



Source: INE (LFS).

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



Source: INE (LFS).

Table 4.1 **Summary of employment market indicators**

	Latest figures (1)		Year-on-year change in %					
	Thousands	**Annual Δ**	**2017-I**	**2017-II**	**2017-III**	**2017-IV**	**2018-I**	**2018-II**
LABOUR FORCE SURVEY								
In work	22834.2	106.6	-0.6	-0.6	-0.3	0.1	-0.1	0.5
- Men	12202.2	43.9	-0.7	-0.5	-0.1	-0.1	-0.1	0.4
- Women	10631.9	62.5	-0.4	-0.8	-0.5	0.2	-0.1	0.6
Rate of employment (2)(*)	58.8	-	-0.5	-0.6	-0.4	-0.2	-0.3	0.0
- Men	64.6	-	-0.6	-0.5	-0.2	-0.2	-0.3	-0.1
- Women	53.3	-	-0.4	-0.6	-0.5	-0.1	-0.3	0.0
In work	19344.1	530.8	2.3	2.8	2.8	2.6	2.4	2.8
- Non-agricultural sector	18521.6	540.8	2.0	2.5	2.7	2.7	2.6	3.0
- Industry	2722.8	86.2	3.6	5.6	5.5	5.1	4.1	3.3
- Construction	1215.2	81.6	4.8	5.2	4.3	6.0	6.5	7.2
- Services	14583.6	373.0	1.4	1.7	2.1	2.1	2.0	2.6
- Men	10528.3	271.4	2.0	2.9	3.0	2.7	2.3	2.6
- Women	8815.7	259.2	2.5	2.7	2.5	2.6	2.4	3.0
- Foreign nationals	2202.7	131.0	4.6	4.5	4.9	5.8	4.2	6.3
- Full time	16444.3	501.1	2.4	2.9	3.1	3.3	3.2	3.1
- Part time	2899.7	29.6	1.5	2.5	1.1	-1.0	-2.1	1.0
Rate of part-time employment (3)(*)	15.0	-	-0.1	-0.1	-0.2	-0.5	-0.7	-0.3
Wage earners	16257.3	567.0	2.7	3.3	3.3	3.5	2.9	3.6
- Private Sector	13139.5	453.0	3.8	4.0	3.6	3.6	2.6	3.6
- Public Sector	3117.8	114.0	-1.5	0.3	1.9	3.0	4.4	3.8
- On a permanent contract	11900.3	416.2	1.7	1.8	2.7	3.2	2.4	3.6
- On a temporary contract	4357.0	150.9	5.6	7.7	4.9	4.4	4.4	3.6
Rate of workers on temporary contracts (4)(*)	26.8	-	0.7	1.1	0.4	0.2	0.4	0.0
Self-employed	3086.8	-36.3	0.1	0.3	0.6	-1.5	-0.5	-1.2
Unemployed	3490.1	-424.2	-11.2	-14.4	-13.6	-11.1	-10.8	-10.8
- Men	1673.9	-227.5	-12.1	-15.5	-15.0	-13.1	-12.0	-12.0
- Women	1816.2	-196.7	-10.3	-13.4	-12.3	-9.2	-9.7	-9.8
- Under the age of 25	522.7	-61.1	-11.7	-15.7	-10.5	-9.1	-12.9	-10.5
- Having no previous job	360.7	-53.1	-6.3	-12.5	-9.7	-7.1	-12.9	-12.8
Rate of unemployment (5)(*)	15.3	-	-2.2	-2.8	-2.5	-2.1	-2.0	-1.9
- Men	13.7	-	-2.2	-2.8	-2.6	-2.2	-2.0	-1.9
- Women	17.1	-	-2.3	-2.8	-2.5	-1.9	-2.0	-2.0
- Young people (aged 16-24)	34.7	-	-4.8	-7.0	-6.0	-5.4	-5.3	-4.8
MEMBERSHIP OF THE S.S.								
Total no. workers covered	18839.8	530.0	3.4	3.8	3.5	3.5	3.4	3.1
Wage earners	15576.5	494.1	4.0	4.4	4.1	4.1	4.0	3.5
Self-employed	3263.3	35.9	0.9	0.9	0.7	0.5	0.8	1.0
- Foreign nationals	1987.2	138.9	5.6	7.2	7.1	7.3	7.7	7.7
EMPLOYMENT OFFICES								
Registered unemployment	3182.1	-200.3	-9.6	-10.9	-8.8	-8.0	-7.5	-6.2
Registered contracts	1602.5	66.1	12.5	9.8	5.5	3.6	2.6	2.9
- Permanent (6)(*)	9.6	-	0.3	0.0	0.4	0.8	1.0	1.4
- Part time (6)(*)	35.2	-	-0.9	-0.4	-0.7	0.4	0.8	-0.2

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

The rate of temporary jobs stops increasing in y-o-y terms for the first time since 2013

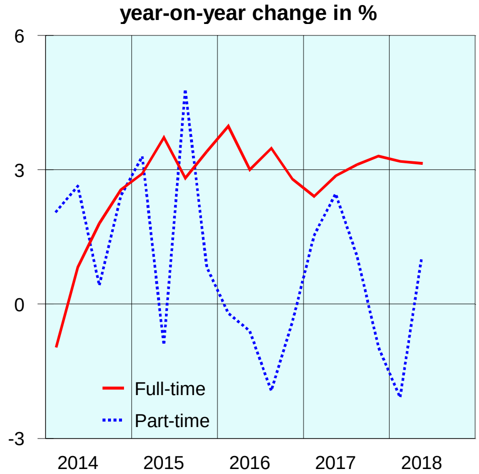
Focusing on the professional status of workers, the number of employees increased by 3.6% y-o-y in the second quarter of 2018, seven tenths more than in the previous quarter, while the number of self-employed workers decreased by 1.2%, a fall seven tenths more pronounced than the one registered in the previous quarter. The evolution of the self-employed workers, according to the LFS, contrasts with the figures of self-employed Social Security covered workers, which grew by 1% in the same period, two tenths more than in the previous quarter.

Within employees, the weight of permanent contracts continues to gain ground in employment creation. In the second quarter of 2018, the number of permanent employees accelerated by 1.2 points, up to 3.6% y-o-y, the highest rate since 2008, while the number of temporary employees slowed down eight tenths, to 3.6%. As a result, the temporary rate stabilised in y-o-y terms for the first time since the beginning of the economic recovery, at 26.8%. By ownership, the stabilisation took place thanks to the 0.4 percentage point fall in the temporality of the private sector, to 27.2%, a magnitude of decline that had not been observed in a job creation period since 2008, while the temporary rate in the public sector continued to increase, 1.4 points, up to 24.9%.

LFS unemployment falls by 10.8% y-o-y

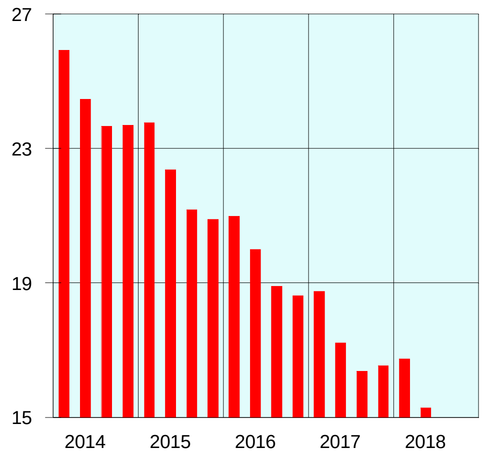
According to the LFS, unemployment fell by 10.8% y-o-y (424,200 fewer people) in the second quarter of 2018, as in the previous quarter, reaching a total of 3.5 million. With seasonally adjusted data by the INE, the q-o-q variation of the number of unemployed people stood at -4.1% (-3.1% in the previous quarter). The unemployment rate fell by 1.9 percentage points compared to a year earlier, reaching 15.3% of the labour force.

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



Source: INE (LFS).

G 4.6 UNEMPLOYMENT RATE
% of labour force

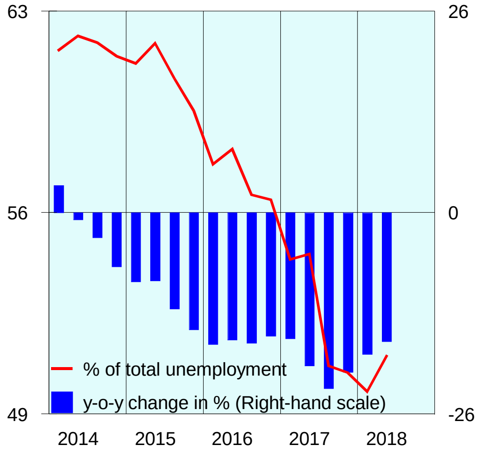


Source: INE (LFS).

Long-term unemployment continues to fall

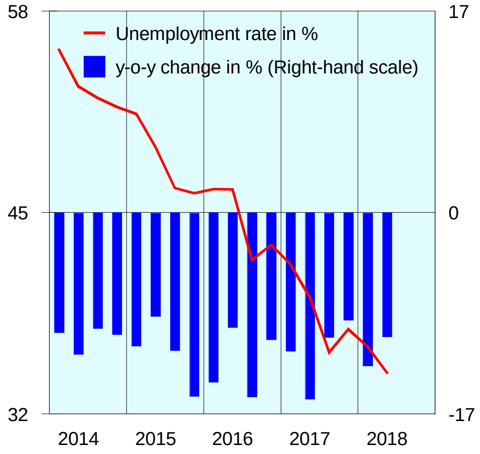
The unemployment fall continued to focus especially on the long-term unemployed, which fell by 15.3% y-o-y in the second quarter (-18% in the previous quarter), according to Eurostat figures, reaching a weight over the total number of unemployed of 43.4%, 2.3 points below the figure registered in the same period of 2017.

G 4.7 UNEMPLOYED SEARCHING FOR OVER A YEAR



Source: INE (LFS).

G 4.8 YOUTH UNEMPLOYMENT



Source: INE (LFS).

The labour force grows by 0.5% y-o-y

According to the LFS, the labour force rose by 0.5% y-o-y in the second quarter of 2018 (106,600 people more) after the 0.1% fall recorded in the previous quarter, which represents an increase of six tenths in its variation rate, the highest since the first quarter of 2015, reaching a level of 22.8 million people.

The inactive population slowed down six tenths, to 0.6% y-o-y (99,700 more people), and the proportion of discouraged inactive people among the population over 16 years old remained at 0.7%, the lowest level since the second quarter of 2009.

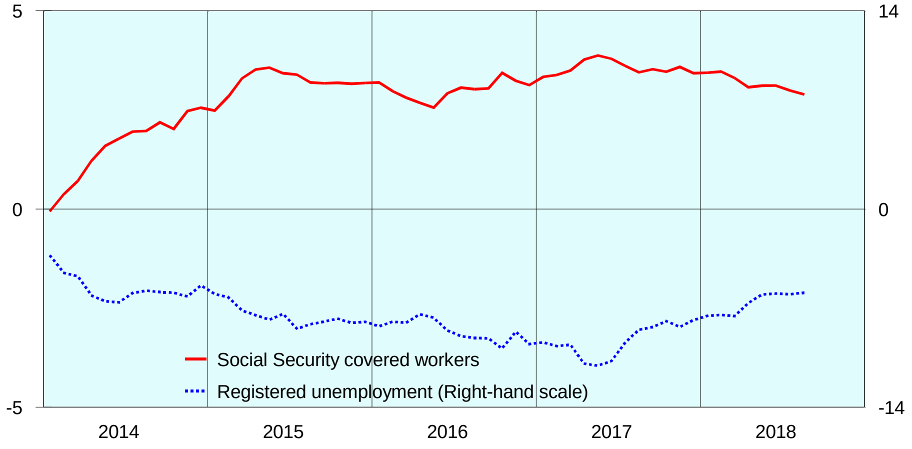
Social Security covered workers increase by 2.9% y-o-y in the two-month period from July to August…

According to the latest labour market information, from the Social Security covered workers records, employment rose by 2.9% y-o-y in the two-month period from July to August 2018, a rate two tenths lower compared to that registered in the second quarter of 2018. This is mainly due to the two tenths employment slowdown in services, to 2.9% y-o-y in the two-month period. The education section stood out in this evolution. In this regard, it should be noted that Social Security covered workers in education registered the highest m-o-m drop in the series available in July 2018, which began in 2008.

…and registered unemployment falls by 6% y-o-y

With regard to registered unemployment, the y-o-y rate of decline stood at 6% in the two-month period from July to August, two tenths more moderate than in the second quarter of 2018, an evolution to which all non-agricultural activity branches contributed.

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



Source: MTMS.

Unit labour costs accelerate in the second quarter of 2018

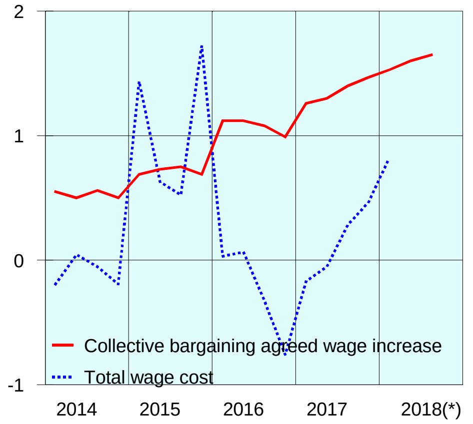
According to the Quarterly National Accounts flash estimate figures, compensation per employee rose by 0.7% y-o-y in the second quarter of 2018, three tenths more than in the previous period, while the growth rate of apparent labour productivity moderated two tenths, to 0.1%, so unit labour costs registered a 0.6% growth in y-o-y terms, half a point higher than the figure recorded in the first quarter.

The agreed wage increase in collective bargaining stands at 1.7% up to August

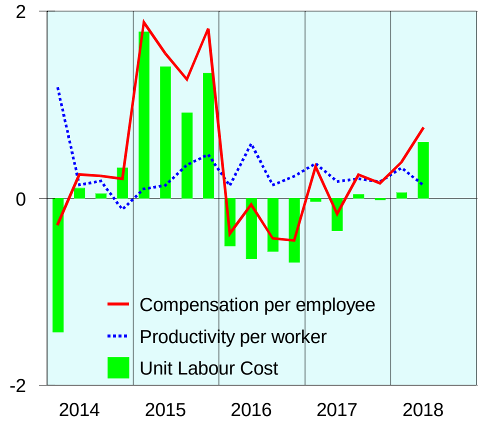
The wage rise agreed for 2018 stood at 1.7% on average, for the 7.5 million workers covered by collective agreements with effect in 2018 registered up to August (equivalent to 47% of the total of the 16 million employees according to the LFS during the first half of the year).

G 4.10 WAGE INDICATORS

COLLECTIVE BARGAINING AGREED WAGE INCREASE AND TOTAL WAGE COSTS
year-on-year change in %



UNIT LABOUR COST AND COMPONENTS
year-on-year change in %



(*) Data for Iil.Q.2018 refers to August.
Sources: INE (ETCL and QNA) and MTMS.

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

	2016	2017	2018 (1)	2017				2018	
				I	II	III	IV	I	II
WAGES FROM COLLECTIVE BARGAINING (2)									
All sectors	1.0	1.5	1.7	1.3	1.3	1.4	1.5	1.5	1.6
- Agriculture	0.9	1.1	1.1	0.9	0.9	1.0	1.1	1.1	1.1
- Industry	1.1	1.5	1.6	1.4	1.4	1.5	1.5	1.5	1.5
- Construction	0.9	1.9	2.0	2.2	2.2	2.2	1.9	2.0	2.0
- Services	1.0	1.5	1.7	1.2	1.3	1.4	1.4	1.6	1.7
TOTAL LABOUR COSTS PER WORKER									
All sectors	-0.4	0.2	0.7	0.0	-0.2	0.4	0.7	0.7	-
- Industry	0.4	0.7	0.3	0.9	0.4	0.3	1.1	0.3	-
- Construction	-1.7	-0.6	1.4	-1.3	-1.2	0.1	-0.2	1.4	-
- Services	-0.4	0.2	0.7	-0.1	-0.2	0.4	0.7	0.7	-
WAGE COSTS PER WORKER									
All sectors	-0.3	0.1	0.8	-0.2	-0.1	0.3	0.5	0.8	-
- Industry	0.4	0.6	0.2	0.8	0.3	0.2	1.0	0.2	-
- Construction	-1.5	-0.6	1.3	-1.0	-1.1	-0.1	-0.3	1.3	-
- Services	-0.3	0.1	1.0	-0.3	0.0	0.3	0.4	1.0	-
NON-WAGE COSTS PER WORKER									
All sectors	-0.8	0.5	0.2	0.5	-0.5	0.7	1.5	0.2	-
- Industry	0.3	0.9	0.6	1.1	0.9	0.4	1.1	0.6	-
- Construction	-2.3	-0.7	1.9	-1.8	-1.2	0.4	-0.1	1.9	-
- Services	-0.9	0.5	-0.1	0.6	-0.9	0.7	1.7	-0.1	-
COMPENSATION PER EMPLOYEE (3) (*)									
All sectors	-0.3	0.1	0.6	0.3	-0.2	0.3	0.2	0.4	0.7
- Agriculture	-3.8	0.3	0.3	-0.8	-0.3	1.4	1.1	1.1	-0.5
- Industry	0.0	0.5	0.4	0.6	0.5	0.5	0.4	0.4	0.5
- Construction	-2.1	-1.1	-0.7	-1.8	-1.3	-0.5	-0.6	-1.2	-0.1
- Services	-0.2	0.2	0.7	0.5	-0.1	0.3	0.2	0.5	0.9
LABOUR COST PER UNIT OF PRODUCT (4) (*)									
All sectors	-0.6	-0.1	0.3	0.0	-0.3	0.0	0.0	0.1	0.6
- Agriculture	-6.6	0.3	-3.7	-1.2	1.0	0.6	1.1	-1.5	-5.9
- Industry	-0.4	0.0	0.0	0.7	0.5	-0.1	-1.0	0.4	-0.4
- Construction	-2.4	-0.8	0.3	-1.8	-1.3	-0.7	0.5	-0.1	0.8
- Services	-0.2	0.2	0.7	0.1	-0.2	0.4	0.4	0.4	1.1

(*) The annual data for 2016 and 2017 in terms of National Accounts correspond to the figures of the Quarterly National Accounts published by INE in July 2018 and are not consistent with those of the Annual National Accounts revised by INE on September, 6th.
(1) Available period data.
(2) Aggregate figures. The years include the reviews from wage revision clauses.
(3) Equivalent full-time employment. Figures corrected for seasonal factors.
(4) Compensation per employee/labour productivity. Figures corrected for seasonal factors.
Sources: MTMS and INE (Quarterly survey of labour costs and National Accounts Base 2008).

This increase is four tenths higher than the one recorded in 2017, as published a year ago (1.3% with data up to August 2017), three tenths higher than that available at the end of 2017 (1.4% in agreements registered up to December 2017) and two tenths higher than the increase with all the information currently available (1.5% in agreements effective in 2017 registered up to August 2018).

Taking as a reference the data with information up to December 2017, it can be observed that the acceleration of 2018 is mainly explained by the evolution of the wages agreed in the hospitality sector (2.1%, seven tenths more than in 2017).

Among the agreements signed in 2018 (the rest are agreements effective in 2018, but signed in previous years), which affect 23.7% of covered workers, the wage increase stands at 2% for the year.

The number of workers affected by opt-outs of the agreement stood at 12,398 with cumulative data up to August 2018, 16.3% less than in the same period of the previous year and the lowest level of the available series, which begun in 2012. This is consistent with a reduction of the reliance on this mechanism as the economic recovery progresses. In terms of workers affected, 99.3% of opt-outs were reached by agreement, and 79.3% took place in SMEs.

5.- PUBLIC SECTOR

On 31st July, the Ministry of Finance published the data of non-financial transactions of the Central Government, the Regional Governments and the Social Security Funds, with consolidated data and in terms of National Accounts, for May 2018. It also published the State monthly budget execution data, in terms of both National Accounts and Cash, corresponding to June.

On the other hand, the Ministry of Employment, Migrations and Social Security published the monthly budget execution data of the Social Security, in terms of Cash, corresponding to June.

Likewise, the Bank of Spain (BoS) published the General Government Debt data, following the Excessive Deficit Procedure (EDP) methodology for June and the Debt data for the State, corresponding to July.

The General Government consolidated deficit, excluding Local Governments, stands at 1.33% of GDP up to May

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded up to May 2018 a deficit, in terms of National Accounts, equivalent to 1.33% of GDP, which represents a decrease of 0.26 percentage points (p.p.) with respect to the same period of the previous year (1.59% of GDP). The growth of taxes and social contributions, as well as the lower interest expenditure, contributed to this deficit reduction.

On the revenue side, taxes and social contributions continue to grow sharply in y-o-y terms, 6.7% and 4.8%, respectively, although more moderately than in the previous month. Among the taxes, the VAT and the Personal Income Tax stand out. With regards to the other revenue items, it is worth noting the dividends received from the Bank of Spain and Enaire, which increased over the period from January to May 2017 (by € 240 and € 205 million, respectively).

On the expenditure side, interests accrued continue to fall (-2.5%), although at a lower rate than in the previous month (-4.0%). Likewise, expenditure related to unemployment benefits continues to fall in y-o-y terms (-0.8% up to May), due to the fact that the number of beneficiaries decreased by 2.4%. On the contrary, an increase in the rest of the main expenditure items is observed, particularly in investment and in the contribution to the EU budget based on VAT and GNI resources, which increased by 32.2% and 15.9%, respectively. The net balance of financial assistance is positive and relatively small (€ 112 million). However, the amounts paid by the Deposit Guarantee Fund (DGF) in relation to the Asset Protection Schemes (known in Spanish as EPAs) are twice that of 2017, mainly due to the EPA of the Caja de Ahorros del Mediterráneo (CAM), which grew from € 658 million in the period from January to May 2017 up to € 1.4 billion in the same period of 2018. Finally, expenditure related to contributory pensions continues registering an upward trend in y-o-y terms (3.1%), due to the rise in the number of pensioners (1.1%) and of the average pension (1.9%, higher than the pension revaluation, due to the fact that in net terms new pensioners enter the system with higher pensions).

Up to May 2018, the growth of the Central Government and the Regional Government expenditure eligible to be included in the calculation of the expenditure benchmark, was higher in both cases than the compliance threshold, set at 2.4% for 2018 as a whole (8.5% and 3.4%, respectively).

With regard to the deficit by subsectors, the Central Government ended the first five months of the year with a deficit of 1.21% of GDP, 0.15 p.p. lower compared to the figure registered in the same period of 2017. The State improved its balance by 0.18 p.p. However, the Other Bodies of the Central Government increased their deficit by two hundredths of GDP, largely due to the expenditure incurred by the Deposit Guarantee Fund, in turn affected by the CAM's Asset Protection Scheme, as already mentioned. On the other hand, the Regional Government set its deficit at 0.33% of GDP, compared to the deficit of 0.43% accumulated up to May last year, and the Social Security Funds recorded a surplus of 0.21% of GDP up to May, one hundredth higher compared to the figure recorded in the same period of 2017.

The State’s deficit in terms of National Accounts stands at 0.74% of GDP up to June

Up to June 2018, the budget execution of the State ended with a deficit, in terms of National Accounts, of € 9.0 billion (0.74% of GDP), 28.8% 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 (8.2%) higher than that registered by non-financial uses (3.5%).

The increase in non-financial resources is mainly due to the rise of taxes (7.9%), especially by the VAT increase (7.6%) and current taxes on income and wealth (12.1%), as well as to the increase in dividends and other income (49.7%). On the other hand, the rise in uses is due to the growth in gross fixed capital formation (90.7%), the rise of current transfers to other General Government units (2.1%), in particular to the Regional Governments, and the higher contribution to the EU budget based on VAT and GNI resources (15.1%).

In terms of Cash, the State recorded a deficit of 1.02% of GDP up to June, 0.11 p.p. lower in comparison to the figure recorded in the same period of 2017 (1.13% of GDP).

The difference between the Cash deficit and the National Accounts deficit is due, among other factors, to the adjustment made in relation to tax refunds, which are included in the period in which they are requested, regardless of the financial year in which they are paid.

Table 5.1. **State Budget Outturn**

Accumulated amounts in millions euros. Year-on-year in %

	2017 Outturn	2018 Budget	% Change	January-June 2017	January-June 2018	January-June % Change
1. NON-FINANCIAL RECEIPTS	**131,456**	**141,307**	**7.5**	**53,824**	**55,739**	**3.6**
TAXES	104,541	116,682	11.6	42,302	43,808	3.6
Direct	64,393	69,491	7.9	18,816	20,446	8.7
Personal income tax	36,028	39,587	9.9	13,787	15,806	14.6
Corporate income tax	23,143	24,258	4.8	2,531	1,986	-21.5
Others	5,221	5,646	8.1	2,498	2,654	6.3
Indirect	40,148		17.5	23,486	23,362	-0.5
Value added tax	29,235	47,191	19.7	18,215	18,152	-0.3
Excise duties	7,349	34,992	15.2	3,504	3,427	-2.2
Others	3,563	8,463	4.8	1,766	1,782	0.9
OTHER RECEIPTS	26,915	24,625	-8.5	11,522	11,931	3.5
2. NON-FINANCIAL PAYMENTS	**147,746**	**157,935**	**6.9**	**66,966**	**68,057**	**1.6**
Wages and salaries	15,836	16,672	5.3	7,735	7,822	1.1
Goods and services	3,355	3,206	-4.5	1,245	1,290	3.6
Interest payments	30,324	31,572	4.1	13,176	12,310	-6.6
Current transfers	85,290	89,472	4.9	40,803	41,394	1.4
Contingency fund	-	2,277	-	-	-	-
Real investment	5,330	6,056	13.6	1,041	2,222	113.5
Capital transfers	7,611	8,681	14.1	2,966	3,019	1.8
CASH BALANCE (1-2)		**-16,628**	**2.1**	**-13,142**	**-12,317**	**-6.3**
Memorandum item (National Accounts):						
Non-financial resources	186,259			85.428	92.463	8.2
Non-financial uses (EDP)	208,506			98.082	101.475	3.5
NET LENDING (+) OR BORROWING (-)	**-22,247**			**-12.654**	**-9.012**	**-28.8**
As % of GDP	-1.91			-1.09	-0.74	

Source: Ministerio de Hacienda.

Tax revenue increases by 3.9% up to June, on Cash basis

Total tax revenue in terms of Cash (including the Regional and Local Governments' share) recorded a y-o-y increase of 3.9% up to June. Within these, the revenue from Personal Income Tax increased by 7.5%, the Corporate Income Tax decreased by 21.5% (mainly due to the higher returns made), the VAT increased by 3.4% and the Excise Duties rose by 0.1%.

The borrowing requirement of the State falls up to June in comparison to a year earlier

The borrowing requirement of the State fell by 20.6% up to June compared to the figure registered in the same period of 2017, reaching € 21.8 billion. This decrease is due to the lower cash deficit and the decrease in the net variation of financial assets with respect to the same period of the previous year. The borrowing requirement was mainly financed through mid and long term domestic debt (€ 38.3 billion).

Table 5.2. **State tax collection**

Cash accounting

Accumulated amounts in millions euros. Year-on-year change

				January-June		
	2016	2017	% Annual Change	2017	2018	% Annual Change
Direct taxes(1)	**98,854**	**105,402**	**6.6**	**37,175**	**39,209**	**5.5**
Personal income tax	72,416	77,038	6.4	32,146	34,569	7.5
Corporate income tax	21,678	23,143	6.8	2,531	1,986	-21.5
Non-resident income	1,961	2,274	16.0	1,041	1,251	20.2
Other direct taxes	2,799	2,947	5.3	1,457	1,403	-3.7
Indirect taxes(1)	**86,122**	**87,518**	**1.6**	**45,469**	**46,636**	**2.6**
Value added tax	62,845	63,647	1.3	33,887	35,028	3.4
Excise duties	19,866	20,308	2.2	9,816	9,826	0.1
Tobacco	6,677	6,628	-0.7	3,019	2,934	-2.8
Hydrocarbons	10,556	10,881	3.1	5,447	5,560	2.1
Others	2,633	2,798	6.3	1,350	1,331	-1.4
Other indirect taxes	3,410	3,563	4.5	1,766	1,782	0.9
TOTAL TAXES	**184,976**	**192,920**	**4.3**	**82,644**	**85,846**	**3.9**

(1) Included the Regional and local Government share.

Source: IGAE. Ministerio de Hacienda.

The borrowing requirement up to June 2018 was higher than the cash deficit due to net acquisitions of financial assets by the State, mainly associated with the loan granted to the Social Security in June and the equity contributions to the financing funds of the Territorial Entities.

The Social Security records a surplus up to June

The Social recorded a surplus up to June of 0.25% of GDP in terms of Cash, slightly higher (three hundredths) than the figure recorded in the same period of 2017 (0.22% of GDP). Social contributions increased by 5.6%, mainly due to the rise in the contribution from employed people (5.8%). On the other hand, pensions increased by 3.0%, up to € 55.3 billion.

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

According to the Bank of Spain, the General Government Debt, according to the EDP methodology, reached € 1,162.9 billion in June. This figure represents a y-o-y increase of 2.4%, three tenths lower than that registered in May.

By subsectors, the State EDP Debt stood at € 1,019.3 billion, a figure 4.4% higher in comparison to that registered a year earlier. The Debt of Other Bodies belonging to the Central Government reached € 32.3 billion, which implies a 11.6% decrease in comparison to June last year. On the other hand, the Regional Government EDP Debt reached € 292.4 billion, 2.3% 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 € 29.3 billion in June, 9.5% lower versus a year earlier. Finally, the EDP Debt of the Social Security Administrations reached € 34.9 billion, a figure 103.2% higher than the one registered in June 2017 (€ 17.2 billion). This increase is due to the loan granted by the State to the General Treasury of the Social Security in June 2018.

At the end of July, the State EDP Debt stood at € 1,016.4 billion, compared to the € 972.5 billion registered a year earlier, which represents a y-o-y increase of 4.5%, a rate one tenth higher in comparison to the figure registered in the previous month.

Table 5.3. **Social Security System Budget Outturn**
Accumulated amounts in millions euros. Year-on-year in %

	2017 Outturn	2018 Budget	% Change	2017 June	2018 June	% Change
1. REVENUE	**127,753**	**135,253**	**5.9**	**64,607**	**67,221**	**4.0**
Social Security contributions	109,038	114,916	5.4	53,784	56,785	5.6
Current transfers	16,273	18,441	13.3	10,000	9,823	-1.8
of which: from the State	12,903	14,876	15.3	8,322	8,083	-2.9
Property income	736	228	-69.0	223	46	-79.3
Other revenue (1)	1,706	1,667	-2.2	601	566	-5.7
2. EXPENDITURE	**146,509**	**152,565**	**4.1**	**62,042**	**64,220**	**3.5**
Pensions	125,015	129,495	3.6	53,686	55,284	3.0
Contributory	115,729	119,791	3.5	49,484	51,143	3.4
Non-contributory	9,286	9,704	4.5	4,203	4,142	-1.5
Sickness benefits	7,592	7,980	5.1	2,605	2,942	13.0
Maternity benefits	2,363	2,559	8.3	1,137	1,154	1.6
Other benefits	2,034	2,197	8.0	1,008	1,025	1.7
Wages and salaries	2,232	2,394	7.3	1,081	1,081	0.0
Goods and services purchases	1,346	1,542	14.5	630	647	2.8
Other revenue (2)	5,926	6,398	8.0	1,895	2,085	10.0
3. CASH BALANCE (1-2)	**-18,756**	**-17,312**	**-7.7**	**2,565**	**3,001**	**17.0**
As % of GDP	-1.6	-1.4		0.22	0.25	

(1) Fees and other current revenues, disposal of real investments and capital transfers. (2) Interest payments, real investments, other current transfers and capital transfers.
Source: Tesorería General de la Seguridad Social, Ministerio de Trabajo, Migraciones y Seguridad Social.

6.- BALANCE OF PAYMENTS

The Balance of Payments generates net lending to the rest of the world in the first half of 2018

According to the available Balance of Payments data, in the first half of 2018, the Spanish economy generated a net lending to the rest of the world of € 1.1 billion, versus a net lending of € 6.7 billion in the same period of the previous year.

The current account balance accumulated a surplus amounting to € 86 million, below the one reached in the first half of 2017 (€ 5.8 billion). This result is due to a decrease in the goods and services surplus and, to a lower extent, to a deficit increase of primary and secondary incomes. On the other hand, the capital account surplus increased by € 69 million, up to € 1.1 billion.

In parallel, the financial balance registered net capital outflows amounting to € 8.4 billion, versus net outflows of € 2.6 billion registered a year earlier. This result is due to net capital outflows excluding the Bank of Spain reaching € 26.1 billion, higher than the increase in the net debtor position of the Bank of Spain (€ 17.7 billion).

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

Million euro

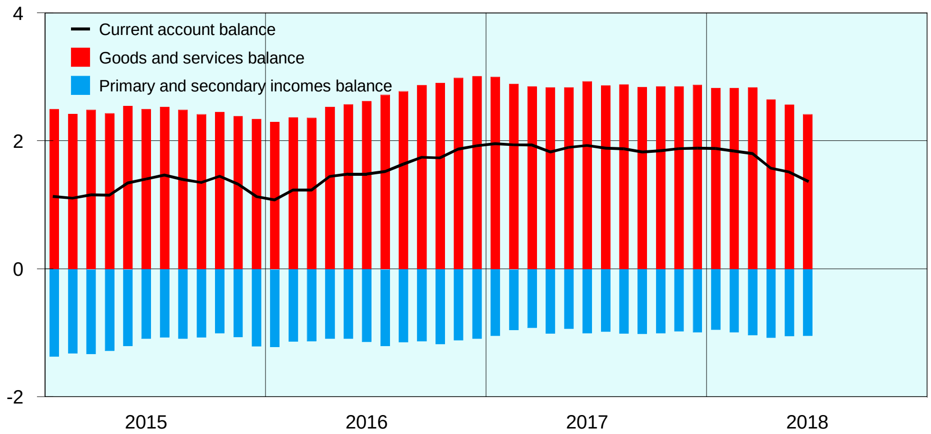
	January-June 2017			January-June 2018		
	Credit	Debit	Net	Credit	Debit	Net
Current and capital accounts	**231,371**	**224,621**	**6,747**	**238,105**	**236,959**	**1,146**
Current account	**230,176**	**224,420**	**5,754**	**236,594**	**236,508**	**86**
Goods and services	197,378	183,065	14,313	202,220	192,717	9,503
Tourism	*25,370*	*7,862*	*17,508*	*26,642*	*8,645*	*17,997*
Primary and secondary income	32,798	41,355	-8,557	34,374	43,791	-9,417
Capital account	**1,195**	**201**	**992**	**1,511**	**451**	**1,061**

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

The surplus of goods and services moderates

Trade of goods and services with the rest of the world resulted in a surplus of € 9.5 billion in the period between January and June 2018, 33.6% lower compared to the figure recorded in the same period of the previous year. In nominal terms, exports increased by 2.5% and imports by 5.3%. These rates imply a slowdown of 7.3 and 5.5 points, respectively.

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



Sources: Banco de España and SGCPE.

The trade deficit increases

The Balance of Payments only provides disaggregated data between the balances of goods and services for the first quarter of 2018. According to Customs data, which show a similar evolution, the trade deficit of energy goods increased by 5.7% in the first half of 2018, partly influenced by the evolution of the price of imported oil, measured in euros, which became 18.3% more expensive on average during the period. In parallel, the surplus of the non-energy balance fell from € 2.9 billion down to € 194 million. As a result, the trade deficit rose by 31.5%. Using the unit value indices of the Ministry of Economy and Business, the terms of trade improved by 0.1%.

Tourism revenues continue to grow, although at a lower rate...

The balance of tourism services accumulated a surplus of € 18 billion in the first half of 2018, 2.8% higher than in the same period of the previous year. This result includes an increase of 5% of tourism revenues, a rate 6.9 points lower in comparison to the figure registered in the previous year. Foreign tourists´ expenditure, according to the Tourist Expenditure Survey (EGATUR), increased by 4.2% y-o-y during the first half (15.2% in the same months of 2017) and, tourist arrivals, an indicator of the evolution of tourism in real terms, increased by 1.8%, in comparison to the 11.9% registered in the first half of the previous year.

...and so do tourism payments

Tourism payments, as a result of Spanish residents travelling abroad, grew by 10% in the first half compared to a year earlier, a rate 3.8 points lower compared to the one registered in the same period of 2017.

The deficit of primary and secondary income rises

The balance of primary and secondary income accumulated a deficit of € 9.4 billion between January and June 2018, 10% higher than that recorded in the same months of 2017, as a result of an increase in revenues lower than that of payments (4.8% and 5.9%, respectively, rates that imply accelerations of 2.6 and 6 points, in comparison to the rates recorded one year earlier). There is only data available split into primary and secondary income up to March 2018. The only available data for the first half of 2018 are included in the secondary income and, in particular, are provided by the Directorate General of the Treasury and Financial Policy corresponding to the financial flows with the European Union, which show a balance of the net current transfers received from the EU of € 621 million, after the € 310 million registered a year earlier, with an increase in revenues (6.4%) higher than that of payments (1.1%). With regards to revenues, public transfers received from the European Social Fund, aimed at promoting employment, rose by 8.7%, while in the transfers for the private sector, the subsidies received by farmers as refunds of the Common Agricultural Policy rose by 6.4%. On the payments side, within public payments for the EU, those related to the VAT Resource (6.9%) and Traditional Own Resources (3.2%) rose, while those related to GNI Resource (-1.4%) fell, although it should be noted that these payments are not divided in the same way through all financial years.

The capital balance surplus increases

In the first half of 2018, the capital balance generated a surplus of € 1.1 billion, 7% higher in comparison to the previous year, due to a rise in revenues (€ 316 million) higher than that of payments (€ 250 million). Capital transfers from the European Union multiplied by 7.6 compared to the same period of the previous year, up to € 1.6 billion. Within revenues, quantitatively speaking, the most important items were public transfers from the structural funds of the EU Budget, aimed at infrastructure, rural development and environment. In this regard, transfers from the Cohesion Fund (€ 173 million) were received again, after the interruption that took place in 2017, and the revenues corresponding to the ERDF increased by 601.8%, up to € 1.4 billion. However, it is important to note that these revenues are very erratic, due to the multiannual nature of many of the actions they finance.

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

	Million euro					% y-o-y change		Accumulated amounts: Million euro		Accumulated amounts: % y-o-y change
	2017			2018		2018		2017	2018	2018
	II	III	IV	I	II	I	II	I-II	I-II	I-II
Net current transfers	**-1,055**	**-1,527**	**-2,152**	**2,038**	**-1,418**	**49.3**	**34.3**	**310**	**621**	**100.4**
- Revenue	**1,470**	**964**	**601**	**5,161**	**975**	**20.2**	**-33.7**	**5,765**	**6,136**	**6.4**
Refunds CAP	709	854	403	4,459	772	6.0	9.0	4,917	5,231	6.4
ESF	729	25	147	660	167	1,968.3	-77.1	761	827	8.7
Other subsidies	33	85	52	42	35	-23.3	8.0	88	78	-11.6
- Payments	**2,526**	**2,491**	**2,753**	**3,123**	**2,392**	**6.6**	**-5.3**	**5,455**	**5,515**	**1.1**
VAT	468	368	368	552	385	35.0	-17.7	878	938	6.9
GNI	1,681	1,594	1,850	2,008	1,633	-0.2	-2.8	3,693	3,642	-1.4
Traditional Own	370	382	419	387	373	5.6	0.9	737	761	3.2
Other	6	147	116	175	0	23.5	-100.0	148	175	18.4
Capital transfers	**190**	**51**	**51**	**1,358**	**194**	**8,717.3**	**2.1**	**205**	**1,552**	**655.1**
ERDF	181	38	19	1,182	191	7,984.7	5.5	196	1,373	601.8
Cohesion Fund	0	0	0	173	0	-	-	0	173	-
Other	9	13	31	3	3	276.7	-65.5	10	6	-38.5

Sources: D. G. del Tesoro y Política Financiera and SGCPE.

Net capital outflows in financial transactions with the rest of the world

In the first six months of 2018, the financial account recorded net capital outflows amounting to € 8.4 billion, versus the net outflows of € 2.6 billion registered a year earlier. Excluding the Bank of Spain, the financial account recorded net capital outflows worth € 26.1 billion up to June, below the net outflows registered a year earlier (€ 40.1 billion). This result includes positive balances (investments) in asset and liability transactions.

Foreign investment in Spain falls, although direct investment increases

Up to June 2018, the net variation in liabilities generated net capital inflows worth € 37.7 billion, 7.7% less than in the same period of the previous year. The direct investment balance rose by 144.6% y-o-y, recording net inflows amounting to € 33.2 billion, which were channelled toward the private sector, mainly to other residential sectors (the breakdown by instrument is only available for the first quarter of 2018). On the other hand, portfolio investment recorded net inflows amounting to € 12.2 billion, 58.1% lower than the net inflows of the first half of 2017, due to the results of the General Government, which recorded net inflows amounting to € 19.3 billion, while the private sector registered net outflows. Finally, other investments (loans, deposits and repos) recorded net outflows of € 7.7 billion, four times more than in the same period of 2017, mainly driven by the private financial sector and, to a lesser extent, by the General Government.

Spain's investment abroad decreases

The assets net variation with the rest of the world, excluding the Bank of Spain, accumulated in the first six months of the year net capital outflows of € 63.8 billion, 21.2% lower in comparison to the figures recorded a year earlier. Direct investment accumulated capital outflows amounting to € 18.5 billion, 6.9% higher than a year earlier, coming mainly from other resident sectors. The portfolio investment outflows fell by 47.4%, down to € 29.2 billion, concentrated in the non-financial private sector. On the other hand, other investment registered net outflows amounting to € 15.9 billion, 54.6% higher than a year earlier, led by the Monetary Financial Institutions. Finally, financial derivatives registered net outflows amounting to € 235 million, in comparison to the net inflows of € 2.1 billion registered in the previous financial year.

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

Million euro

	January-June 2017			January-June 2018		
	Assets change	Liabilities change	Balance	Assets change	Liabilities change	Balance
Financial account	**43,492**	**40,849**	**2,648**	**46,083**	**37,712**	**8,369**
- Excluding Bank of Spain	**80,932**	**40,849**	**40,087**	**63,765**	**37,712**	**26,051**
Direct investment	***17,288***	***13,560***	***3,729***	***18,476***	***33,174***	***-14,699***
Monetary financial institutions	2,677	651	2,026	5,566	3,007	2,559
Other resident sectors	14,611	12,910	1,701	12,910	30,166	-17,256
Portfolio investment	***55,468***	***29,187***	***26,283***	***29,198***	***12,228***	***16,972***
General Government	91	16,432	-16,341	286	19,316	-19,030
Monetary financial institutions	9,172	8,672	500	3,378	1,662	1,716
Other resident sectors	46,205	4,082	42,123	25,534	-8,747	34,281
Other investment	***10,256***	***-1,898***	***12,155***	***15,856***	***-7,690***	***23,545***
General Government	-1,523	-2,008	485	-2,225	-6,641	4,416
Monetary financial institutions	8,419	-4,170	12,589	18,210	-12,493	30,703
Other resident sectors	3,360	4,280	-920	-129	11,440	-11,569
Financial derivatives	***-2,080***	-	***-2,080***	***235***	-	***235***
- Bank of Spain	**-37,440**	-	**-37,440**	**-17,682**	-	**-17,682**
Reserves	430	-	430	968	-	968
Claims on the Eurosystem	-36,117	-	-36,117	-16,436	-	-16,436
Other net assets	-1,751	-	-1,751	-2,216	-	-2,216
- Net errors and omissions	**-4,099**	-	**-4,099**	**7,223**	-	**7,223**

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

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

Current, capital and financial transactions generated a decrease (increase of the net debtor position) of net assets of the Bank of Spain amounting to € 17.7 billion, due to the fall recorded by the assets vis-à-vis the Eurosystem (€ 16.4 billion) and the other net assets by € 2.2 billion, while reserves increased by € 968 million.

The NIIP improves in the first quarter of 2018 in terms of GDP

The Net International Investment Position (NIIP) increased its debtor balance in the first quarter of 2018, compared to the same period of 2017, by 0.3%, reaching € 955 billion, equal to 81.3% of GDP, a percentage 2.9 points lower in comparison to the figure registered in the first quarter of 2017. Assets amounted to € 1.9 trillion, 2.4% more compared to a year earlier, and liabilities to € 2.8 trillion, 1.7% more in comparison to the first quarter of the previous year. On the other hand, the gross external debt amounted to € 2 trillion in the first quarter of 2018, (166.7% of GDP), compared to the € 1.9 trillion registered in the same period of 2017 (169.1% of GDP).

The NIIP debtor balance, excluding the Bank of Spain, reached an amount of € 748 billion in the first quarter of 2018, 0.5% more than a year earlier. A 5.1% fall was registered in the debtor balance in the case of portfolio investment, to € 532 billion, and increases of the debtor balance of direct investment (137.7%, up to € 54 billion) and another investment (0.5%, up to € 153 billion).

The Bank of Spain decreased its debtor balance by € 619 million in the first quarter of 2018 compared to a year earlier, down to € 207 billion, equal to 17.6% of GDP. This decrease is explained by the fall of the Bank of Spain debtor balance vis-à-vis the Eurosystem (€ 7.1 billion), while on the other hand, reserves decreased by € 3.3 billion and the balance of other net assets changed its sign, registering a debt of € 2.8 billion.

September 2018