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SPANISH ECONOMY REPORT

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Y EMPRESA

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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

Financial markets

The financial markets evolution in October was conditioned by the uncertainty regarding the Italian budget, the Brexit negotiations and the trade tensions, as well as by the expectations about the monetary policy meetings of the main central banks and the presentation of business results. In this context, the peripheral European public debt yields and the US bond have increased, the stock indices have registered generalised losses and the euro has depreciated against the dollar.

The ECB keeps its monetary policy measures unchanged

The Governing Council of the European Central Bank (ECB), in its meeting held on 25th October, 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 the continuation of the sustained convergence of inflation towards lower levels, although close to 2% in the mid-term.

As regards non-standard monetary policy measures, the Governing Council will continue with the net asset purchases (APP) included in the programme at the monthly pace of 15 billion euros until the end of December 2018. The Governing Council foresees that net purchases will cease from that date on, provided that the data confirm the inflation prospects in the mid-term.

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.

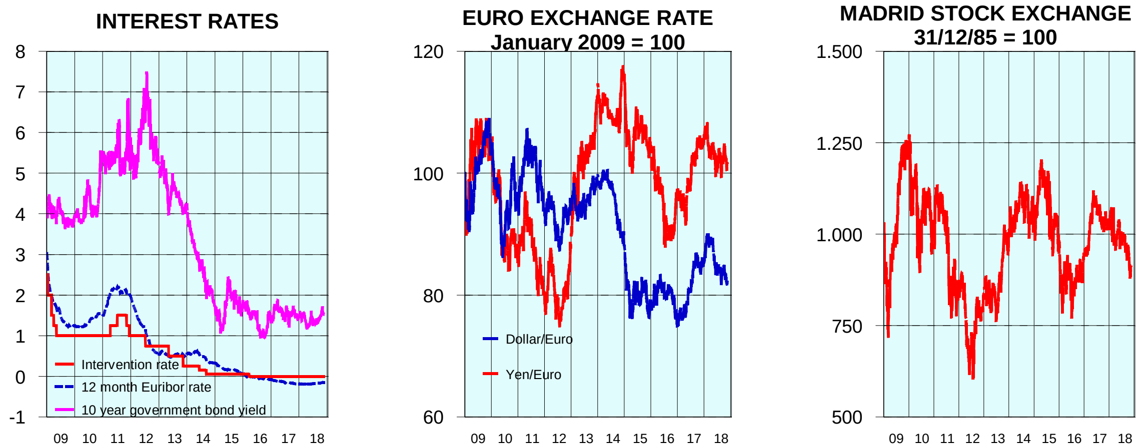
Both in the statement and in the press conference that followed the meeting, the ECB acknowledged that the activity dynamism in the Eurozone is lower than expected, but reaffirms its confidence in the future performance of the economy and in the gradual recovery of the inflation, even if net asset purchases end. The ECB confirms that the current information is in line with its central scenario for economic expansion and that the risks surrounding the growth prospects of the Eurozone can still be considered as widely balanced.

The Fed maintains the interest rates and continues with the progressive reduction of its balance sheet

The Federal Open Market Committee (FOMC) of the Federal Reserve (Fed), in its two day meeting held on 7th and 8th November, decided to maintain the Federal Funds interest rates within the target range of 2.00%-2.25%. Likewise, the FOMC decided to continue with the progressive reduction of its balance sheet, so the amount of monthly maturities exceeding 50 billion dollars will be reinvested (30 billion in bonds and 20 billion in assets backed by mortgages).

In the statement, the FOMC highlighted that the labour market has continued to strengthen, the economic activity has continued to grow at a solid pace and inflation remains close to the 2% target. With regard to the future path of interest rates, the FOMC foresees gradual increases for the period between 2019 and 2020 and, possibly, a new rate rise at the next meeting to be held in December.

G1. MONETARY AND FINANCIAL INDICATORS (1)



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

The BoE maintains the interest rates and the asset purchase programme

The Monetary Policy Committee of the Bank of England (BoE), in its meeting held on 31st October, unanimously decided to maintain the Official Bank Rate at 0.75%, in force since 1st August. 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. The Committee revised its growth forecasts for the United Kingdom downwards for 2018 and 2019 and conditions the pace of future interest rate hikes to the effects that may be derived from the Brexit.

The BoJ maintains its monetary policy

In the meeting held on 30th and 31st October, 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.

In a context of moderate growth in Japan's economy, the BoJ confirmed its intention to maintain the present rates for a long period of time, until the inflation reaches the 2% target and revised its growth and inflation forecasts downwards for 2018 and 2019.

The 12-month Euribor continues recording negative values and registers a slight rise

In the interbank market of the Eurozone, interest rates registered minor changes during the first weeks of October and, in their longer term, they rose slightly during the second half of the month. Thus, on 5th November, the one, six and twelve-month Euribor stood at -0.369%, -0.257% and -0.148%, respectively, versus the -0.371%, -0.268% and -0.159% recorded at the end of September. The slight increase of the 12-month Euribor in this period is due to the rise in risk premiums required in the market (the Euribor-OIS differential rose two b.p.), offsetting the one b.p. fall registered by the OIS.

Peripheral European public debt yields rise

In the secondary public debt market, the rise of the US bond yield and the uncertainty regarding the Italian budget boosted the yields of the peripheral European public debt upwards in the period between the end of September and the beginning of November, the highest yields being reached in mid-October. On the other hand, the yields of the central countries fell. Thus, the 10-year Spanish bond yield stood at 1.59% on 5th November, 8 b.p. above the figure recorded on 28th September, and the German bond yield fell by 4 b.p., down to 0.43%, the differential against the German bond standing at 116 b.p. (12 b.p. higher than the figure registered at the end of September). On the other hand, the Spain-Italy differential stood at -177 b.p. on 5th November, compared to the -164 b.p. registered at the end of September. The rise in yields in Italy (21 b.p.) in this period as a result of the uncertainty regarding the approval of its budget should be noted. In the United States, the 10-year bond yield increased 15 b.p. in the period, standing at 3.20% on 5th November, driven by the expectations of interest rate rises.

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

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-29-17	Sep-28-18	Nov-05-18	Variation in spreads		Dec-29-17	Sep-28-18	Nov-05-18	Variation in spreads	
				Period	Annual				Period	Annual
	(1)	(2)	(3)	(3)-(2)	(3)-(1)	(4)	(5)	(6)	(6)-(5)	(6)-(4)
Germany	0.43	0.47	0.43	-4	0					
Holland	0.53	0.58	0.55	-3	2	10	11	12	1	2
Austria	0.58	0.69	0.63	-6	5	15	22	20	-2	5
Finland	0.60	0.72	0.68	-4	8	17	25	25	0	8
France	0.78	0.81	0.79	-2	1	35	34	36	2	1
Belgium	0.64	0.83	0.83	0	19	21	36	40	4	19
Ireland	0.67	1.00	1.04	4	37	24	53	61	8	37
Spain	1.57	1.51	1.59	8	2	114	104	116	12	2
Portugal	1.94	1.88	1.89	1	-5	151	141	146	5	-5
Italy	2.00	3.15	3.36	21	136	157	268	293	25	136
Greece	4.12	4.18	4.29	11	17	369	371	386	15	17

Source: Financial Times.

Rating agencies maintain the credit rating of the Spanish debt

Standard & Poor's and the Canadian agency DBRS published their credit rating of the Spanish debt on 21st and 28th September, respectively.

Both agencies maintained the rating, mainly due to the good economic outlook, with GDP growth forecasts higher than those of the Eurozone.

The agency Standard & Poor's maintains Spain’s rating at "A-" with a positive outlook and DBRS maintains our country’s rating at "A", with a stable outlook.

Stock indices decrease across the board

In the stock markets, the situation in Italy, the uncertainty regarding the Brexit and the rebound of the American bond yield, increased volatility and risk aversion in the first weeks of October, causing the main indices to fall sharply. Although the indices edged slightly upwards towards the end of the month, driven by business results, the main stock markets ended the period with generalised losses. Thus, in the European market, the Eurostoxx 50 fell by 5.3% in the period between 28th September and 5th November. In the Spanish market, the IBEX 35 fell by 4%, standing at 9,010.70 points on 5th November. The rest of European markets also registered losses: -7.1% the CAC 40 in Paris, -6.9% the Italian FTSE MIB, -6.1% the German DAX and -5.4% the FTSE 100 in the United Kingdom. In the US market, the S&P 500 index fell by 6% in the period, so the annual profit stood at 2.4%.

T 2. International stock exchange

Countries	Index	Level Nov-05-18	% Variation Sep-28-18	% Variation Dec-29-17
Germany	DAX	11,494.96	-6.1	-11.0
France	CAC 40	5,101.39	-7.1	-4.0
Italy	FTSE MIB	19,281.03	-6.9	-11.8
Spain	IBEX 35	9,010.70	-4.0	-10.3
Eurozone	EUROSTOXX 50	3,217.37	-5.3	-8.2
United Kingdom	FTSE 100	7,103.84	-5.4	-7.6
United States	S&P 500	2,738.31	-6.0	2.4
Japan	NIKKEI 225	21,898.99	-9.2	-3.8
China	SHANGHAI COMP	2,665.43	-5.5	-19.4
Mexico	IPC	46,813.53	-5.4	-5.1
Brazil	BOVESPA	89,589.16	12.9	17.3
Argentina	MERVAL	31,429.30	-6.1	4.5

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

The euro depreciates against the dollar

With respect to the currency market, the expectations of an increase in interest rates in the United States, the favourable evolution of the US economy, the worse than expected macroeconomic data in the Eurozone and the uncertainty in Italy, have continued to strengthen the dollar exchange rate against the euro during October. Thus, in the period between late September and early November, the euro depreciated by 1.8% against the dollar and the yen, and by 1.3% against the pound, trading at 1.137 dollars, 128.81 yen and 0.8754 pounds by the end of the 5th November session. In the same period, the euro depreciated by 0.78% in nominal effective terms vis-à-vis the group of industrialised countries

The M3 broad monetary aggregate rises by 3.5% in September, one tenth more than in August,...

The European Central Bank published the evolution of the monetary and credit aggregates in the Eurozone for September. The M3 broad aggregate rose by 3.5% y-o-y in September, a figure slightly higher than the one registered in the previous month (3.4%). This evolution is due to the largest increase in overnight deposits (five tenths, up to 7.3%), cash in circulation (three tenths, up to 4.2%) and deposits redeemable with a three months' notice (one tenth, up to 1.9%), partially offset by the greater decrease in time deposits up to two years and of marketable instruments (-7.8% and -8.9%, respectively, in comparison to the -7.6% and -4.0% registered in the previous month).

T 3. Eurozone monetary aggregates

Monetary aggregates	September 2018 Balance (Billion €)	% Year-on-year variation		
		July 2018	August 2018	September 2018
1. Currency in circulation	1,152	3.6	3.9	4.2
2. Overnight deposits	7,017	7.5	6.8	7.3
M1 (= 1 + 2)	**8,169**	**6.9**	**6.4**	**6.8**
3. Other short-term deposits (= 3.1. + 3.2.)	3,408	-1.1	-1.5	-1.5
3.1. Term deposits up to two years	1,123	-6.5	-7.6	-7.8
3.2. Deposits redeemable at notice up to three months	2,285	1.9	1.8	1.9
M2 (= M1 + 3)	**11,577**	**4.4**	**3.9**	**4.2**
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	621	-3.3	-4.0	-8.9
4.1. Repurchase agreements	71	-2.1	-2.6	2.2
4.2. Money market funds shares/units	493	-1.5	-3.3	-7.2
4.3. Securities other than shares up to two years	58	-16.7	-10.0	-29.1
M3 (= M2 + 4)	**12,198**	**4.0**	**3.4**	**3.5**

Source: European Central Bank.

…and financing to the private sector in the Eurozone maintains the growth rate at 3%

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, increased by 3% in September, as in the previous two months. This evolution is mainly due to the stability in the loans y-o-y rate (2.9%). On the other hand, the lower decrease in shares and other equity (-1.0% in comparison to the -1.8% registered in August) offset the moderation in the pace of increase of the securities other than shares (5.9%, compared to the 6.1% recorded in the previous month). Within the loans, both those granted to non-financial corporations and households increased by 3.1% (3.0% and 3.1%, respectively, in August).

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

	September 2018 Balance (Billion €)	% Year-on-year variation		
		July 2018	August 2018	September 2018
Credit to the private sector	**13,362**	**3.0**	**3.0**	**3.0**
Loans	**11,063**	**3.0**	**2.9**	**2.9**
Households	**5,699**	**3.3**	**3.1**	**3.1**
House purchases	*4,310*	*3.4*	*3.2*	*3.2*
Consumer credit	*675*	*7.3*	*7.0*	*6.6*
Other lending	*713*	*-0.8*	*-0.9*	*-0.7*
Non-financial corporations	**4,395**	**2.9**	**3.0**	**3.1**
Insurance companies & pension funds	**125**	**5.6**	**4.5**	**11.4**
Other financial intermediaries	**844**	**1.5**	**0.8**	**-0.1**
Securities other than shares	**1,514**	**5.1**	**6.1**	**5.9**
Shares and other equities	**785**	**-1.1**	**-1.8**	**-1.0**

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

Financing received by households in Spain increases in September

The stock of financing to the non-financial private sector in Spain rose by 0.1% y-o-y in September, in comparison to the decrease of 0.5% registered in August. Financing received by firms moderated the fall rate by half a point (-0.2%, compared to the -0.7% registered in the previous month), due to the lower fall recorded by foreign loans (-1.6%, versus -2.3% in August) and bank loans (-0.8%, compared to the -1.0% registered in the previous month), and the acceleration of securities other than shares (1.8 points, up to 7.3%). On the other hand, financing received by households increased by 0.4% in September, after the slight fall (-0.1%) recorded in August, due to the rise in other bank loans (6.9% compared to the 5% registered in the previous month), while bank loans for housing by declined by 1.6% (-1.7% in August).

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

	September 2018 Balance (Billion €)	% Year-on-year variation		
		July 2018	August 2018	September 2018
Non-financial corporations and Households	**1,582**	**-0.2**	**-0.5**	**0.1**
Non-financial corporations	**876**	**-0.6**	**-0.7**	**-0.2**
Bank loans	*490*	*-0.9*	*-1.0*	*-0.8*
Securities[(1)]	*101*	*4.9*	*5.5*	*7.3*
External loans	*285*	*-1.8*	*-2.3*	*-1.6*
Households	**706**	**0.2**	**-0.1**	**0.4**
Bank loans. Housing	*524*	*-1.8*	*-1.7*	*-1.6*
Bank loans. Other	*183*	*6.2*	*5.0*	*6.9*
General Government	-	**2.6**	**2.9**	-
Total financing	-	**0.9**	**0.9**	-

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

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

The total amount of new loan and credit operations to households and non-financial corporations rose by 6.2% y-o-y in September, 2.2 points more than in August. This evolution is due to the greater growth of loans granted to both households and non-financial corporations (0.9 and 2.6 points, respectively, up to 11.1% and 5.0% y-o-y). Loans to SMEs (using as a proxy for these credits those under one million euros) increased by 3%, 1.3 points less than in August. On the other hand, the amount of new loan and credit operations exceeding one million euros increased by 7.5% y-o-y, compared to the 0.3% decline registered in August.

In order to facilitate the analysis, given the high volatility of these series, 12-month annual averages have been calculated. Thus, the amount of new loan and credit operations to households, in cumulative terms for the last twelve months, increased by 17.2% y-o-y in September, as in the previous month. This evolution is due to the slight acceleration of loans for housing (0.2 points, up to 14.0%) and for other purposes (0.3 points, up to 19.5%), while loans for consumption moderated the pace by half a point, although it remains high (20.1%). The amount of new loan and credit operations to SMEs rose by 6.9% y-o-y, in cumulative terms for the last twelve months up to September, two tenths less compared to the previous month. On the other hand, the amount of new operations exceeding one million euros increased by 8.5% y-o-y, a rate three tenths higher than that of August.

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

	Balance September 2018 (Millions €)	% Year-on-year variation		
		July 2018	August 2018	September 2018
TOTAL	**456,755**	**9.9**	**9.5**	**9.6**
Loan and credit operations to households	**98,185**	**18.2**	**17.2**	**17.2**
House purchase	*42,940*	*15.3*	*13.8*	*14.0*
Consumer credit	*33,862*	*20.4*	*20.6*	*20.1*
Other lending	*21,383*	*20.8*	*19.2*	*19.5*
Loan and credit operations to non-financial corporations	**358,570**	**7.8**	**7.6**	**7.6**
Up to 1 million euros	*191,870*	*7.2*	*7.1*	*6.9*
Above 1 million euros	*166,700*	*8.6*	*8.2*	*8.5*

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

Spanish economy

Demand and production

The Spanish economy grew by 0.6% q-o-q in the third quarter, three times more than the Eurozone

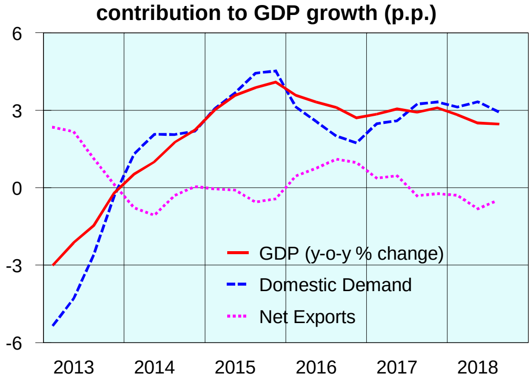
The growth of the Spanish economy remains strong in the first nine months of the year, and above that of the Eurozone, despite the growing uncertainty related to the international environment. According to the Quarterly National Accounts (QNA) flash estimate figures, GDP, in volume and with calendar and seasonally adjusted data, recorded a q-o-q growth of 0.6% in the third quarter of 2018, similar to the figure registered in the first and second quarter of the year and three times higher than the figure registered in the Eurozone (0.2%). In y-o-y terms, GDP increased by 2.5%, as in the previous quarter and eight tenths above the figure recorded in the Eurozone, ending the period between January and September with an average annual rate of 2.6% (3% in 2017).

With regards to the composition, domestic demand continues to boost economic growth, although its contribution to the GDP y-o-y rise has decreased by three tenths in the third quarter in comparison to the second, reaching 3 percentage points, while the external sector has subtracted half a point to the GDP growth, three tenths less than in the second quarter.

Among the domestic demand components and in q-o-q terms, private and public consumption gain dynamism and investment moderates its growth, after the strong increase recorded in the second quarter. With regards to the external demand, exports of goods and services fell in the third quarter, the same as imports.

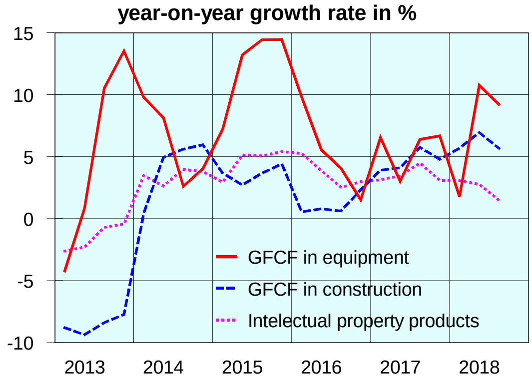
The employment y-o-y growth rate, in terms of National Accounts, remains at 2.5%, which represents a net creation of almost 450,000 full-time equivalent jobs in the last year.

G 2. GDP AND COMPONENTS
contribution to GDP growth (p.p.)



Source: INE.

G 3. GROSS FIXED CAPITAL INVESTMENT
year-on-year growth rate in %



Source: INE.

The European Commission foresees a 2.6% growth rate for Spain in 2018 and 2.2% in 2019,...

The EC, in its autumn forecast report, revised the real GDP growth rate foreseen for Spain in 2018 downwards by three tenths compared to the spring forecasts and two tenths compared to the ones in July (it only included GDP and inflation forecasts), to reach 2.6%. For 2019, it foresees a four tenths growth moderation, to 2.2%, and two additional tenths for 2020, to 2%. With regards to the composition, the domestic demand contribution to the GDP growth is revised two tenths upwards this year, up to 2.8 p.p., and that of 2019 remains at 2.2 p.p., moderating four additional tenths in 2020, to 1.8 p.p.. As for the external sector, the EC foresees a negative two tenths contribution of the net external demand to growth this year and null for the coming one, in comparison to the positive two tenths contribution foreseen in May for both years. The external sector would contribute one tenth to growth in 2020.

...very similar to the one forecasted by the IMF

On the other hand, in its World Economic Outlook report corresponding to October 2018, the International Monetary Fund (IMF) sets the real GDP growth forecast for the Spanish economy for this year at 2.7%, and at 2.2% for 2019, rates seven and three tenths higher, respectively, than those of the Eurozone. Domestic demand would contribute 2.8 points to growth this year and two points the next, and net external demand would detract one tenth in 2018 and would contribute two tenths in 2019.

Indicators of global activity show favourable signs in the fourth quarter of the year

Available short-term indicators related to the fourth quarter of the year confirm the strength of the Spanish economy. Among the qualitative indicators, the Economic Sentiment Indicator (ESI), published by the European Commission, increased by 1.9 points in October compared to the previous month, reaching 107.4 (1990-2017 average = 100), after three consecutive months registering falls. By components, confidence edged upwards in all of them except in the construction sector. In the same vein, the global activity composite PMI for Spain registered in October the level 53.7, 1.2 points higher than the previous month, as a result of the more intense growth in activity in services and the manufacturing industry.

The Spanish economy records net lending vis a vis the rest of the world in the second quarter of the year

According to the Financial Accounts, published by the Bank of Spain, the Spanish economy recorded net lending capacity vis a vis the rest of the world in the second quarter of 2018, equivalent to 1% of the quarterly GDP, more than one point lower in comparison to that registered in the same quarter of 2017 (2.2%). By sectors, the General Government net borrowing fell by 1.2 points, down to 5.7% of the quarterly GDP, while the net financial transactions balance of the non-financial corporations fell by 1.6 points, down to 3.9% of quarterly GDP, and that of financial institutions and Households and Non-Profit Institutions Serving Households (NPISHs) decreased by 0.5 and 0.3 points, respectively, down to 2.6% and 0.2% of GDP.

The strength of private consumption continues

Amongst GDP components on the demand side, final consumption expenditure of households and NPISHs rebounded in the third quarter reaching a q-o-q rate of 0.6%, a figure half a point higher than in the previous quarter. In y-o-y terms, private consumption maintained a high rate of 2%, albeit more moderate than that of the second quarter, therefore, the cumulative figures recorded up to September increased by 2.5%, as in the same period of 2017.

The most recent short-term information regarding private consumption shows, in general, favourable signs, in a context of sustained progress. Domestic sales of consumer goods and services, with deflated, fixed-sample and calendar and seasonally adjusted data, grew by 3.1% y-o-y in July-August, four tenths more in comparison to the figure registered in the second quarter. On the other hand, passenger car registrations, according to the figures provided by ANFAC (Spanish Association of Vehicles Manufacturers), rose by 15.9% y-o-y in the third quarter, a rate more than six points higher than the one registered in the previous quarter, and moderated the y-o-y fall in October by more than ten points, to -6.6%, reflecting a normalisation of the rates after moving forward the purchases due to the entry into force of a new model of consumer approvals and more restrictive emissions on 1st September. However, retail sales, with deflated and work calendar adjusted data, decreased by 0.6% y-o-y in the third quarter, after the virtual stabilization registered in the previous quarter (0.1%), due to the decline recorded both by the food and the non-food component.

On the other hand, the qualitative indicators related to private consumption show favourable signs in the fourth quarter of the year. Thus, the consumer confidence index published by the Sociological Research Centre improved 2.4 points in October compared to the previous month and that of the European Commission increased half a point in that period.

The financial wealth of households rises

The net financial wealth of households increased by 2.3% y-o-y in the second quarter of 2018, reaching € 1.410 billion, equivalent to 118.9% of GDP, as a consequence of an increase in financial assets (1.7% y-o-y) higher than that experienced by liabilities (0.7%). By instruments, in the balance assets for households and NPISHs, insurance, pensions and standardised guarantees and other assets gained relative weight compared to a year earlier, at the expense of the debt securities and shares in capital and investment funds, the weight of cash and deposits remaining unchanged. In liabilities, the weight of loans decreased and that of other liabilities increased.

In parallel, the deleveraging process of households started in 2010 continued. Thus, the debt of households and NPISH reached 60.8% of GDP in the second quarter of 2018, 2.6 points below the figure registered a year earlier.

Investment continues to grow strongly...

With regard to investment, Gross Fixed Capital Formation (GFCF) grew by 6% on a y-o-y average rate in the first nine months of the year, a rate that more than doubled that of GDP (2.6%), due to the strong dynamism of both equipment investment (7.2%) and construction investment (6.1%) and, to a lesser extent, intellectual property products (2.4%). The conditions continue being favourable for investment decisions, given the companies deleveraging, the low interest rates, the good momentum of the final demand and the use of the productive capacity.

...due to the high dynamism of equipment investment...

Investment in equipment goods and cultivated assets rose by 2.2% q-o-q in the third quarter, following the record high of the previous quarter (6.5%), and by 9.2% y-o-y, a rate that was more than one and a half points lower than the previous quarter. This slowdown is due to the fall of its two components, the investment in transport material and in other machinery.

With regards to the monthly equipment investment indicators, the favourable behaviour of domestic large firms´ sales of equipment and software stands out, which grew by 4.9% y-o-y in the two month period from July to August, 3.1 points more than in the second quarter.

Likewise, published indicators related to investment show favourable signals in general. Thus, the industry climate in investment goods improved in October, basically due to the production expectations component, while the degree of use of productive capacity of investment goods fell in the fourth quarter (figure corresponding to October) 1,3 points, reaching 84.9%. On the other hand, truck registrations increased by 1.5% in October, compared to the 9.8% fall registered in the previous month.

...and of investment in housing

Construction investment slowed down the progress pace between July and September, its y-o-y rate standing at 5.7%, 1.3 points lower than the figure registered the previous quarter. This behaviour was due to the lower increase of its two components, the residential segment and that of other constructions, which increased by 6.5% and 4.8% respectively, 0.5 and 2.1 points less than in the previous quarter. However, investment in housing maintained a high dynamism, experiencing an acceleration of eight tenths in q-o-q rate, up to 1.5%.

The expansionary evolution of the sector can be also observed in the number of housing sales, which, according to the INE Statistics based on the properties recorded in the Property Registers, continued to grow at double-digit rates in the two month period from July to August (11.7% y-o-y, in comparison to the 10.3% registered in the second quarter). In the same vein, the number of mortgages on housing experienced a strong rise in this two-month period, of 10.6%, higher than that of the first half of the year (9.4%).

Non-financial corporations’ debt continues to decrease

Non-financial corporations’ debt stood at 94.9% of GDP in the second quarter of 2018, 5.8 points lower than in the same period last year, reaching levels similar to those of mid-2005.

On the other hand, non-financial corporations registered a 2.2% increase in financial assets, higher than that experienced by liabilities (1%), which resulted into a y-o-y decline in net financial liabilities of 1%.

Activity increases in all non-agricultural productive sectors

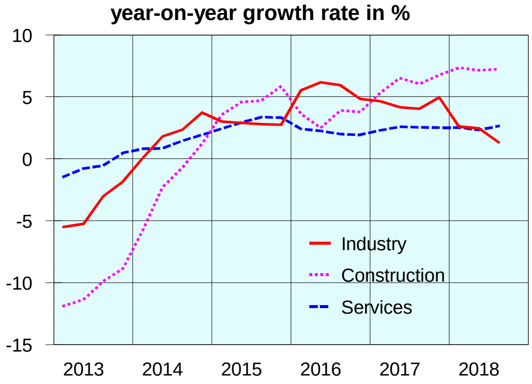
From the supply point of view, the economic activity dynamism in the third quarter was reflected in the main non-agricultural branches. The Gross Value Added (GVA) of the services sector, with seasonally and calendar adjusted data, accelerated three tenths, registering a y-o-y growth rate of 2.6%, the construction GVA increased by 7.2%, one tenth more than in the previous quarter and the GVA of the industrial sector moderated the growth rate by 1.2 points, to 1.3%.

Amongst the industrial activity indicators, the Industrial Production Index (IPI), with calendar adjusted data, registered a y-o-y rate of -0.5% in September, 1.6 points lower than in the previous month. Thus, the third quarter of the year ended with an average annual increase of 0.4%, half a point lower in comparison to the second quarter. In the breakdown by groups, a lower dynamism can be observed in the third quarter in intermediate and equipment goods, with increases of 0.8% and 2.6%, respectively, 2.3 and 0.9 points lower than those of the previous quarter, while energy and consumer goods moderated the rate of decline 1.2 and 0.5 points, respectively, down to -0.9% and -1%.

On the other hand, the Turnover Index in Industry (ICNI) and the Industry New Orders Index (INOI), leading indicator of activity in the branch, showed an expansionary trend in August, registering y-o-y rates of 5.9%, the former, and of 7.7%, the latter, adjusted for calendar effects (6% and 2.4%, respectively, in the previous month). The energy and equipment goods acceleration in both indices in the above-mentioned month stands out among its components.

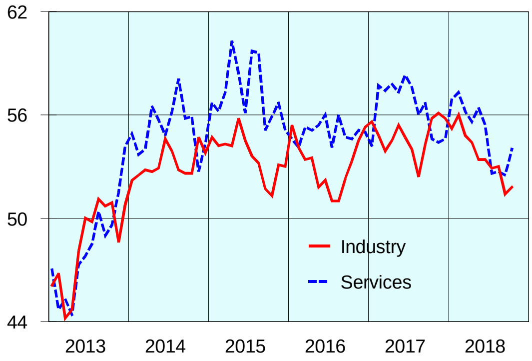
Among the qualitative activity indicators for the industry, the one relating to confidence in the manufacturing sector, published by the European Commission, rose by one and a half points in October. This was due to the improvement of the production expectations components in the sector and the level of stocks, even if the valuation of the order portfolio fell. In the same vein, the PMI manufacturing index edged upwards in October, registering a level of 51.8, four tenths higher than the previous month, as a result of the greater advance registered both by production and new orders, mainly related to exports.

G 4. GROSS VALUE ADDED BY SECTOR
year-on-year growth rate in %



Source: INE.

G 5. PURCHASING MANAGERS' INDEX (PMI)



Source: Markit Group.

Construction activity leading indicators point to the extension of the dynamism

With regards to construction activity leading indicators, according to construction new permits, floorage approvals in new construction maintained in August the strong dynamism of previous months, registering a y-o-y variation rate of 31%, accumulating an annual average advance in the first eight months of the year of 26.8%, six and a half points higher in comparison to the figure registered in the same period of 2017. By components, the residential component registered an annual increase of 26.2% and the non-residential component of 29.2% up to August, both higher compared to the same period last year.

On the other hand, the Production Index in the Construction Industry (PICI), published by Eurostat, deflated and with calendar adjusted data, fell by 3.4% y-o-y in the period from July to August, compared to the 1.4% increase registered in the second quarter. Its two components decreased in the two-month period, the building component by 3.3% and the civil works component by 5.5%.

Confidence in the sector, according to the European Commission indicator, maintained a positive balance in October (2.2 points), although slightly lower versus the figure registered in September (2.5), as a result of the reduction of the order portfolio component, while the expectations related to employment component in the sector improved.

The service business turnover accelerates and the trade rebound stands out

With regards to the activity in the services sector, the Services Sector Turnover Index (SSTI), with work calendar adjusted data, intensified the y-o-y growth rate by 1.6 points in August, up to 8.1%, the highest rate since April 2017. By components, the trade dynamism stood out, which accelerated almost three points, up to 9.7%, the highest rate of the last seventeen years, and other services grew by 5.2% (5.9% in July).

Among the qualitative indicators, the Services PMI stood at 54 in October, half a point higher than the figure recorded in the previous month, mainly due to the higher increase registered by new orders.

Tourist expenditure increased by 2.5% y-o-y in the first nine months of the year

Among the tourism indicators, the total expenditure by tourists who visited Spain in September reached € 9.5 billion, according to the Tourist Expenditure Survey, a figure 0.7% higher compared to the same month of last year, accumulating an average annual increase of 2.5% in the first nine months of 2018. Likewise, the tourist inflow rose by 0.5% in September, after the falls registered in the previous two months, resulting in a slight increase in average spending per tourist (0.2%). In the period from January to September, 66 million tourists visited Spain, as in the same period of 2017.

Finally, air passenger traffic accelerated in September (4.6% compared to the 3.3% registered in August), as a result of the greater growth rate of international traffic, which went from 1.4% in August to 3% in September, and domestic traffic, whose increase of 9% was one tenth higher than the figure registered in the previous month.

Prices

Inflation remains slightly above 2%,…

Inflation, measured by the general Consumer Price Index (CPI), stood at 2.3% y-o-y in September, one tenth above the figure registered in the previous month, mainly due to the higher growth in energy prices, especially electricity, partially offset by the moderation in the rise in non-processed food prices, particularly fresh fruits. Thus, September becomes the fifth consecutive month with the general inflation slightly above 2%, mainly due to the increase in fuels and electricity prices.

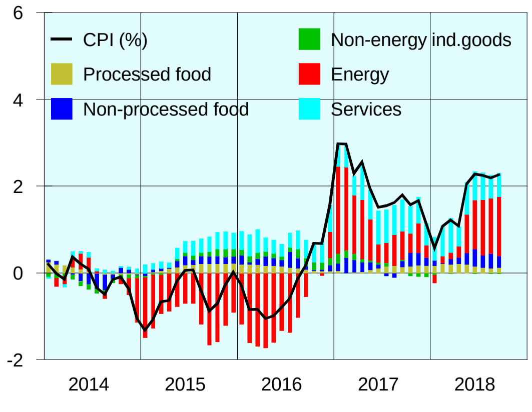
...driven by energy prices

Energy products prices rose by 12% y-o-y in September, nine tenths more than in August. This higher growth is mainly due to electricity prices, which increased by 13.7%, almost three points more than in August, and, to a lesser extent, due to gas prices, which accelerated by 1.1 points, up to 2.4%.

The electricity prices acceleration can be partly explained by the evolution of electricity generation sources, specifically by the higher use of coal as a source of electricity generation, at the expense of others with a lower cost such as hydroelectric power and wind power. The high growth rate observed in the international price of coal and especially gas may have also exerted an upward pressure, as well as the strong increase that CO_2 emission rights prices have been registering since the beginning of the year, which continued during September.

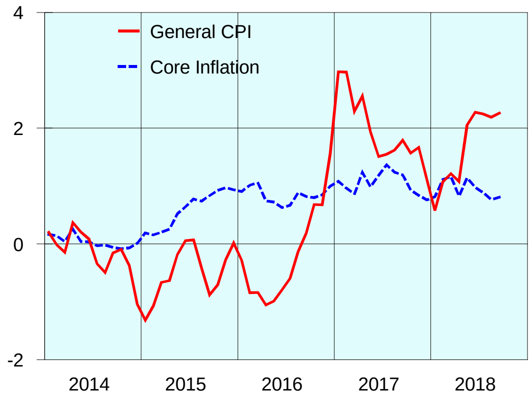
The prices of non-processed food grew by 3.7% y-o-y in September, nine tenths less than in the previous month, where the slowdown of fresh fruit prices stood out, 5.4 points, down to 11.9%.

G 6. CPI GROWTH CONTRIBUTION BY SECTORS
in percentage points



Sources: INE and SGCPE.

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



Source: INE.

Core inflation remains at 0.8% in September

Core inflation, which excludes the most volatile elements from the CPI (non-processed food and energy products), remained at 0.8% y-o-y in September, maintaining a rate close to 1% during the last three years.

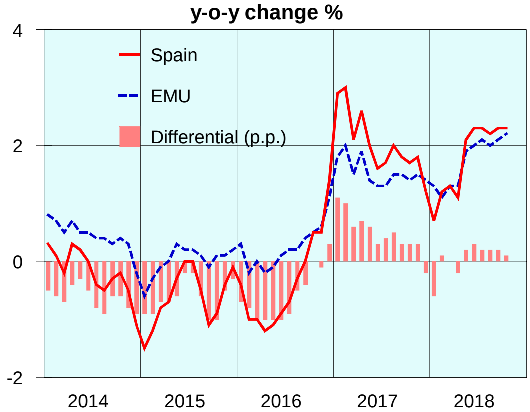
The core inflation stability in September was the result of the relative stability of its components: the prices of processed food, beverages and tobacco increased by 0.8% y-o-y, one tenth more than in the previous month; non-energy industrial goods (BINE) prices decreased slightly in September, by 0.1% y-o-y, as in August; and services prices maintained a y-o-y rate of 1.3%.

According to the CPI flash estimate, inflation remains at 2.3% in October, very close to the Eurozone rate

According to the flash estimate published by the INE, the y-o-y rate of the CPI remained at 2.3% in October 2018. In this evolution, the fall in electricity prices compared to the rise recorded in the same month of 2017, as well as the rise in gas prices, stands out.

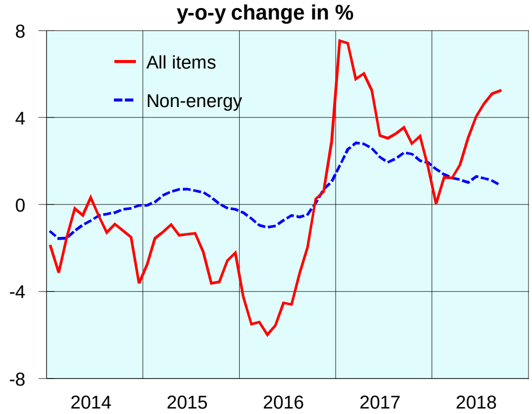
In harmonised terms, if September final data confirm the figures of the flash estimate published by the INE for Spain (2.3%) and by Eurostat for the Eurozone (2.2%), the inflation differential for Spain against the Eurozone would stand at 0.1 percentage points.

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



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

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



Source: INE.

Industrial prices grow at a 5.2% y-o-y rate

The Producer Price Index (PPI) rose by 5.2% y-o-y in September (5.1% in August), mainly due to energy production prices, particularly oil refining (26.3% y-o-y, 3.3 points less than in August)) and electricity, (15.4%, 1.7 points more).

On the other hand, the non-energy PPI moderated the y-o-y rate by two tenths, to 0.9%, thus extending the gradual slowdown trend that began in mid-2017 which is mainly due to the evolution of prices for metallurgy, meat processing and preservation, and production of olive oil.

Labour Market

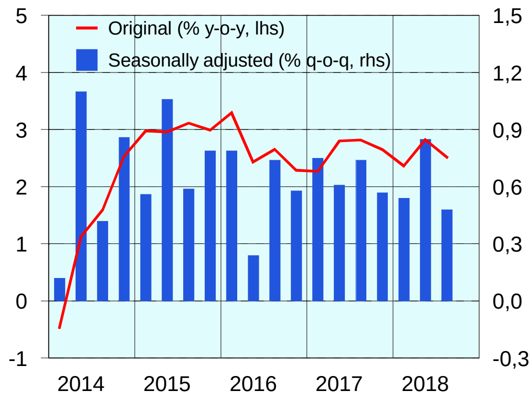
In the third quarter of 2018, LFS employment exceeds 19.5 million people for the first time since the end of 2008

In the third quarter of 2018, according to the Labour Force Survey (LFS), published by the INE, the number of employed people exceeded the 19.5 million people for the first time since the end of 2008, which implies a q-o-q increase of 183,900 people (1% q-o-q).

With seasonally adjusted data by the INE, employment continues to grow strongly in the third quarter, although it moderated the q-o-q rate by three tenths, to 0.5%. This evolution is similar to that observed for the number of people employed according to the QNA (the q-o-q rate also falls three tenths, down to 0.4%, with seasonally and calendar adjusted data by the INE) and for the number of Social Security covered workers (they rise by 0.4% q-o-q, four tenths less than in the previous quarter, with seasonally adjusted data by the Ministry of Employment, Migrations and Social Security).

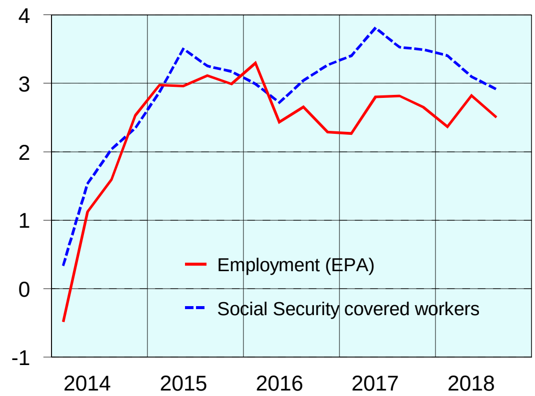
In y-o-y terms, and with unadjusted data, employment according to the LFS increased by 478,800 people, which represents a rate of 2.5%, three tenths lower than the previous quarter and in line with the moderation in the growth pace of the average number of Social Security covered workers for the same period (two tenths, to 2.9%), as well as the QNA employment in terms of employed people (two tenths, to 2%).

G 10. EMPLOYMENT (EPA)
% change



Source: EPA (INE).

G 11. EMPLOYMENT (EPA and Social Security)
% y-o-y change



Source: EPA (INE) and Seguridad Social.

By activity sections, the lower employment growth in terms of the LFS was largely due to manufacturing, where employment slowed down by 2.2 points, to 1.4% y-o-y (Social Security covered workers show a similar trend, although less pronounced). On the other hand, trade stands out, as employment grew by 1% y-o-y after three quarters of falls, as well as education, where employment increased by 6.4%, more than double the figure of the previous quarter. In q-o-q terms, the third quarter maintains the growth trend of the previous periods, registering employment increases in the services (210,200 more), construction (24,900) and industry (2,800) sectors. Conversely, the agricultural sector recorded 54,000 fewer employed persons this quarter, largely due to the seasonal nature of employment in this sector in the third quarter of each year.

Private employment rose by 2.3% y-o-y in the third quarter, and public employment by 3.4%, these rates are three and four tenths lower, respectively, than the figures registered in the previous quarter.

The temporary rate remains stable in y-o-y terms

According to the professional situation, the number of self-employed workers fell for the fourth consecutive quarter, at a y-o-y rate of 1.5%, a fall three tenths more pronounced than that registered in the previous quarter. For its part, the number of employees increased by 3.3%, three tenths less than in the previous quarter.

Among employees, the temporary rate reached 27.4%, a rate six tenths higher than the one registered in the second quarter and similar to that of the same quarter last year, as a result of the 3.2% and 3,5% y-o-y increases recorded by permanent and temporary employees, respectively (four and one tenth less than in the previous quarter). The stabilisation of the temporary rate in the third quarter of 2018 compared to the one registered a year earlier is due to the fact that the increase in temporary employment in the public sector has offset the decrease in the private sector.

The weight of involuntary partiality continues to decline

Regarding working hours, part-time employment decreased by 0.4% y-o-y, after growing by 1% in the previous period, and full-time employment moderated the growth rate by one tenth, to 3%. As a result, the partiality rate stood at 13.9% in the third quarter, four tenths less than the figure registered a year earlier and the lowest figure registered in a third quarter since 2012. The partiality rate decrease is entirely due to the fall of involuntary partiality (work part-time because they have not found a full-time job), which reached 54.4% of the total part-time employees in the third quarter, 3.7 percentage points lower than a year earlier.

With regards to working hours, the average number of effective hours worked on a weekly basis in the main job by employed people stood at 37.8.

Likewise, it should be added that, according to the QNA and with calendar and seasonally adjusted data, full-time equivalent jobs maintained the growth rate unchanged at 2.5%.

Unemployment continues to fall at rates close to 11%

According to the LFS, unemployment fell by 164,100 people in the third quarter of this year, down to 3.3 million people, partially influenced by seasonality. With seasonally adjusted data, the q-o-q fall rate in the number of unemployed people moderated 1.4 points, to 2.3%.

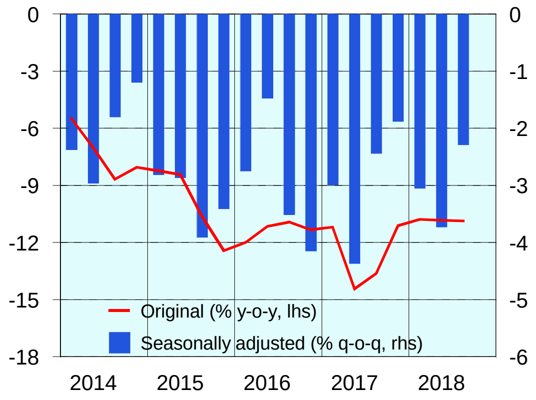
In y-o-y terms, and with unadjusted data, unemployment fell by 405,800 people, which represents a rate of decline of 10.9%, one tenth more intense than the figure registered in the previous quarter.

The unemployment rate stands below 15% for the first time since the end of 2008

The unemployment rate fell by 1.8 points in the third quarter of 2018 compared to a year earlier, reaching 14.6% of the labour force, seven tenths lower than in the second quarter and the lowest figure since the end of 2008. Among young people (from 16 to 24 years old), the unemployment rate stood at 33%, three points lower than a year earlier. For its part, the number of households with at least one active member in which all active members are unemployed has fallen by 110,200 in comparison to a year earlier.

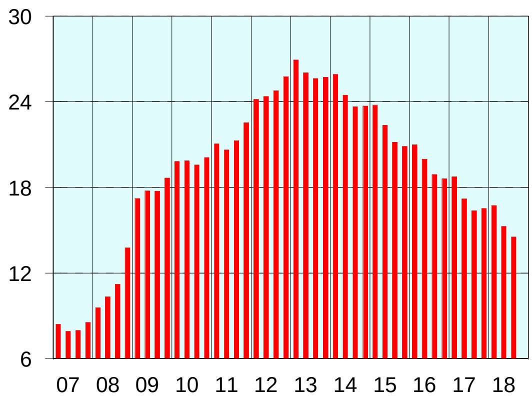
According to employment search time, the number of unemployed people who are looking for a job for at least one year decreased by 15.4% y-o-y in the third quarter, 1.2 points less than in the previous period, reaching 48.1% of the total number of unemployed, a figure more than two and a half points lower than a year earlier.

G 12. UNEMPLOYMENT (EPA)
% change



Source: EPA (INE).

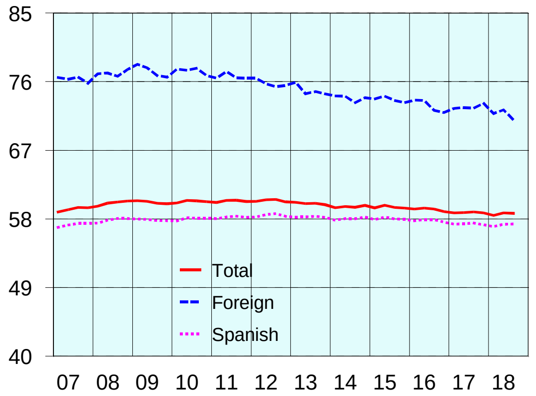
G 13. UNEMPLOYMENT RATE
% active population



Source: EPA (INE).

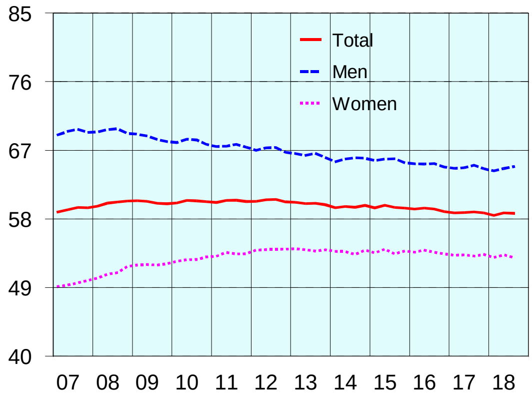
The population of over 16 years old in family homes increased by 0.6% y-o-y in the third quarter of 2018, one tenth more than in the previous quarter, due to the rise of both the active (0.3% y-o-y, two tenths less) and inactive population (1.1% y-o-y, half a point more).

G 14. ACTIVITY RATE, BY ORIGIN
% of working age population



Source: EPA (INE).

G 15. ACTIVITY RATE, BY SEX
% of working age population



Source: EPA (INE).

As a result, the activity rate among the population over 16 years old stood at 58.7% in the third quarter of 2018, two tenths lower compared to the figure registered in the same period of 2017. According to nationality, the activity rate of Spanish citizens stood at 57.3%, one tenth lower than that of a year earlier, and decreased by one and a half points among the foreign population, to 71%. By gender, both men (64.9%, two tenths less than a year earlier) and women (52.9%, also two tenths lower) contributed to the decline of the activity rate.

With regards to the non-active population, the main reason for not looking for a job was retirement (31.8% of the total qualifying inactive people that answered), followed by education or training courses (19.1%). Likewise, considering the involvement with the activity, the evolution of the discouraged seekers should be emphasised (they do not look for a job because they believe they will not find one), as it fell by 9.3% y-o-y (-9% in the previous quarter), representing 0.7% of the working-age population, as in the second quarter, the lowest percentage since the second quarter of 2009.

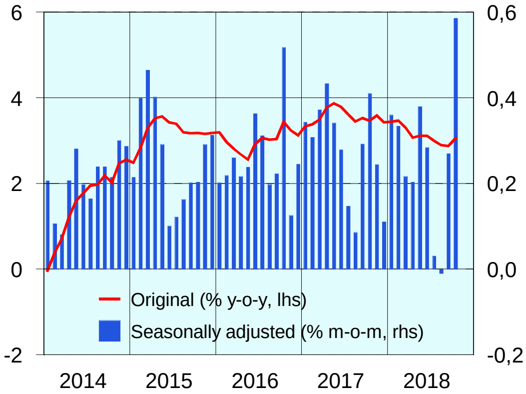
Social Security covered workers registers the highest increase in a month of October of the time series

In October 2018, the average number of registrations in the total Social Security System reached the figure of 18.99 million. This represents a m-o-m increase of 130,360 people, the largest growth in a month of October for the time series, which starts in 2001.

With seasonally adjusted data by the Ministry of Employment, Migrations and Social Security, Social Security covered workers in October rose by 110,567 people, 0.6% m-o-m, double the figure of the previous month and the highest rate in the series, which starts in 2008.

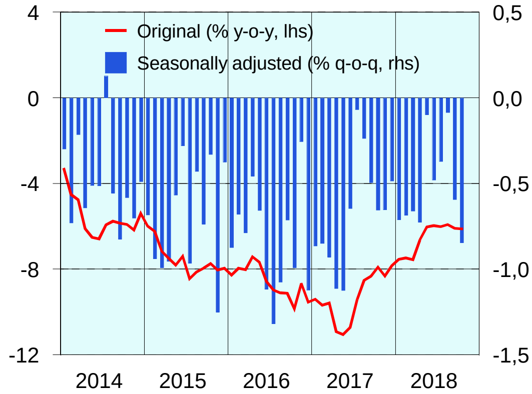
In y-o-y terms, and with unadjusted data, the number of Social Security covered workers increased by 562,544 people in October 2018, what represents a rate of 3.05%, almost two tenths higher in comparison to the one registered in September (2.87%).

G 16. SOCIAL SECURITY-COVERED WORKERS
% change



Source: Social Security.

G 17. REGISTERED UNEMPLOYMENT
% change



Source: SEPE.

By activity sections, the greater job creation is largely due to agriculture, which recorded a y-o-y rate of 1.2%, after two months of job destruction. The improvement was especially concentrated in the regions of Castilla-La Mancha, La Rioja and Castilla y León. The growth rate of non-agricultural Social Security covered workers remained virtually constant (3.17%, two hundredths more than in the previous month).

Conversely, employment in the public administration sector went from recording a rate of 1.3% in September to another virtually null in October (0.1%), an evolution that was mainly concentrated in the Comunidad Valenciana, where public Social Security covered workers fell by 14.4% y-o-y, almost five points more than in the previous month, extending the slowing trend initiated at the end of 2017.

According to the professional situation, both the creation rate of wage employment and self-employment increased slightly in October by two and one tenths, respectively, up to 3.4% and 1.3% y-o-y. Among employees, 96% of the y-o-y employment creation was permanent and 4% was temporary, with an increase in permanent employment of 5.6%, two tenths higher than in September and the highest since December 2007. Temporary employment grew at a significantly lower rate of 0.4%, half a point lower than the previous month and the lowest since October 2013.

By origin, foreigners Social Security covered workers continued to increase at rates higher than those of domestic Social Security covered workers, 8.6% and 2.4%, respectively (7.6% and 2.3% in September).

Registered unemployment falls by 6.1% y-o-y in October

Registered unemployment recorded a m-o-m growth of 52,194 people at the end of October 2018, reaching the total number of registered unemployed approximately 3.3 million.

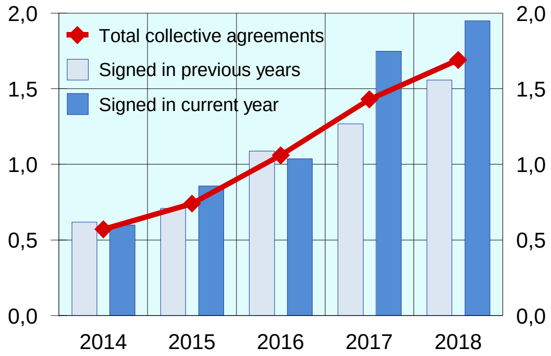
The unemployment increase in October was of a seasonal nature. In fact, with seasonally adjusted data, it decreased by 27,483 people, 0.8% m-o-m, which represents a drop two tenths higher than the figure registered in the previous month.

In y-o-y terms, and with unadjusted data, registered unemployment decreased by 212,323 people in October, which represents a rate of -6.12%, similar to the one registered in the previous month (-6.09%), due to the fact that the highest rate of decline in the service sector has been offset by a smaller reduction in the other sectors.

The agreed wage increase in collective bargaining stands at 1.7% for 2018

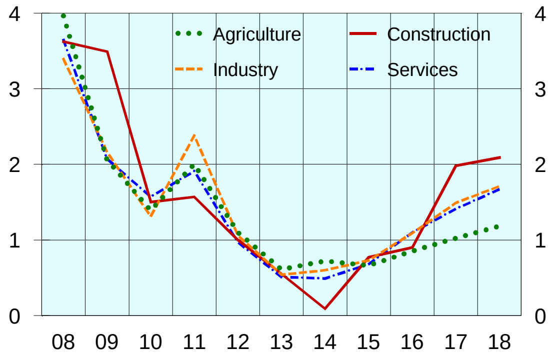
According to the Collective Agreements Statistics, published by the Ministry of Employment, Migrations and Social Security, the average agreed wage rise stood at 1.7% for 2018, for workers covered by collective agreements with effects in 2018 and registered up to October (8.2 million, equivalent to 51% of the total 16.2 million employees according to the LFS in the first three quarters of the year), just as the increase published with information available up to September. This rise is three tenths higher than that of 2017, with information up to October of last year, and two tenths higher with the latest information available.

G 18. AGREED WAGES
% change



Source: MTMS. (Last month available data for 2018 and December data for rest of years).

G 19. AGREED WAGES, BY SECTOR
% change



Source: MTMS. (Last month available data for 2018 and December data for rest of years).

Among the agreements signed in 2018 (the rest are agreements effective in 2018, but signed in previous years), which affect 32.3% of covered workers, the wage increase stands at 1.9%, as in the previous month.

The number of workers affected by opt-outs of the agreement stood at 16,551 with cumulative data up to October 2018, 9.5% less than in the first ten months of the previous year and the lowest level of the series, which begins in 2012. This is consistent with a reduction of the reliance on this mechanism as the economic recovery progresses. In terms of workers affected, 99.4% of opt-outs were reached by agreement, and 79.6% took place in SMEs.

External sector

The Spanish economy continues generating net lending vis a vis the rest of the world

According to the Balance of Payments data, in August 2018, the Spanish economy generated net lending to the rest of the world for the fourth consecutive month, amounting to € 2 billion, a figure slightly lower compared to the net lending of € 2.7 billion recorded a year earlier.

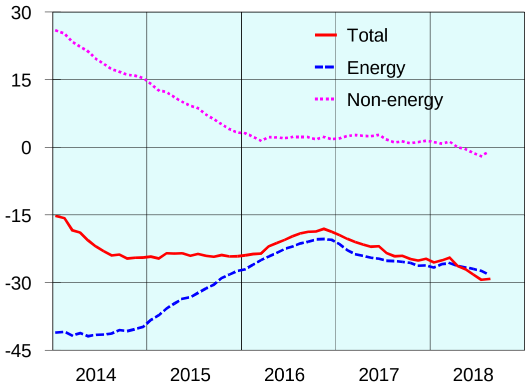
The lower external balance is explained by the reduction in the surplus of the current account balance, which reached € 1.8 billion in August, € 729 million lower than the amount registered in the same month of 2017 and minimally offset by the slight increase of the capital account surplus, by € 31 million up to € 166 million. The lower current surplus is due, in turn, to the lower surplus of goods and services (it went from € 4.0 billion in August 2017 to € 3.4 in the same month of this year) and, to a lesser extent, to the greater deficit of primary and secondary incomes (they rose by € 96 million, reaching € 1.6 billion).

The trade balance improves in August due to the lower deficit of the non-energy component

According to Customs data, the trade balance recorded a deficit of € 3.1 billion in August 2018, bellow the deficit of € 3.2 billion registered in the same period of 2017. This improvement in the trade balance was due to the 82.7% decrease of the non-energy component deficit, down to € 225 million, partially offset by the 46.9% increase in the energy component deficit to € 2.8 billion.

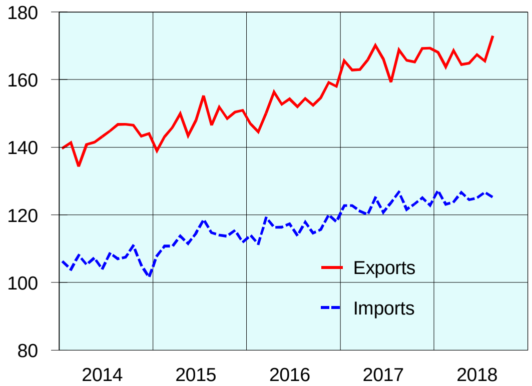
In cumulative terms for the last twelve months, the trade balance recorded a deficit of € 29.2 billion up to August 2018, compared with the € 24.2 billion accumulated in the twelve months up to August 2017. The 20.9% worsening of the trade balance is explained both by the energy component deficit increase, of 12.1%, and by the decrease in the non-energy balance, which went from recording a surplus of € 1.1 billion in cumulative terms for the last twelve months up to August 2017 to a deficit of € 932 million in the same period of this year.

G 20. TRADE BALANCE
accumulated 12 months, billion euros



Sources: DA and SGCPE.

G 21. FOREIGN TRADE, VOLUME
index 2005=100, s.a.



Sources: DA and SGCPE.

Real exports of goods rebound in the period from July to August…

According to Customs figures, goods exports increased in August by 7.7% y-o-y, and their prices, approximated by unit value indices, rose by 4.5% (3.3% in July), resulting in a 3% growth in real terms, after the 6.3% rise registered in the previous month. Real exports of goods rebounded in the period from July to August registering a rate of 4.7% y-o-y, compared to the slight increase recorded in the second quarter (0.6%).

The analysis by product groups in real terms and in y-o-y rates, showed an uneven performance in August in the different categories. Exports of food consumer goods and energy intermediate goods accelerated 3.1 and 3.6 points, up to 4.9% and 23.5%, respectively; those of non-energy intermediate goods slowed down 2.3 points, to 5.6%; those of non-food consumer goods maintained their y-o-y rate stable (1.3%); and capital exports fell by 20.7%, after the 11.4% increase recorded in the previous month.

By geographical areas, exports in volume to the European Union increased by 8.6% y-o-y in August, two tenths less than in July, and exports outside the Union fell by 5.8% in August, after the 2.1% rise registered in the previous month.

...and imports slow down

Goods imports increased by 5.8% y-o-y in nominal terms in August, after the 13.6% registered in the previous month, and their prices rose by 6.3% (8.3% in July). This price evolution is mainly due to the growth in the prices of energy goods (30%) and, to a lesser extent, of other products (2.1%). As a result, imports in real terms, fell by 0.5%, after the 4.9% rise recorded in the previous month. Real imports of goods increased in the period from July to August at a rate of 2.3%, almost two points lower than that of the second quarter (4.2%).

The analysis by products in real terms and in y-o-y rates shows an uneven evolution in August. Imports of energy intermediate goods rebounded up to a rate of 10.4%, after the fall recorded in July (-2.6%). The imports of food consumer goods and capital goods accelerated by one tenth and 11.7 points, respectively, up to 3.6% and 14.8%. Lastly, the imports of non-energy intermediate goods and non-food consumer goods went from registering positive rates in July (6.3% and 7.3%, respectively) to drops of 6.1% and 1.9%, respectively.

By geographical areas and in real terms, imports from the European Union rose at a y-o-y rate of 1.6% in August after the 4.4% rise registered in the previous month, and real imports from the rest of the world decreased by 2.6%, compared to the 5.6% increase registered in July.

The "momentum" (change during the last three months in comparison to the previous three months) of exports, in real terms, registered a positive rate in August (1.5%) for the second consecutive month, due to the positive contribution of the EU countries and non-EU members of the OECD. By products, the positive contribution of non-energy intermediate goods and, to a lesser extent, of food and energy goods stands out. The "momentum" of imports remained positive (0.5%), for the fourth consecutive month. The positive contribution of EU countries and non-EU members of the OECD, by products, that of intermediate, energy and non-energy goods, and capital goods stood out.

The financial balance generated net capital inflows in August

According to the Balance of Payments, in August the financial balance, excluding the Bank of Spain assets, generated net capital inflows of € 11.9 billion in August, versus the net outflows of 7.5 billion recorded a year earlier. This result is explained by the net inflows registered by other investments (€ 14.9 billion), while portfolio investment (€ 1.5 billion), direct investment (€ 1.3 billion) and financial derivatives (€ 187 million) registered net capital outflows.

The assets net variation recorded net capital inflows (disinvestments) amounting to € 5.3 billion in August, versus the net inflows of € 6.5 billion registered in the same month of 2017. On the other hand, the liabilities net variation generated net inflows (investments) of € 6.6 billion, in comparison to the net outflows of € 14 billion recorded a year earlier.

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

The net debtor position of the Bank of Spain vis-à- vis the rest of the world fell by € 14.6 billion in August, in which the improvement of € 16.1 billion in the net debtor position vis-à-vis the Eurosystem should be highlighted. On the other hand, the remaining net assets decreased by € 1.2 billion and reserves by € 235 million.

Public Sector

On 30th October, the Ministry of Finance published the data of non-financial transactions of the Central Government, the Regional Governments and the Social Security Funds, in terms of National Accounts and with consolidated data, corresponding to August 2018. The Ministry published as well the State monthly budget execution data corresponding to September, in terms of both National Accounts and Cash.

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

The Bank of Spain (BoS) published the General Government Debt data, following the Excessive Deficit Procedure (EDP) methodology, for August, as well as the Debt data for the State corresponding to September.

Moreover, on 22nd October, Eurostat published the annual General Government deficit and debt figures of the European Union countries within the Excessive Deficit Procedure (EDP) framework.

The public deficit continues to fall, favoured by the positive evolution of revenues

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded up to August 2018 a deficit, in terms of National Accounts, equivalent to 1.95% of GDP, 0.46 percentage points (p.p.) less with respect to the same period of the previous year.

This lower deficit is explained by an increase in resources (6.4% y-o-y) higher than that of uses (4.2%).

On the side of non-financial revenue, taxes and social contributions have grown sharply in y-o-y terms, 6.7% and 5.2%, respectively and, among taxes, the evolution of the Personal Income Tax, VAT and Corporate Income Tax stand out. Among the remaining revenue items, the dividends received from the Bank of Spain, ENAIRE and SELAE should be noted, which increased by € 264, 293 and 571 million, respectively in comparison to the first eight months of 2017.

On the side of non-financial expenditure, interest falls at a slower pace than in the previous months (-0.2%). Likewise, expenditure related to unemployment benefits continued to fall (-0.7% up to August), although at a slower pace due to the fact that the reduction in spending on unemployment benefits, was partly offset by the increase in other expenses associated with employment policies.

Conversely, the rest of expenditure items increased. Gross capital formation rose by 22.0% y-o-y, influenced by the impact of the bankrupt toll motorways that have reverted to the State, and the contribution to the EU budget based on VAT and GNI grew by 18.2%. The net balance of support provided to financial institutions up to August is positive and relatively small (€ 63 million), as a result, among other causes, of the lower compensations paid by the BFA. However, the amounts paid by the Deposit Guarantee Fund (DGF) in relation to the Asset Protection Schemes (known in Spanish as EPAs) that are not considered financial aid but affect spending, increase significantly in comparison to the same period of 2017, due to the EPAs of the Caja de Ahorros del Mediterráneo (CAM) and the Unnim. Expenditure related to contributory pensions continues registering an upward trend (4.5%), due to the rise in the number of pensioners (1.1%) and of the average pension (3.7%), as well as the additional increase for pensions included in the State Budget for 2018, effective from 1st January and that has been applied in July (2.75% for the minimum pensions and 1.35% for the rest).

With regard to the balance of non-financial operations by subsectors, the Central Government ended the first eight months of the year with a deficit of 1.66% of GDP, 0.21 p.p. lower compared to the figure registered in the same period of 2017. The Regional Government recorded a surplus 0.14% of GDP, eight hundredths above the figure accumulated up to August last year, and the Social Security Funds recorded a deficit of 0.43% of GDP, 0.17 p.p. lower compared to the figure recorded in the same period of 2017.

The State's deficit in terms of National Accounts falls up to September in y-o-y terms

Up to September 2018, the State registered a deficit, in terms of National Accounts, equal to 1.09% of GDP, 0.38 p.p. lower compared to that of a year earlier (1.47%). This lower deficit is due to a y-o-y increase in non-financial resources (8.3%) higher than that of non-financial uses (4.9%).

The increase in resources was mainly boosted by the rise of taxes (7.2%) and of dividends and other income received (74.0%), as well as by the higher transfers received in relation to the Regional Governments Financing System (they rise by 22.9% due to the System Settlements corresponding to 2016 and 2015). On the other hand, investment grants fell (€ 373 million less), due to lower amounts received from the European Regional Development Fund.

Among uses, it is worth mentioning the increase in investment (60.5%), the contribution to the EU based on VAT and GNI resources (17.8%) and current transfers to other General Government units (4.0%), in particular the Social Security Funds (5.4%) and the Regional

Governments (4.9%), social benefits other than social transfers in kind (4.2%) and compensation of employees (2.5%). Accrued interest moderated the rate of decline to -0.1%.

The borrowing requirement of the State rose up to September compared to the figure registered in the same period of 2017, reaching € 37.1 billion. This increase is due to the greater net acquisitions of financial assets, which offset the lower cash deficit (€ 15.4 compared to the € 20.8 registered a year earlier). The borrowing requirement was mainly financed through mid and long term domestic debt.

The borrowing requirement of the State up to September 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, the equity contributions to the financing funds of the Territorial Entities and the current account in the Bank of Spain.

T 7. General Government excluding Local Government sub-sector
(Non-financial transactions in terms of national accounts)
Accumuted data in millions €, y-o-y growth and % of GDP

	August		y-o-y growth	% of GDP	
	2017	**2018**		**2017**	**2018**
1. NON-FINANCIAL REVENUE	**257,192**	**273,704**	**6.4**	**22.05**	**22.59**
Taxes	140,545	150,006	6.7	12.05	12.38
* Taxes on production and imports	71,714	75,619	5.4	6.15	6.24
* Current taxes on income, wealth, etc.	66,874	72,403	8.3	5.73	5.97
* Capital taxes	1,957	1,984	1.4	0.17	0.16
Social contributions	94,199	99,102	5.2	8.08	8.18
Transfers within general government	6,769	7,485	10.6	0.58	0.62
Other revenue	15,679	17,111	9.1	1.34	1.41
2. NON-FINANCIAL EXPENDITURE	**285,247**	**297,315**	**4.2**	**24.46**	**24.53**
Intermediate consumption	24,568	25,139	2.3	2.11	2.07
Compensation of employees	64,580	66,047	2.3	5.54	5.45
Interest	19,571	19,532	-0.2	1.68	1.61
Subsidies	5,707	5,882	3.1	0.49	0.49
Social benefits other than social transfers in kind	114,227	118,857	4.1	9.79	9.81
Social transfers in kind: market production purchased by general government	18,397	19,103	3.8	1.58	1.58
Gross capital formation	11,168	13,628	22.0	0.96	1.12
Transfers within general government	15,498	15,793	1.9	1.33	1.30
Other expenditure	11,531	13,334	15.6	0.99	1.10
3. NET LENDING (+) NET BORROWING (-) (1-2)	**-28,055**	**-23,611**	**-16**	**-2.41**	**-1.95**

Source: IGAE. Ministerio de Hacienda.

The Cash deficit of the Social Security decreases up to September

The Social Security recorded a deficit up to September of 0.45% of GDP in terms of Cash, 0.07 p.p. lower than the figure recorded in the same period of 2017 (0.52% of GDP). Social contributions increased by 5.5%, mainly due to the rise in the contribution from employed people (5.7%). On the other hand, pensions increased by 4.5%.

The General Government EDP Debt reaches € 1,162.5 billion in August

According to the Bank of Spain, the General Government Debt, according to the EDP methodology, reached € 1,162.5 billion in August, in comparison to the € 1,129.8 billion registered a year earlier.

By subsectors, the State and the Regional Government increased their debt in August in comparison to the same month of 2017 (by € 45.2 and € 6.8 billion, respectively, reaching € 1,020.7 and € 291.0 billion), while Other Bodies belonging to the Central Government and Local Corporations continued decreasing it (by € 3.9 and 3.1 billion, respectively, down to € 32.5 and 27.8 billion).

Likewise, according to the Bank of Spain, by the end of September, the State's EDP Debt reached € 1,033.9 billion, compared to the € 982.1 billion recorded a year earlier. By instruments, € 897.2 billion correspond to long-term debt securities (€ 64.9 billion more than a year ago), € 68.5 billion with short-term debt securities (€ 6.7 billion less) and the rest, € 68.2 billion, with loans and deposits (€ 6.4 billion less than in the same period of the previous year, due to the early repayment of part of the ESM loan).

Eurostat validates the General Government deficit and debt figures for the period 2014-2017

Eurostat has validated the figures sent by Spain within the EDP framework, which for 2017 indicate a public deficit of 3.1% of GDP (including support provided to financial institutions) and a public debt of 98.1% of GDP.

November 2018