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SPANISH ECONOMY REPORT

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Y EMPRESA

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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

1.- FINANCIAL MARKETS

The financial markets evolution in the fourth quarter of 2018 has continued to be conditioned by the uncertainty regarding the Brexit and global growth, as well as by the trade tensions across the world and by the monetary policy decisions of the main central banks with a rise of interest rates by the Federal Reserve (Fed) and the end of the net asset purchases by the European Central Bank (ECB). In this context, the public debt yields and stock indices have decreased in the last months of 2018 and the euro has depreciated against the dollar.

The ECB confirms the end of the net asset purchases in December 2018

The Governing Council of the ECB, in its meeting held on 13th December 2018, 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 to levels that are below, but close to, 2% in the mid-term.

As regards to non-standard monetary policy measures, the Governing Council confirmed that net asset purchases under the asset purchase program (APP) would end in December 2018. At the same time, the Governing Council enhanced its forward guidance on reinvestment. Accordingly, the Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

At the press conference, the ECB communicated that it had revised slightly downwards its growth prospects for the real GDP in the Eurozone for 2018 and 2019, in comparison to the macroeconomic projections of September 2018, and confirmed that a high degree of monetary accommodation is still needed for the inflation sustained convergence to continue towards levels that are below, but close to, 2% in the mid-term.

The Fed continues to increase rates and reduce its balance sheet

The Federal Open Market Committee (FOMC) of the Fed, in its two day meeting held on 18th and 19th December 2018, unanimously decided to increase the Federal Funds interest rates by 25 b.p., up to the target range of 2.25%-2.50%. This is the fourth increase that happened last year and the ninth since December 2015. Likewise, the FOMC decided to raise the discount rate of the Federal Funds by the same amount, up to 3%.

With regards to non-standard monetary policy measures, 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 that followed the meeting, the FOMC highlighted that the labour market has continued to strengthen, the economic activity and household consumption has continued to grow at a solid pace, business investment has moderated when compared to early 2018 and inflation remains close to the 2% target.

Table 1.1. **Financial and monetary indicators**

			2018					2019
	2017	2018	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.
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	1.50	2.50	2.00	2.25	2.25	2.25	2.50	2.50
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euribor rates								
3 months	-0.33	-0.32	-0.32	-0.32	-0.32	-0.32	-0.31	-0.36
12 months	-0.15	-0.17	-0.17	-0.17	-0.15	-0.15	-0.13	-0.12
Debt market (3)								
3 years	-0.08	-0.03	-0.06	0.00	0.11	0.09	-0.03	-0.06
5 years	0.36	0.41	0.40	0.49	0.62	0.60	0.42	0.38
10 years	1.56	1.42	1.37	1.44	1.57	1.58	1.43	1.43
Bank rates (3)								
Loans and credit. Synthetic rate	2.55	2.42	2.40	2.36	2.48	2.50	-	-
Mortgage loans (households)	2.19	2.22	2.28	2.22	2.25	2.28	-	-
Deposits. Synthetic rate	0.08	0.06	0.05	0.06	0.05	0.06	-	-
B) Spreads (basis points)(1)								
Spain-Germany 10 years	118	95	101	100	111	120	117	123
USA-Germany 10 years	197	246	255	257	272	276	262	248
C) Eurozone monetary aggregates(4)								
M1	8.80	6.70	6.50	6.80	6.80	6.70	-	-
M2	5.20	4.30	4.00	4.30	4.40	4.30	-	-
M3	4.60	3.70	3.50	3.60	3.90	3.70	-	-
D) Exchange rates(1)								
Dollar/euro	1.129	1.181	1.155	1.166	1.148	1.137	1.138	1.140
% (4)	12.3	-3.8	-2.2	-2.1	-2.3	-3.2	-3.8	-6.6
Yen/euro	126.7	130.4	128.2	130.5	129.6	128.8	127.9	123.4
% (4)	9.2	-4.3	-1.2	-1.1	-2.4	-2.7	-4.3	-8.8
Yen/dollar	112.2	110.4	111.0	112.0	112.9	113.3	112.3	108.3
%(4)	-2.8	-0.5	1.0	1.1	-0.1	0.4	-0.5	-2.4
Effective nominal euro rate	96.6	99.0	99.0	99.5	98.9	98.3	98.4	98.2
% (4)	5.4	-0.5	-0.1	0.4	0.3	-0.2	-0.5	-1.3
E) Stock market indexes % (5)								
Madrid General Index	7.6	-15.0	-6.2	-6.3	-11.4	-10.2	-15.0	2.4
IBEX 35	7.4	-15.0	-6.4	-6.5	-11.5	-9.6	-15.0	2.3
Eurostoxx – 50	6.5	-14.3	-3.2	-3.0	-8.7	-9.4	-14.3	1.3
Dow Jones	25.1	-5.6	5.0	7.0	1.6	3.3	-5.6	0.5
Standard & Poors 500	19.4	-6.2	8.5	9.0	1.4	3.2	-6.2	1.0
Nikkei 225	19.1	-12.1	0.4	6.0	-3.7	-1.8	-12.1	-2.3

(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.

With regard to the future path of the Federal Fund interest rates, even though gradual increases are expected in 2019 and 2020, the Fed's projections have been revised downwards in comparison to the figures provided in September, the central range considered most appropriate to achieve the monetary policy targets being between 2.6% and 3.1% in 2020.

The BoE maintains the interest rates and the asset purchase programme

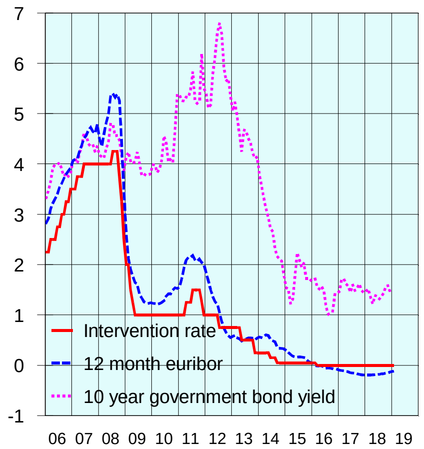
The Monetary Policy Committee of the Bank of England (BoE), in its meeting held on 20th December 2018, unanimously decided to maintain the Official Bank Rate at 0.75%, in force since 1st August. Likewise, it decided to continue with the public debt and corporate debt purchase programmes, which stand at 435 billion and 10 billion pounds, respectively.

The Committee highlighted that the economic prospects will continue to significantly rely on the agreement reached for the United Kingdom leaving the European Union and the response to it from households, businesses and financial markets. At the meeting held in December, the Committee considered that the current stance of the monetary policy was appropriate.

The BoJ maintains its expansionary monetary policy

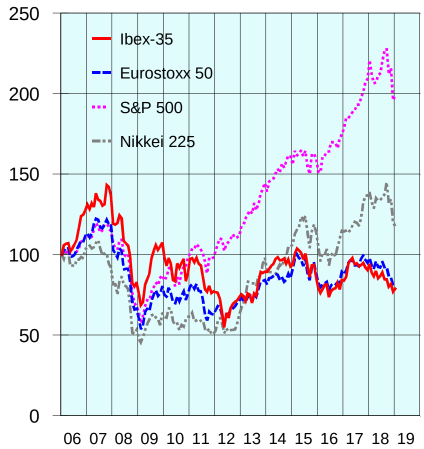
In the meeting held on 19th and 20th December 2018, the Bank of Japan (BoJ) decided to keep the negative interest to current accounts that financial institutions hold at the Bank (-0.1%). Similarly, the BoJ decided to keep its asset purchase programme unchanged, which expands the purchases of public debt at an annual pace of 80 trillion yen, those of exchange-traded funds (ETFs), up to an annual increase in its outstanding balance of 6 trillion yen, and those of real estate investment companies (J -REITs) at an annual rate of 90 billion yen.

G 1.1 INTEREST RATES
monthly averages (a)



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

G 1.2 STOCK EXCHANGE
last day of the month. January 2006 = 100



Source: Bolsa de Madrid, Nasdaq and Stoxx.

In a context of moderate growth in Japan's economy, the BoJ confirmed its intention to continue with the current asset purchase programme until inflation exceeds the 2% target and remains stable at that level. With regards to the interest rates policy, the BoJ confirmed that it intends to maintain the current rates for a long period of time, taking into account the uncertainty regarding the economic activity and prices.

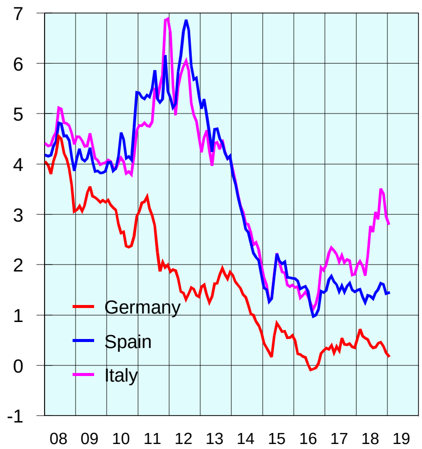
The Riksbank raises the interest rates for the first time since 2011

The Central Bank of Sweden (Riksbank), in the meeting held on 20th December, raised the interest rates by 25 b.p., setting the "Repo rate" at -0.25%, which is the first increase since 7th July 2011. The Bank Council states that the uncertainty regarding the evolution of the world economy is important, but the Swedish economy shows signs of strength with inflation levels close to the 2% target, which supports this rise. With regards to the future interest rates path, the Riksbank expects that the next rise will probably take place in the second half of 2019.

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

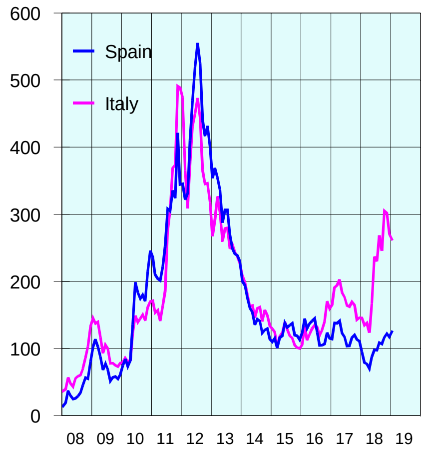
In the interbank market of the Eurozone, interest rates increased slightly during the fourth quarter of 2018, due to the expectations of a tightening of the monetary policy. Thus, on 4th January this year, the one, six and twelve-month Euribor stood at -0.363%, -0.237% and -0.119%, respectively, versus the -0.371%, -0.268% and -0.159% recorded at the end of September. The slight increase of the 12-month Euribor in that period is due to the rise in risk premiums required in the market (the Euribor-OIS differential rose 5 b.p.), while the OIS fell 1 b.p.

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



(a) For the 10-year Bond.
Source: Financial Times.

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



(a) For the 10-year Bond.
Source: Financial Times.

Public debt yields decrease in the last quarter of 2018

In the secondary debt market, the uncertainty regarding the Brexit negotiations boosted the yields upwards in October and the first three weeks of November. At the end of November, the yields edged downwards, following the preliminary agreement on the Brexit in a context of increased risk aversion and volatility in equities. Thus, public debt yields in Europe fell across the board in the period between 28th September 2018 and 4th January 2019, with the exception of the Greek bond that increased 22 b.p. The 10-year Spanish bond yield stood at 1.48% on 4th January, 3 b.p. below the figure recorded at the end of September, and the German bond yield fell by 26 b.p., down to 0.21%, so the Spain-Germany differential stood at 127 b.p., 23 b.p. higher compared to the registered on 28th September. In the United States, the 10-year bond yield reached 2.66% on 4th January, 39 b.p. below the level registered at the end of September.

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

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-29-17	Sep-28-18	Jan-04-19	Variation in bp		Dec-29-17	Sep-28-18	Jan-04-19	Variation in bp	
				Period	Annual				Period	Annual
	(1)	(2)	(3)	(3)-(2)	(3)-(1)	(4)	(5)	(6)	(6)-(5)	(6)-(4)
Germany	0.43	0.47	0.21	-26	-22					
Holland	0.53	0.58	0.36	-22	-17	10	11	15	4	5
Austria	0.58	0.69	0.49	-20	-9	15	22	28	6	13
Finland	0.60	0.72	0.51	-21	-9	17	25	30	5	13
France	0.78	0.81	0.72	-9	-6	35	34	51	17	16
Belgium	0.64	0.83	0.77	-6	13	21	36	56	20	35
Ireland	0.67	1.00	0.96	-4	29	24	53	75	22	51
Spain	1.57	1.51	1.48	-3	-9	114	104	127	23	13
Portugal	1.94	1.88	1.83	-5	-11	151	141	162	21	11
Italy	2.00	3.15	2.93	-22	93	157	268	272	4	115
Greece	4.12	4.18	4.40	22	28	369	371	419	48	50

Source: Financial Times.

The stock indices decrease across the board

In the stock markets, the main indices registered significant losses in the period between the end of September 2018 and the beginning of 2019, in a context of high volatility, burdened by the uncertainty regarding the Brexit negotiations, by the continuation of trade tensions and by the downward revision of the Fed's future interest rates projections. In the European market, the Eurostoxx 50 index fell by 10.5% in that period. In the Spanish market, the IBEX 35 fell by 6.9%, standing at 8,737.80 points. In the rest of European markets, losses were also registered: -13.8% the CAC 40 in Paris, -12.1% the German DAX, -9.1% the Italian FTSE MIB and -9.0% the FTSE 100 in the United Kingdom. In the US market, the S&P 500 index fell by 13.1% in the same period.

Table 1.3. **International stock exchanges**

Countries	Indexes	Level	% Variation	
		Jan-04-19	Sep-28-18	Dec-29-17
Germany	DAX	10,767.69	-12.1	-16.6
France	CAC 40	4,737.12	-13.8	-10.8
Italy	FTSE MIB	18,831.79	-9.1	-13.8
Spain	IBEX 35	8,737.80	-6.9	-13.0
Eurozone	EUROSTOXX 50	3,041.85	-10.5	-13.2
United Kingdom	FTSE 100	6,837.42	-9.0	-11.1
United States	S&P 500	2,531.94	-13.1	-5.3
Japan	NIKKEI 225	19,561.96	-18.9	-14.1
China	SHANGHAI COMP	2,514.87	-10.9	-24.0
Mexico	IPC	42,455.13	-14.2	-14.0
Brazil	BOVESPA	91,840.79	15.8	20.2
Argentina	MERVAL	32,303.05	-3.5	7.4

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 indicators in the Eurozone and the uncertainty regarding the Brexit have strengthened the dollar exchange rate against the euro during the fourth quarter of 2018. Thus, in the period between late September 2018 and early January 2019, the euro depreciated by 1.5% against the dollar and by 6.1% against the yen and appreciated by 1.4% against the pound, trading at 1.1403dollars, 123.2 yen and 0.8999 pounds by the end of the 4th January session. In the same period, the euro depreciated by 0.9% in nominal effective terms vis-à-vis the group of industrialised countries.

The M3 broad monetary aggregate rises by 3.7% in November 2018, two tenths less than in October,...

The European Central Bank published the evolution of the monetary and credit aggregates in the Eurozone for November 2018. The M3 broad aggregate rose by 3.7% y-o-y in November, two tenths less than the figure registered in the previous month (3.9%). This evolution is due to the higher decrease in marketable instruments (-6.0%, in comparison to the -4.6% recorded in October) and the slowdown of the narrow monetary aggregate M1 as a result of the lower growth rate of overnight deposits (7.1%, compared to the 7.3% registered in October), while other short-term deposits maintain the rate of decline at -1%.

Table 1.4. **Eurozone monetary aggregates**

Monetary aggregates	November 2018 Balance (Billions €)	% Year-on-year variation		
		September 2018	October 2018	November 2018
1. Currency in circulation	1,158	4.1	4.1	4.3
2. Overnight deposits	7,091	7.3	7.3	7.1
M1 (= 1+2)	**8,249**	**6.8**	**6.8**	**6.7**
3. Other short-term deposits (= 3.1.+3.2.)	3,422	-1.4	-1.0	-1.0
3.1. Term deposits up to two years	1,127	-7.5	-6.2	-6.6
3.2. Deposits redeemable at notice up to three months	2,295	1.8	1.8	2.0
M2 (= M1+3)	**11,671**	**4.3**	**4.4**	**4.3**
4. Marketable instruments (= 4.1.+4.2.+4.3.)	634	-8.0	-4.6	-6.0
4.1. Repurchase agreements	74	2.0	-0.6	-8.1
4.2. Money market funds shares units	500	-6.7	-3.7	-3.7
4.3. Securities other than shares up to two years	60	-25.0	-14.9	-19.8
M3 (= M2+4)	**12,305**	**3.6**	**3.9**	**3.7**

Source: European Central Bank.

…and financing to the private sector in the Eurozone also moderates the growth two tenths, down to 2.8%

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, increased by 2.8% in November 2018, two tenths less than in the previous month. This evolution is due to the slight slowdown of both loans (2.7%, compared to 2.8% registered in the previous month) and securities other than shares (6.7%, in comparison to the 7.2% recorded in the previous month), and the largest decrease in shares and other equity (-2.6%, compared to the -2.3% registered in the previous month). Within the loans, those granted to households increased by 3.2%, a figure identical to the one recorded in the previous month, and those granted to non-financial corporations by 2.9%, one tenth more than in October.

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

	November 2018 Balance (Billions €)	% Year-on-year variation September 2018	October 2018	November 2018
Financing to the private sector	**13,405**	**3.0**	**3.0**	**2.8**
Loans	**11,112**	**2.9**	**2.8**	**2.7**
Households	**5,731**	**3.1**	**3.2**	**3.2**
House purchases	*4,335*	*3.2*	*3.3*	*3.3*
Consumer credit	*685*	*6.9*	*7.1*	*6.7*
Other lending	*711*	*-0.8*	*-0.7*	*-0.7*
Non-financial corporations	**4,420**	**3.2**	**2.8**	**2.9**
Insurance companies & pension funds	**121**	**11.6**	**7.3**	**5.0**
Other financial intermediaries	**840**	**-0.4**	**-0.5**	**-1.7**
Securities other than shares	**1,517**	**5.9**	**7.2**	**6.7**
Shares and other equities	**776**	**-1.1**	**-2.3**	**-2.6**

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

Financing received by households in Spain increases in November for the sixth consecutive month

On the other hand, according to the data of financing to the non-financial sectors in Spain, published by the Bank of Spain, the stock of financing to the non-financial private sector rose by 1.1% y-o-y in November, two tenths less than in October. Financing received by firms increased by 1.8%, two tenths less than in the previous month, due to the lower increase recorded by securities other than shares and foreign loans (10.3% and 3.0%, respectively, versus 11.2% and 3.7% in October), partially offset by the lower decrease in bank loans (-0.5%, compared to the -0.6% registered in the previous month). On the other hand, financing received by households increased by 0.4% in November, as in October, due to the fact that the slowdown in bank loans for purposes other than housing (5.4%, compared to the 6.2% registered in the previous month) offset the lower decrease in bank loans for housing (-1.4%, versus -1.5% in October).

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

	November 2018 Balance (Billions €)	% Year-on-year variation September 2018	October 2018	November 2018
Non-financial corporations and households	**1,606**	**0.1**	**1.3**	**1.1**
Non-financial corporations	**894**	**-0.2**	**2.0**	**1.8**
Bank loans	*491*	*-1.0*	*-0.6*	*-0.5*
Securities (1)	*104*	*9.0*	*11.2*	*10.3*
External loans	*299*	*-1.9*	*3.7*	*3.0*
Households	**713**	**0.6**	**0.4**	**0.4**
Bank loans. Housing	*522*	*-1.6*	*-1.5*	*-1.4*
Bank loans. Other	*191*	*7.2*	*6.2*	*5.4*
General Government	**-**	**3.7**	**2.7**	**-**
Total financing	**-**	**1.6**	**1.9**	**-**

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

The NPL ratio of the banking sector in Spain continues to fall, reaching record lows since 2011

According to the data published by the Bank of Spain (BoS), the NPL granted to households and companies by financial institutions operating in Spain fell down to 6.08% in October last year, 2.1 points lower than that of a year before (8.22%) and the lowest figure reached since January 2011, when it stood at 6.06%. This rate is obtained by dividing the balance of doubtful loans by the total volume of loans granted by banking entities to companies and households. The balance of doubtful loans reached € 73.9 billion in October 2018, which represents a decrease of € 29.1 billion in comparison to a year earlier (-28.2%) and € 1.1 billion compared to last September. On the other hand, the volume of loans that banks, building societies and cooperatives have granted to their customers stood at € 1.2 trillion in October, which represents a decrease of 38.0 billion compared to a year earlier (-3.0%) and an increase of € 877 million in comparison to September.

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 2.3% y-o-y in November, versus the 17.2% registered in October. This lower growth is due to the lower rise of loans granted both to non-financial corporations, 2.9% y-o-y, 18.7 points less than in October and loans granted to households (0.4% y-o-y, from the 2.8% increase recorded in October). Loans to SMEs (using as a proxy for these credits those under one million euros) rose by 1.5%, 11.2 points less than in the previous month, and those exceeding one million euros rose by 4.9% (36.4% in October).

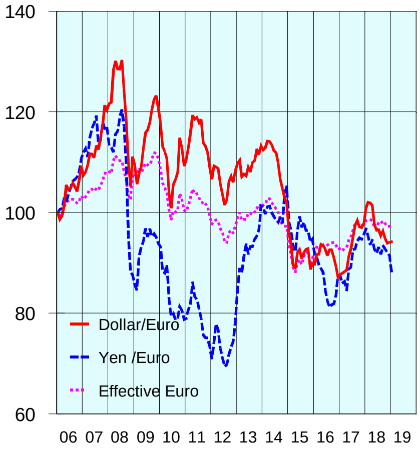
Table 1.7. **New loan and credit operations to households and non-financial corporations (1)**

	Balance November 2018 (Millions €)	% Year-on-year variation		
		September 2018	October 2018	November 2018
TOTAL	**463,399**	**9.6**	**10.3**	**9.6**
Loan and credit operations to households	**98,415**	**17.2**	**15.7**	**13.6**
House purchase	*43,848*	*14.0*	*14.8*	*15.1*
Consumer credit	*34,407*	*19.9*	*20.4*	*18.5*
Other lending	*20,160*	*19.6*	*10.3*	*3.3*
Loan and credit operations to non-financial corporations	**364,984**	**7.6**	**8.9**	**8.6**
Up to 1 million euros	*194,172*	*6.9*	*7.0*	*6.5*
Above 1 million euros	*170,812*	*8.5*	*11.1*	*11.0*

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

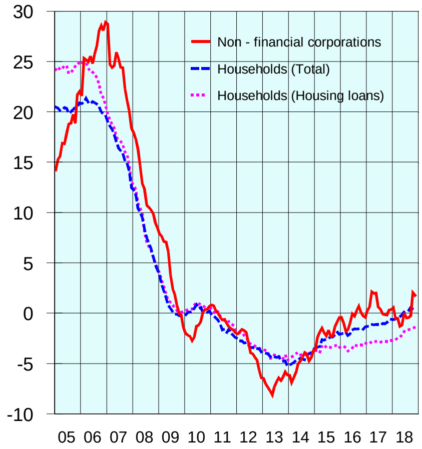
In order to facilitate the analysis, given the high volatility of these series, annual averages were calculated taking into account the last twelve months. Thus, the amount of new loan and credit operations to households, in cumulative terms for the last twelve months, increased by 13.6% y-o-y in November, compared to the 15.7% recorded in the previous month. This evolution is due to the lower growth of loans for other purposes (3.3%, compared to the 10.3% registered in the previous month) and consumption (18.5%, in comparison to the 20.4% recorded in the previous month), partially offset by the higher growth of loans for housing (from 14.8% up to 15.1%). The amount of new loans and credit operations to SMEs rose by 6.5% y-o-y, five tenths less than in the previous month, and the amount of new operations exceeding one million euros increased by 11.0%, a rate very similar to the one registered in October.

G 1.5 EXCHANGE RATES
monthly averages. January 2006 = 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

The growth of the Spanish economy remains strong in an environment characterised by the dynamism of employment and confidence of economic agents, although economic activity has moderated the growth rate slightly, as expected, partly affected by the rise in the price of oil and the lower growth of international trade.

According to the Quarterly National Accounts (QNA) 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 2.4%, one tenth less than in the previous quarter and eight tenths above the figure recorded in the Eurozone. Thus, the period between January and September 2018 ended with an average annual rate of 2.6%, half a point above the figure recorded by the Eurozone (2.1%).

With regards to its composition, domestic demand consolidates as the main economic growth driver, contributing with 3.0 percentage points to the GDP growth in the period between January and September 2018, one tenth more than in 2017, mainly boosted by the dynamism of private consumption and investment. On the other hand, the net external demand detracts four tenths from growth, due to the lower rise of the Spanish export markets.

The good performance of the most recent indicators, together with the fall in oil prices and the rise in the disposable income of households associated with some of the measures adopted by the Government, point towards the extension of the expansionary trend of the Spanish economy in the fourth quarter of 2018, recording growth rates similar or above those of the last quarters, according to the Independent Authority for Fiscal Responsibility (AIReF).

On 11th January the Council of Ministers updated the macroeconomic scenario included in the General State Budget Draft for 2019. The Government estimates that the Spanish economy will grow by 2.2% this year, a forecast one tenth lower than the one included in the Budgetary Plan of 15th October 2018, mainly due to the greater fiscal adjustment necessary to reduce the public deficit down to 1.3%.

The labour market trend is still positive and the forecast includes the creation of 800,000 jobs in 2018 and 2019 as a whole and the reduction of the unemployment rate down to 14%.

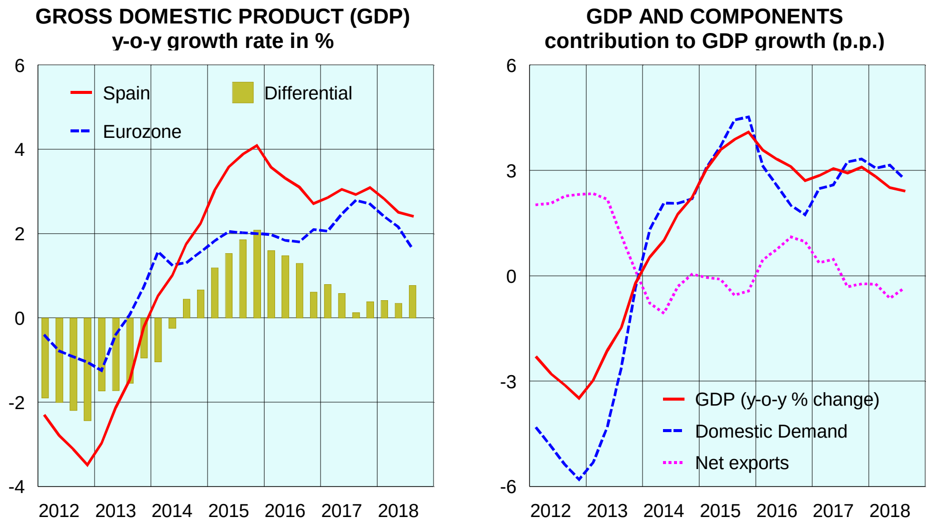
For domestic demand, a contribution to economic growth of 2.2 percentage points is estimated in 2019, while for external demand, a negative contribution of -0.1 percentage points is expected.

It is estimated that private consumption will grow by 1.7% in 2019 and that public consumption will moderate its growth, to 1.4%, due to a more restrictive fiscal policy. The dynamism of gross fixed capital formation should be noted, due to the strength of equipment investment, which is expected to grow by 5%, and investment in construction, with an estimated annual growth of 4.5%.

With regard to the external sector, exports of goods and services are expected to grow by 2.8% and imports will grow slightly above 3%.

Finally, the current account balance is expected to continue registering surplus figures and the Spanish economy will maintain net lending to the rest of the world.

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.

2.1.- Domestic Demand

Among the domestic demand components, the favourable evolution of private consumption and investment in equipment goods stands out in the first three quarters of 2018, driven by the strong employment creation and the favourable expectations and financing conditions.

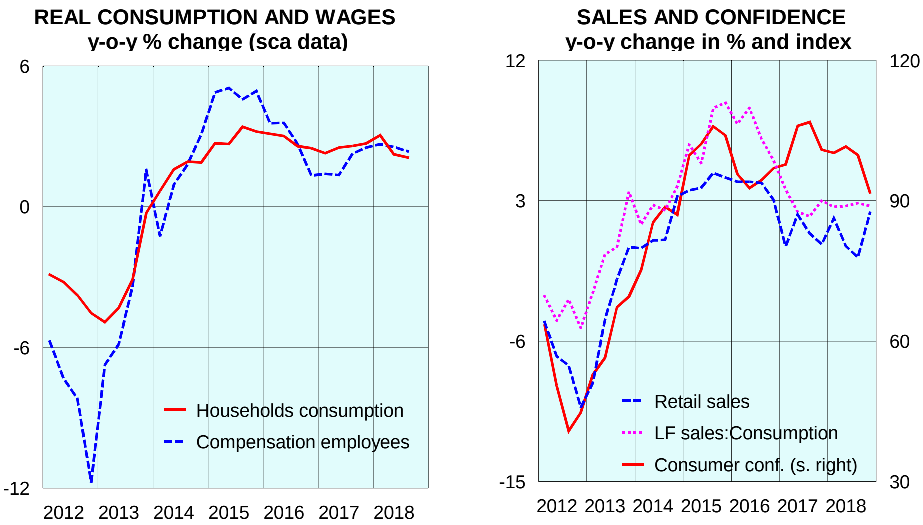
The private consumption strength continues

Private consumption expenditure has been largely favoured by the positive behaviour of employment, recording a q-o-q growth of 0.8% in the third quarter of 2018 in volume and with seasonally and calendar adjusted data. This follows the stabilisation registered in the second quarter and closes the first nine months of the year with an average annual growth of 2.5%, similar to that of 2017 as a whole.

The most recent short-term information regarding the fourth quarter of last year also shows favourable signs for private consumption, in a context of sustained progress. The rebound in the period from October to November of retail sales stands out, with a y-o-y growth of 2.2%, with deflated and work calendar adjusted data, as well as the dynamism of domestic large firms´ sales of consumer goods, with deflated, fixed-sample and calendar and seasonally adjusted data, which increased by 2.9% y-o-y in the two month period from October to November, a rate similar to the one recorded in the third quarter (3% y-o-y). On the other hand, passenger car registrations ended last year with an annual increase of 7 percent, similar to that of 2017.

Among the qualitative indicators related to private consumption, the consumer confidence indicator, published by the European Commission, worsened in December 2018, registering a balance of -8.5, after two months of improvements.

G 2.2 PRIVATE CONSUMPTION INDICATORS



Sources: INE, CIS and AEAT.

The household savings rate increases slightly, two tenths up to 5.2% of its gross disposable income

According to the Quarterly Non-Financial Accounts for the Institutional Sectors (QNFAIS), households and NPISH generated a net borrowing of € 16.3 billion in the third quarter of 2018 (€ 13.5 billion a year earlier), due to the negative savings generated by the sector and the need to finance the investment flow. The increase in nominal private consumption by 4.4% y-o-y was higher than that of gross disposable income (GDI), by 3.8%, causing a higher gross negative savings and reaching a savings rate of -1.2% of the GDI (-0.7% in the same quarter of the previous year). However, with calendar and seasonally adjusted data, the savings rate of households and NPISH increased two tenths in comparison to the previous quarter, reaching 5.2% of their GDI.

As for the final consumption expenditure of the General Government, in volume, recorded an average annual increase of 2.1% in cumulative terms for the last the first nine months of 2018, similar to the figure registered in the previous year.

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)**	**IV-17**	**I-18**	**II-18**	**III-18**	**II-18**	**III-18**
DEMAND									
Domestic consumption	2.4	2.4	2.4	2.7	2.9	2.1	2.1	0.1	0.8
- Private consumption	2.9	2.5	2.4	2.7	3.1	2.2	2.1	0.0	0.8
- Public consumption	1.0	1.9	2.1	2.6	2.2	1.9	2.1	0.2	0.8
Gross fixed capital investment	2.9	4.8	5.4	5.2	3.8	7.0	5.5	3.0	0.8
- Equipment (1)	5.1	5.7	6.2	6.7	1.6	10.0	7.0	5.8	0.8
- Construction	1.1	4.6	5.8	4.8	5.6	6.3	5.5	1.7	1.0
- Intelectual Property Products	3.6	3.5	2.4	3.1	2.9	2.5	1.8	0.4	0.4
Change in inventories (2)	-0.1	0.1	0.1	0.3	0.1	0.1	0.1	0.0	0.0
Domestic demand (2)	2.4	2.9	3.0	3.3	3.1	3.1	2.8	0.7	0.8
Exports of goods and services	5.2	5.2	2.3	4.2	3.3	2.3	1.3	0.3	-0.9
- Goods (fob)	4.1	4.7	1.9	3.9	2.6	2.1	1.0	-0.1	-0.8
- Services	7.8	6.3	3.2	4.8	5.0	2.8	2.0	1.1	-1.2
Imports of goods and services	2.9	5.6	3.8	5.4	4.4	4.6	2.5	0.7	-0.2
- Goods (fob)	1.7	5.8	2.7	5.3	3.1	3.8	1.1	0.9	-0.9
- Services	8.8	4.4	9.2	5.5	10.5	8.5	8.7	-0.1	3.1
Net foreign balance (2)	0.8	0.1	-0.4	-0.2	-0.2	-0.6	-0.4	-0.1	-0.2
GROSS VALUE ADDED									
Agriculture (3)	8.2	-0.9	1.4	0.4	2.2	3.4	-1.5	0.5	-3.4
Industry. Total	5.6	4.4	1.9	4.9	2.5	2.0	1.2	0.3	-0.2
- Manufacturing	4.7	4.4	2.1	5.4	2.7	2.5	1.0	0.6	-0.4
Construction	3.5	6.2	7.0	6.8	7.1	6.8	7.1	1.6	1.6
Services	2.1	2.5	2.5	2.5	2.6	2.4	2.6	0.6	0.8
GDP m.p.	**3.2**	**3.0**	**2.6**	**3.1**	**2.8**	**2.5**	**2.4**	**0.6**	**0.6**
GDP at current prices	3.5	4.3	3.6	4.9	4.0	3.4	3.4	1.0	0.8

(1) Equipment and cultivated assets. (2) Contribution to GDP growth (percentage points). (3) Agriculture, forestry and fishing. (4) Period January-September.
Source: INE *(CNE-2010).*

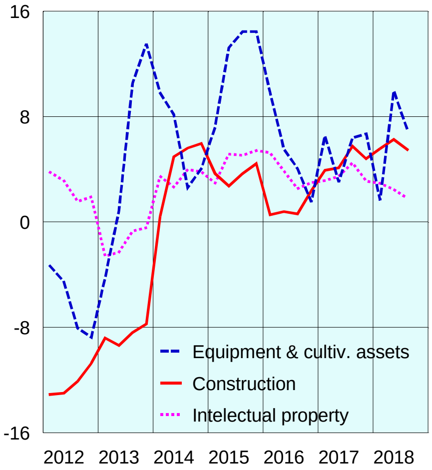
Fixed capital investment gains momentum in the first nine months of 2018

Gross fixed capital formation continues to grow at high rates, 5.5% y-o-y in the third quarter of 2018 and 5.4% in cumulative terms for the first nine months of the year, the latter rate being 0.6 points higher than the figure registered in 2017 as a whole. This evolution is mainly due to the equipment investment momentum, in an environment of favourable investment conditions characterised by low interest rates, the good stance of the final demand and the use of productive capacity.

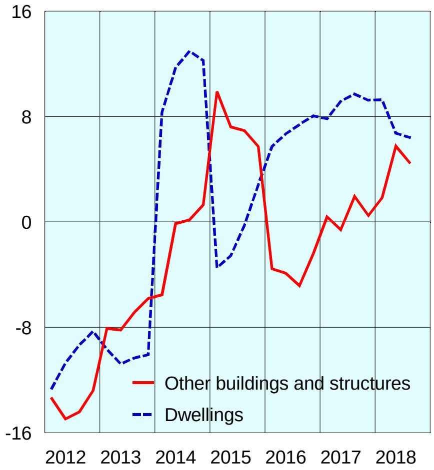
The equipment investment dynamism stands out

Investment in equipment goods rose by 7% y-o-y in the third quarter of 2018, and by 6.2% in the first nine months of that year, the latter rate being half a point higher than the one recorded in 2017. This dynamism has been favoured by the expansionary trend of domestic demand, by employment creation and by the favourable business expectations. The most recent short-term information regarding to the fourth quarter of last year also shows positive signs, in which the improvement of the industry climate in investment goods in November should be noted, for the third consecutive month, largely due to the evolution of the production expectations component. Likewise, domestic large firms´ sales of equipment and software grew by 9.4% y-o-y in November, more than double the figure of the previous month, and truck registrations rebounded by 7.1% in December, compared to the 5.6% decline registered in November

G 2.3 GROSS FIXED CAPITAL FORMATION
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.

The rebound in investment reduces the net lending of non-financial companies

In the third quarter of 2018, non-financial corporations registered net lending equal to 1.6% of the quarterly GDP, almost two points lower compared to the figure registered in the same period of the previous year (3.5% of GDP). This result is due to a decrease in the gross saving of the sector (1.8% y-o-y) and to an increase in investment (11.5%). In turn, the lower savings are explained by the increase in the net property income paid (12.7%) and net current transfers paid (13.7%), despite the fall in payments for income and wealth taxes (1.7%) and the slight increase in gross operating surplus (0.2%).

The recovery of investment in construction continues

Construction investment rose at a y-o-y rate of 5.5% in the third quarter of last year, 0.8 points lower than the previous quarter, recording an average annual increase of 5.8% in the period from January to September, 1.2 points higher than 2017 as a whole. This progress is due to the strong growth in the residential segment, which closed the first nine months of 2018 with an average annual increase of 7.5%, and, to a lesser extent, other constructions, which rose by 4%.

Table 2.2 **Domestic demand indicators**
Year-on-year change or balances in %

			2017	2018				Latest
	2017	**2018(1)**	**IV**	**I**	**II**	**III**	**IV(1)**	**Data**
Households & bussiness financing (2)	-3.3	-3.2	-3.0	-2.8	-3.8	-3.6	-2.0	Nov.18
Private Consumption								
Composite Consumption Indicator (3)	1.9	1.9	2.3	2.4	1.8	1.5	-	Q.III.18
Consumer Goods. Apparent cons. (3)	2.6	2.6	4.2	3.6	3.1	1.7	1.3	Oct.18
IPI consumer goods (adjusted)	1.0	-0.4	2.1	1.4	-1.5	-0.9	-0.3	Nov.18
Consumer goods imports (vol.)	2.5	2.5	3.7	2.3	4.2	0.8	3.4	Oct.18
Retail sales index (4)	0.9	0.8	0.3	1.9	0.2	-0.7	2.4	Nov.18
Passenger car registrations	7.7	7.0	10.6	10.5	9.7	15.9	-7.6	Dec.18
Real wages (5)	1.9	2.5	2.5	2.7	2.5	2.4	-	Q.III.18
Consumer goods. Capacity utiliz. (%)	72.2	74.8	68.3	77.2	74.6	72.9	74.5	Q.IV.18
Consumer confide. indicator (balances)	-0.7	-2.7	-1.5	-0.6	0.5	-3.3	-7.5	Dec.18
Large firms sales. Consumption (6)	2.7	2.7	3.0	2.6	2.7	2.8	2.7	Oct.18
Households financing (2)	-3.3	-2.1	-2.6	-1.9	-2.3	-2.3	-1.9	Nov.18
Equipment Investment								
Composite Equipment Indicator (3)	6.8	5.5	7.8	6.5	4.9	5.1	-	Q.III.18
Capital Goods. Apparent cons.(3)	5.5	7.9	6.4	5.8	9.4	7.6	10.5	Oct.18
IPI consumer goods (adjusted)	4.1	2.8	8.6	3.5	3.5	2.6	1.2	Nov.18
Capital goods imports (vol.)	6.4	3.0	4.3	-4.5	4.7	5.4	12.5	Oct.18
Corporations financing (2)	-5.5	-5.3	-4.4	-3.4	-6.1	-7.2	-3.8	Nov.18
Truck registrations	13.6	6.7	11.1	8.9	13.1	3.9	0.7	Dec.18
Capital goods. Capacity utilization (%)	83.7	86.5	84.6	87.1	87.8	86.2	84.9	Q.IV.18
Large firms sales. Capital (6)	3.6	4.8	5.3	8.8	1.8	4.0	4.8	Oct.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 residential investment accumulates more than three consecutive years of positive q-o-q rates, in a context where the main indicators of the real estate market prove the recovery in the sector. The number of new housing purchases accumulated a y-o-y increase of 11.5% up to November 2018, and the number of mortgages on housing an average annual increase of 10.7% up to October.

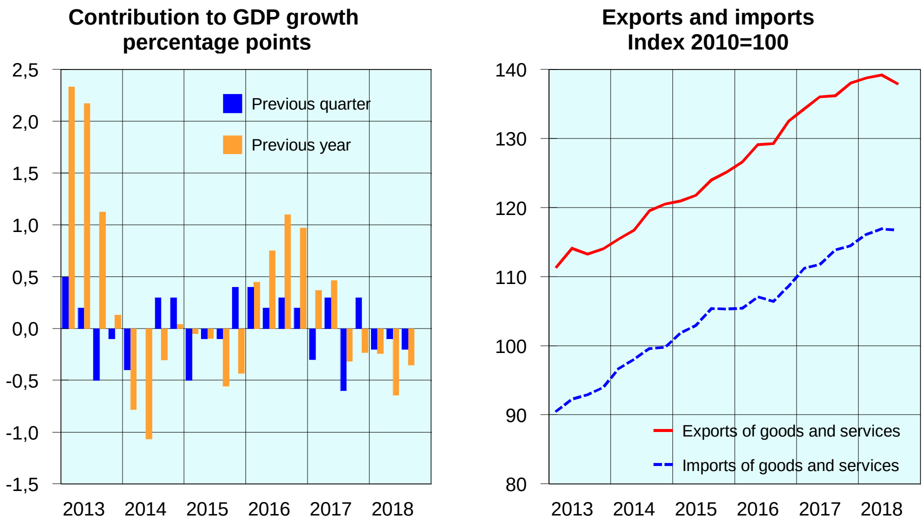
Among the construction activity leading indicators, buildable floorage in new construction stands out, which, according to construction new permits, recorded an annual increase of 24% in the first ten months of last year, a figure higher than the one recorded in the previous two years.

2.2.- External Demand

Net external demand detracts four tenths from growth up to September 2018

According to the Quarterly National Accounts figures, net external demand detracted four tenths from the y-o-y GDP variation in the third quarter of 2018, two tenths less than in the second quarter, since exports slowed down less than imports. In cumulative terms for the first three quarters of last year, net external demand detracted four tenths from the y-o-y GDP variation, both exports and imports showing a moderation in their growth rate.

G 2.5 EXTERNAL SECTOR



Source: INE.

In y-o-y terms, exports of goods and services rose by 1.3% in the third quarter of 2018, versus the 2.3% recorded in the second quarter, registering rises of 1% in goods and 2% in services, compared to the rates of 2.1% and 2.8%, respectively, recorded in the previous period. The cumulative figures recorded up to September rose by 2.3% in annual average (5.2% in 2017), in a context of lower economic growth of Spain's major trading partners.

On the other hand, the y-o-y appreciation of the nominal effective exchange rate of the euro in the third quarter of 2018 slowed to some extent the competitiveness of the Spanish economy, which worsened slightly despite the contained progress in prices. In fact, according to the competitiveness trend index prepared by the Secretary of State for Trade, the prices evolution in Spain was more moderate than in the OECD and the BRICS countries, for example. This fall in Spain's relative prices has partially offset the appreciation of the exchange rate of the euro against the currencies of these economies.

Indeed, in the third quarter of 2018, the competitiveness trend index, based on consumer prices against the developed countries, recorded a loss of competitiveness of 1% y-o-y, due to the 1.2% appreciation of the nominal effective exchange rate, while relative prices fell by 0.2%. Regarding the European Union, a competitiveness loss of 0.4% was recorded, as a result of the increase in relative consumer prices index (0.1%) and the appreciation of the nominal effective exchange rate (0.3%). Finally, a competitiveness loss of 3.5% with regards to the BRICS countries was recorded, continuing the trend started a year ago, due to the appreciation of the nominal exchange rate index (4.1%), partially offset by the 0.6% decrease in the relative price index.

Real exports of goods to the European Union and the Eurozone grow at rates close to 3%

By geographic destination, according to Customs data, in the third quarter of 2018, exports of goods in volume to the European Union (EU) and the Eurozone, in y-o-y terms, rose by 2.9% and 2.7% respectively, after registering rates of 1% and 0.4% in the previous quarter. The nominal sales growth to France, Portugal, Benelux and Italy, and the decline of those to Germany stood out. In October, real exports to the EU and the Eurozone rebounded after the falls registered in the previous month, recording y-o-y rates of 6.8% and 8.1%, respectively. On the other hand, exports to the rest of the world intensified the fall in the third quarter, down to -3.7%, after the virtual stabilisation registered in the previous quarter (-0.2%), but recovered in October, registering a y-o-y rate of 1.2%.

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

	Weight in Total	**Year-on-year change (%)**				**Contribution to growth**			
	2017	**2018**				**2018**			
		I	**II**	**III**	**Oct.**	**I**	**II**	**III**	**Oct.**
Total exports	**100.0**	**-0.4**	**0.6**	**0.5**	**4.8**	**-0.4**	**0.6**	**0.5**	**4.8**
Consumer goods	*38.2*	*-0.2*	*2.3*	*-2.6*	*1.0*	*-0.1*	*0.8*	*-0.8*	*0.3*
Foods	13.9	1.6	1.0	0.8	1.2	0.2	0.1	0.1	0.1
Others goods	24.4	-1.2	2.9	-4.6	0.9	-0.3	0.6	-1.0	0.2
Cars	11.4	-5.1	4.8	-8.0	0.8	-0.5	0.5	-0.6	0.1
Capital goods	*8.7*	*-2.3*	*-8.8*	*-5.6*	*3.6*	*-0.2*	*-1.0*	*-0.6*	*0.4*
Excl. heavy trans. equipment	8.5	-0.6	-6.6	-4.6	2.4	-0.1	-0.7	-0.5	0.2
Intermediate goods	*53.1*	*-0.3*	*1.0*	*3.5*	*7.5*	*-0.2*	*0.6*	*2.0*	*4.2*
Energy	4.2	14.6	-7.7	12.6	14.8	0.5	-0.3	0.5	0.7
Non-energy	48.9	-1.3	1.7	2.8	6.9	-0.7	0.9	1.5	3.6
Total imports	**100.0**	**0.4**	**4.2**	**-0.6**	**5.9**	**0.4**	**4.2**	**-0.6**	**5.9**
Consumer goods	*28.2*	*2.3*	*4.2*	*0.8*	*3.4*	*0.6*	*1.0*	*0.2*	*0.9*
Foods	7.2	1.7	5.1	1.3	3.4	0.1	0.3	0.1	0.2
Others goods	21.0	2.5	3.8	0.6	3.3	0.5	0.7	0.1	0.6
Cars	5.9	6.0	10.5	-5.6	1.9	0.3	0.5	-0.2	0.1
Capital goods	*8.6*	*-4.5*	*4.7*	*5.4*	*12.5*	*-0.4*	*0.5*	*0.5*	*1.3*
Excl. heavy trans. equipment	8.4	-1.2	8.1	5.4	10.8	-0.1	0.8	0.5	1.1
Intermediate goods	*63.2*	*0.1*	*4.2*	*-2.0*	*6.2*	*0.1*	*2.7*	*-1.3*	*4.0*
Energy	13.3	-1.9	-2.1	0.6	29.3	-0.3	-0.3	0.1	3.3
Non- energy	49.9	0.6	5.6	-2.7	1.3	0.3	3.0	-1.4	0.7

Sources: Customs and SGCPE.

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

	Weight in Total	Year-on-year change (%)				Contribution to growth			
	2017	2018				2018			
		I	II	III	Oct.	I	II	III	Oct.
Total exports	**100.0**	**-0.4**	**0.6**	**0.5**	**4.8**	**-0.4**	**0.6**	**0.5**	**4.8**
EU	*65.7*	*0.5*	*1.0*	*2.9*	*6.8*	*0.3*	*0.6*	*1.9*	*4.3*
Euro-area	51.6	0.2	0.4	2.7	8.1	0.1	0.2	1.3	4.0
Non-EU	*34.3*	*-2.0*	*-0.2*	*-3.7*	*1.2*	*-0.7*	*-0.1*	*-1.4*	*0.4*
USA	4.5	-6.4	-0.6	-1.8	7.8	-0.3	0.0	-0.1	0.3
Latin America	5.6	0.6	-3.0	-10.3	-6.6	0.0	-0.2	-0.7	-0.4
China	2.3	-0.8	-8.5	-0.3	-0.4	0.0	-0.2	0.0	0.0
Other countries (1)	10.6	3.3	3.0	-11.4	-4.3	0.3	0.3	-1.3	-0.5
Total imports	**100.0**	**0.4**	**4.2**	**-0.6**	**5.9**	**0.4**	**4.2**	**-0.6**	**5.9**
EU	*54.9*	*-1.9*	*4.6*	*-0.1*	*2.8*	*-1.1*	*2.7*	*0.0*	*1.6*
Euro-area	44.4	-0.7	3.9	-0.6	3.0	-0.3	1.7	-0.3	1.3
Non-EU	*45.1*	*3.5*	*3.7*	*-1.1*	*10.1*	*1.5*	*1.6*	*-0.5*	*4.4*
USA	4.6	-11.3	1.5	-8.9	-3.6	-0.6	0.1	-0.5	-0.2
Latin America	5.8	-2.2	11.8	-0.3	-9.6	-0.1	0.6	0.0	-0.6
China	8.5	7.7	-9.1	-4.3	3.4	0.6	-0.7	-0.4	0.3
Other countries (1)	10.8	9.4	12.8	4.0	18.5	0.9	1.2	0.4	1.7

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

Imports lose momentum, in line with the evolution of final demand

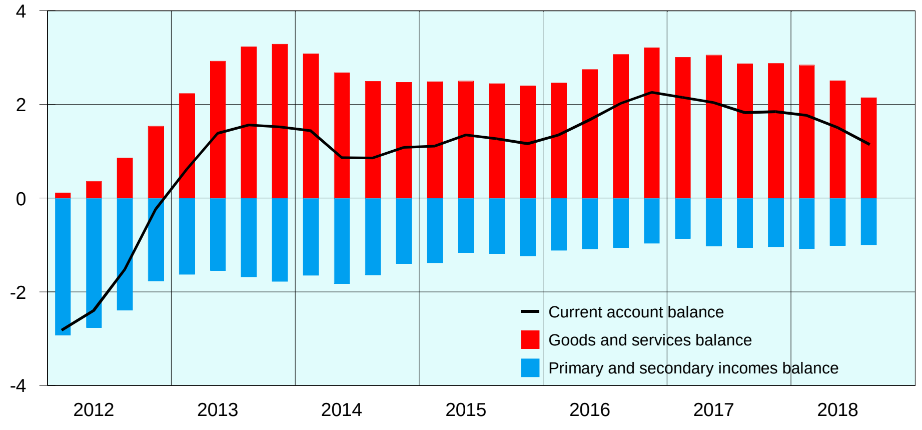
Furthermore, goods and services imports, in real terms and according to QNA figures, increased 2.5% y-o-y in the third quarter of last year, 2.1 points less than in the second quarter, therefore, in cumulative terms for the first three quarters of 2018 increased by 3.8%, almost two points less than in 2017, in line with the evolution of final demand.

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

According to the Balance of Payments data, in the last four quarters, up to September 2018, the Spanish economy generated net lending to the rest of the world equal to 1.4% of GDP, six tenths lower than in the same period of 2017.

This moderation in the net lending of the Spanish economy is explained by the lower current account surplus and, in particular, by the lower balance of goods and services, which stands at 2.1% of GDP, in comparison to the 2.9% recorded in the same period of 2017. On the other hand, the balances of primary and secondary income and of capital remained similar to those of a year earlier.

G 2.6 CURRENT ACCOUNT BALANCE
4-quarter cumulated. Percentage of GDP



Sources: Banco de España and SGCPE.

2.3. Productive Activity

The main productive sectors contribute to growth

From the supply point of view, the main branches of activity positively contributed to GDP growth in the first nine months of 2018, with the largest increase corresponding to construction, whose Gross Value Added (GVA) increased by 7% in y-o-y terms, followed by services, with a rate of 2.5%, industry, which grew by 1.9% and the primary sector, by 1.4%. On the other hand, full-time equivalent employment grew in the main non-agricultural branches by rates similar to those of activity, except in construction, where it grew at a higher rate (8.5%).

Industrial activity indicators extend, in general, the expansionary trend

From the supply point of view, the most recent indicators related to industry extend the expansionary trend. The Turnover Index in Industry (ICNI) and the Industry New Orders Index (INOI), leading indicator of activity in the branch, showed a favourable behaviour, rebounding in October up to y-o-y rates of 4.8% and 5.8%, respectively, and recording annual average rates close to 5% in the first ten months of last year. On the other hand, the Industrial Production Index (IPI) fell by 2.6% in November in y-o-y terms, after the slight 0.7% increase registered in the previous month, closing the first eleven months of the year with an annual increase of 1%. By destination groups, all of its components, especially energy, contributed to the IPI fall in November.

Likewise, qualitative indicators of the industry activity have registered a positive evolution. According to Markit, the Manufacturing PMI for Spain registered in December an expansionary trend, above that of the Eurozone, closing the last quarter at 51.8, slightly lower than in the previous quarter. In the same vein, the Industrial Confidence indicator, published by the European Commission, increased seven tenths in the fourth quarter, due to the more favourable performance of the production expectations and the level of stocks components.

Table 2.5 **Employment and productivity**

Year-on-year change (%)

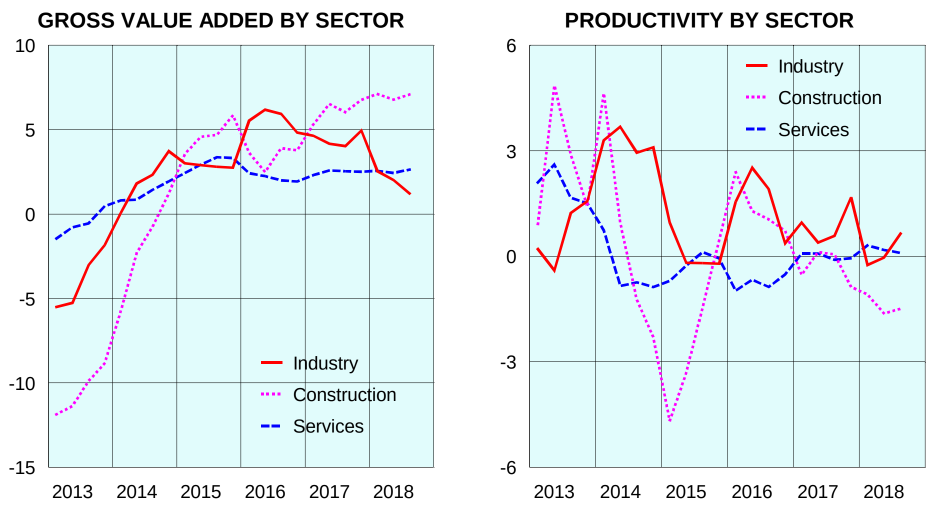
				2017			2018		
	2016	**2017**	**2018(4)**	**II**	**III**	**IV**	**I**	**II**	**III**
EMPLOYMENT (1)									
Agriculture (2)	3.8	2.5	-0.9	3.8	2.0	0.6	-0.4	-1.1	-1.4
Industry total	4.0	3.5	1.8	3.8	3.4	3.2	2.8	2.1	0.6
Manufacturing	4.2	3.8	2.0	4.0	3.7	3.6	3.1	2.3	0.6
Construction	2.1	6.5	8.5	6.4	6.0	7.7	8.3	8.6	8.7
Services	2.9	2.5	2.3	2.5	2.6	2.6	2.2	2.2	2.5
Total	3.0	2.9	2.5	2.9	2.9	2.9	2.6	2.5	2.5
PRODUCTIVITY (3)									
Agriculture (2)	4.2	-3.3	2.3	-6.1	-2.8	-0.2	2.5	4.6	-0.1
Industry total	1.6	0.9	0.1	0.4	0.6	1.7	-0.2	0.0	0.6
Manufacturing	0.4	0.5	0.1	-0.3	0.8	1.7	-0.3	0.1	0.4
Construction	1.4	-0.3	-1.4	0.1	0.0	-0.9	-1.1	-1.6	-1.5
Services	-0.8	0.0	0.2	0.1	-0.1	-0.1	0.3	0.2	0.1
GDP per employee	0.1	0.1	0.1	0.1	0.0	0.2	0.3	0.0	-0.1

(1) Full-time equivalent jobs. National Accounts. (2) Agriculture, forestry and fishing. (3) GVA per employee (adjusted series and full-time equivalent jobs). (4) Period January-September.
Source: INE *(CNE-2010).*

The construction sector registers and expansionary trend

In the construction sector, available short-term indicators show the extension of the expansionary trend. The Production Index in the Construction Industry (PICI), published by Eurostat, deflated and with calendar adjusted data, rose by 1.9% in annual average in the first ten months of 2018, after the null variation of the same period of 2017. On the other hand, according to construction new permits, buildable floorage in new construction registered an average annual growth of 24% in that period, more than two points higher in comparison to the figure recorded in the previous year.

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



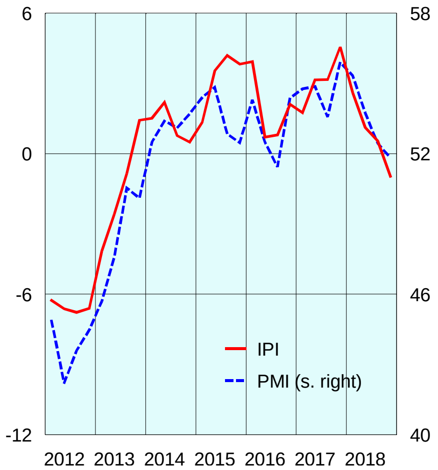
Source: INE *(QNA-2010)*, seasonally and calendar adjusted data.

Confidence in the sector, according to the European Commission indicator, improved 6.7 points in the fourth quarter of last year compared to the third, due to the improvement of its two components, the order portfolio and expectations related to employment in the sector.

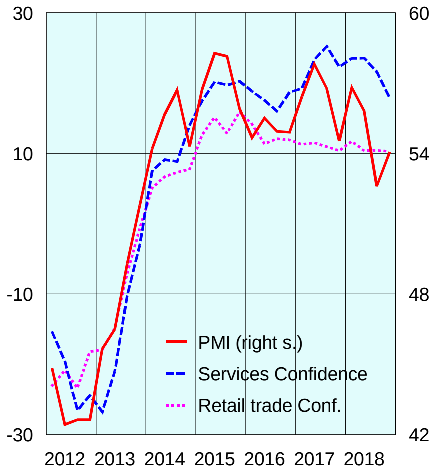
Activity in the services sector remains strong, and the dynamism of the trade sector stands out

With regards to the services sector, activity continues registering a strong growth. The Services Sector Turnover Index (SSTI), with work calendar adjusted data, increased by 6.3% in annual average in the first ten months of 2018, in which a 6.7% growth corresponded to the trade sector, almost one point higher than that of other services. Among the qualitative indicators, the Services PMI maintained in December 2018 the rate of progress, ending the fourth quarter of 2018 with an average level of 54, 1.4 points higher than in the third quarter and 1.2 points higher than the figure registered by the Eurozone.

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



G 2.9 SERVICES ACTIVITY INDICATORS
balances in % and index



Sources: INE, CE and Markit Group.

Tourism gains momentum in the last months of 2018

Among the tourism indicators, the arrival of 4.6 million international tourists to Spain in November stands out, a figure 3.6% higher than the one recorded a year earlier, according to the Survey of Tourist Movements on Border, exceeding, in cumulative terms for the first eleven months of last year, the figure of 78 million, 0.7% above the one registered in the previous year.

In the same vein, air passenger traffic accelerated four tenths in November up to a y-o-y rate of 6.9%, the highest of the last eight months, as a result of international traffic. Similarly, overnight stays in hotels increased in that month at a y-o-y rate of 4%, more than three points higher compared to the figure registered in October. This improvement is basically due to overnight stays by foreigners.

Table 2.6 **Activity and Production Indicators**

Year-on-year change or balances in %

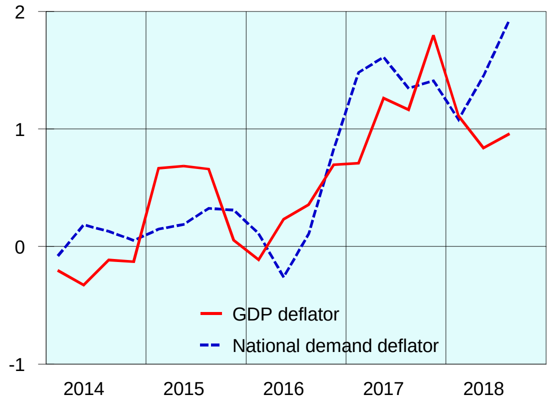
INDICATORS	2017	2018(1)	2017 IV	2018 I	2018 II	2018 III	2018 IV(1)	Latest data
Composite Activity Indicator (2)	3.1	2.7	2.9	2.9	2.7	2.5	-	Q.III.18
Electric power consumption (3)	1.8	0.3	3.0	1.8	-0.2	1.5	-2.1	Dec.18
Non energy imports (vol.)	3.9	1.9	4.0	0.7	5.1	-0.8	3.0	Oct.18
Economic Sentiment Indicator (90-17=100)	108.6	108.2	110.1	110.0	109.8	106.7	106.2	Dec.18
Large Firms Sales (4)	3.7	3.2	3.7	3.4	3.2	3.0	3.2	Oct.18
Large Firms Sales. Domestic (4)	3.1	2.9	3.4	3.0	2.7	2.9	3.3	Oct.18
Industry								
Composite Industry Indicador (2)	3.9	2.7	4.2	3.0	3.0	2.3	-	Q.III.18
IPI calendar adjusted	3.2	0.9	5.2	2.7	0.9	0.3	-0.9	Nov.18
Large Firms Sales. Industry (4)	2.3	1.6	3.7	1.7	1.3	1.8	1.8	Oct.18
Industry goods Exports (vol.)	5.3	-1.8	6.3	-0.9	-1.0	-5.0	1.9	Oct.18
Employment (LFS)	5.0	3.1	5.1	4.1	3.3	2.1	-	Q.III.18
Social Security covered workers (5)	3.1	2.7	3.2	3.3	3.0	2.6	2.2	Dec.18
Industry confidence indicator (balances)	1.0	-0.1	4.3	2.8	1.2	-2.6	-1.9	Dec.18
Industry capacity utilization %	78.7	79.5	79.1	79.7	80.3	79.3	78.6	Q.IV.18
Construction								
Composite Construction Indicator (2)	3.3	4.4	3.9	5.5	4.1	3.7	-	Q.III.18
Production in Construction Index (ca)	-1.4	1.9	-4.9	6.0	1.4	-0.6	-1.1	Oct.18
Large Firms Sales.Construction (4)	0.6	3.9	1.9	3.6	3.4	5.2	2.3	Oct.18
Employment (LFS)	5.1	7.1	6.0	6.5	7.2	7.4	-	Q.III.18
Social Security covered workers (5)	6.2	6.7	7.1	6.8	6.6	7.0	6.5	Dec.18
Official bidding (at current prices)	38.0	-4.6	107.0	77.5	-54.8	-8.7	-33.6	Oct.18
Floorage approvals: total	21.8	24.0	24.5	19.1	31.1	27.0	11.0	Oct.18
Floorage approvals: housing	24.8	22.9	24.8	18.9	23.5	32.7	8.0	Oct.18
Construction confidence indicator (balances)	-26.9	-4.6	-15.7	-4.3	-4.1	-8.3	-1.6	Dec.18
Mortgages. Amount borrowed	14.3	10.1	15.4	3.6	12.3	13.3	13.9	Oct.18
Housing Prices	6.2	6.7	7.2	6.2	6.8	7.2	-	Q.III.18
Services								
Composite Services Indicator (2)	3.7	3.1	3.3	3.3	3.1	2.9	-	Q.III.18
Large Firms Sales. Services (4)	3.6	3.3	3.5	3.6	3.2	3.0	3.5	Oct.18
Railway passengers	3.0	3.4	2.5	2.3	3.1	3.4	5.3	Nov.18
Railway traffic goods (Tm per km)	0.7	-4.2	-1.4	-9.2	-4.5	-1.9	0.5	Nov.18
Air traffic passengers	8.3	5.7	8.0	9.8	4.8	3.7	6.7	Nov.18
Hotel overnight stays	2.8	-0.2	1.4	3.5	-2.3	-1.0	1.9	Nov.18
Foreign tourists	8.7	0.7	2.7	6.0	-0.5	-2.2	4.5	Nov.18
Employment (LFS)	1.9	2.3	2.1	2.0	2.6	2.4	-	Q.III.18
Social Security covered workers (5)	3.6	3.1	3.6	3.5	3.1	2.9	3.0	Dec.18
Services confidence indicator (balances)	22.5	21.7	22.3	23.5	23.5	21.6	18.0	Dec.18
Retail trade confidence indicator (balances)	11.0	10.7	10.4	11.7	10.4	10.4	10.3	Dec.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.

3.- PRICES

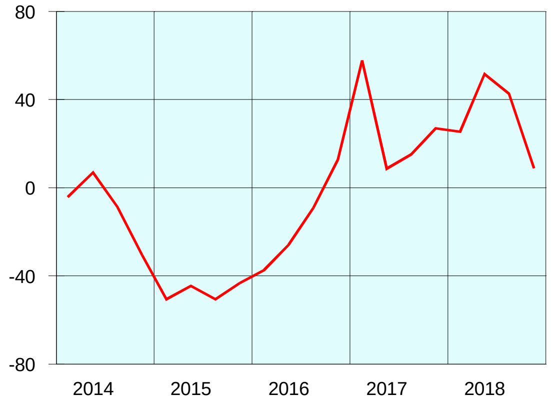
The prices evolution of the economy as a whole, measured by the y-o-y rate of the GDP deflator, increased two tenths in the third quarter of 2018, in comparison to the previous quarter, up to 1%, after two quarters recording declines. This slight acceleration is mainly explained by private consumption prices.

G 3.1 PRICE DEFLATORS
y-o-y (%)



Source: own elaboration from CNTR (INE).

G 3.2 BRENT OIL PRICE
y-o-y (%), euros, quarterly

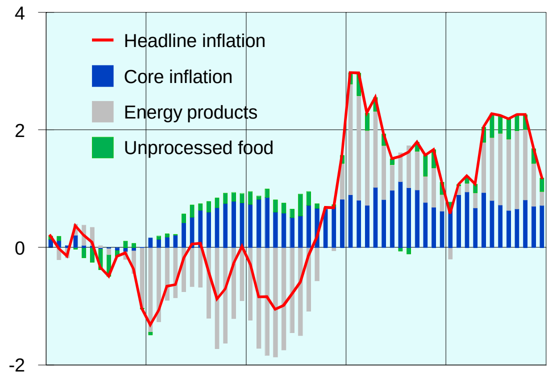


Source: own elaboration from Reuters

Inflation drops half a point in December 2018, down to 1.2%

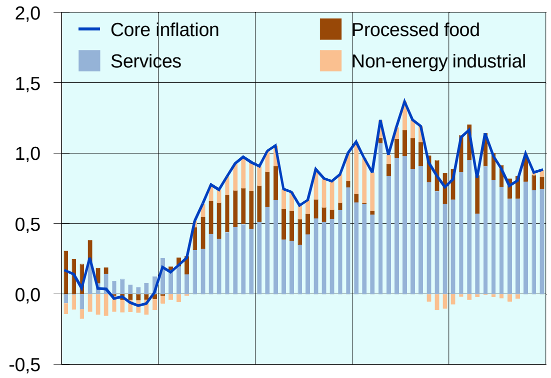
Inflation, measured by the y-o-y variation of the general CPI, registered a growing trend in the first ten months of 2018, going from y-o-y rates close to 1% at the beginning of the year to rates above 2% in the period between May and October. This evolution responds almost entirely to the energy component, especially fuels and lubricant prices. Thus, core inflation, which excludes the most volatile elements from the CPI, among them energy, remained stable at approximately 1% for the third consecutive year.

G 3.3 HEADLINE INFLATION
y-o-y growth rate (%) and contributions (pp)



Source: own elaboration from INE.

G 3.4 CORE INFLATION
y-o-y growth rate (%) and contributions (pp)



Source: own elaboration from INE.

In November 2018, the more moderate increase in energy prices derived from the oil price reduction, explains almost entirely the six tenth fall recorded by the inflation rate, standing at 1.7%. This trend continued in December, with inflation falling an additional half a point, down to 1.2%.

Table 3.1 **Price indicators**

(% y-o-y change)

	Annual data			Quarterly data					
	2016	2017	2018 (1)	17-II	17-III	17-IV	18-I	18-II	18-III
Deflators (QNA-CNTR)									
GDP deflator	0.3	1.2	1.0	1.3	1.2	1.8	1.1	0.8	1,0
National demand deflator	0.2	1.5	1.5	1.6	1.3	1.4	1.1	1.5	1.9
Private consumption deflator	0.0	1.6	1.5	1.9	1.4	1.4	1.0	1.5	2,0
Public consumption deflator	0.1	0.2	0.8	0.0	0.3	0.2	0.3	1.0	1,1
GFCF deflator	1.0	2.1	1.9	2.3	2.3	2.6	2.0	1.6	2.1
Export deflator	-1.1	2.7	1.1	3.2	1.9	2.1	0.3	1.1	2,0
Import deflator	-1.6	3.5	2.7	4.5	2.6	1.0	0.1	3.0	5.1

	Annual data			Monthly data				
	2016	2017	2018 (1)	18-aug	18-sep	18-oct	18-nov	18-dec
Consumer Price Index (IPC)								
General	-0.2	2.0	1.7	2.2	2.3	2.3	1.7	1.2
Energy products	-8.6	8.0	6.1	11.1	12.0	10.7	6.4	2.1
Fuels and lubricants	-7.1	7.3	7.8	13.0	12.3	13.2	7.6	-0.1
Electricity	-9.8	9.7	2.5	10.8	13.7	3.8	0.3	0.5
Unprocessed food	2.3	2.6	3.1	4.6	3.7	3.5	3.5	3.2
Fresh fruit	5.5	0.9	7.8	17.3	11.9	7.0	4.5	5.9
Fresh vegetables	0.0	7.4	-0.1	0.6	-1.0	2.6	6.5	2.7
Core	0.8	1.1	0.9	0.8	0.8	1.0	0.9	0.9
Processed food	0.8	0.7	1.0	0.7	0.8	1.0	0.6	0.5
Non-energy industrial goods	0.5	0.2	0.0	-0.1	-0.1	0.1	0.1	0.2
Services	1.1	1.6	1.5	1.3	1.3	1.6	1.5	1.5
Package holidays	-1.3	7.0	-0.2	-4.4	-4.7	1.0	-0.4	0.6
Passenger transport by air	-3.7	3.6	-1.6	-5.0	-10.0	-1.4	-8.2	-6.6
Restaurants	1.0	1.5	1.8	1.8	1.8	1.7	1.8	1.8
Rentals for housing	-0.1	0.4	1.3	1.3	1.4	1.4	1.5	1.5
Dif. HICP Spain-euro area (2)								
Overall inflation differential	-0.5	0.5	0.0	0.2	0.2	0.1	-0.2	-
Core inflation differential	-0.1	0.0	-0.1	-0.3	-0.2	-0.1	-0.1	-

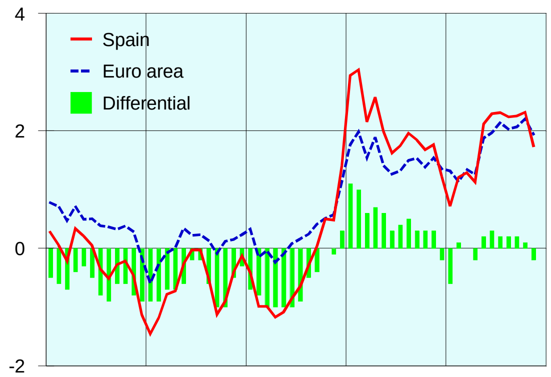
(1) Average of available period.
(2) HICP: Harmonised Index of Consumer Prices (last month available for euro area: November).
Source: INE (CNTR and IPC) and Eurostat (HICP).

The year 2018 as a whole ended with an average annual inflation of 1.7%, three tenths lower than in 2017, due to lower growth in energy prices (6.1% compared to the 8% registered in 2017) and, to a lesser extent, to the moderation of the non-energy industrial goods and services prices, with core inflation standing at 0.9%, two tenths lower than the previous year.

Inflation in Spain stands below that of the Eurozone

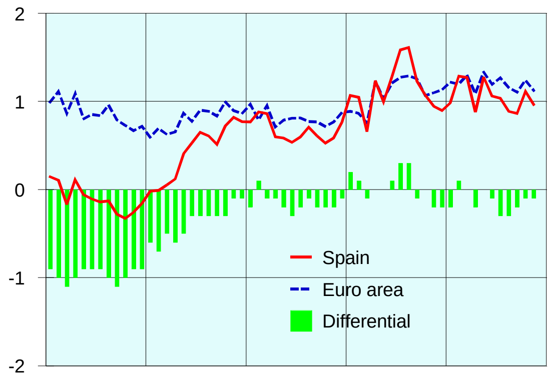
Harmonised inflation in Spain also fell by half a point in December, down to 1.2%, standing four tenths below the rate advanced by Eurostat for the Eurozone (1.6%), closing the year with an annual average variation rate of 1.7%, matching that of the Eurozone, with provisional data. For its part, the Spanish harmonised core inflation remained at 1% y-o-y in December, resulting in a differential of -0.1 p.p. compared to the one registered by the Eurozone. In 2018 as a whole, the harmonised core inflation stood at 1%, two tenths below that of the Eurozone, with provisional data.

G 3.5 HEADLINE HICP
y-o-y growth rate (%) and differential (pp)



Sources: INE and Eurostat.
N. B: data to nov-18, last month for euro area.

G 3.6 CORE HICP
y-o-y growth rate (%) and differential (pp)



Source: own elaboration from INE and Eurostat.
N. B: data to nov-2018, last month for euro area.

Finally, production prices, measured by the Producer Price Index (PPI), slowed down in November, 1.6 points, to 3% y-o-y, mainly due to the evolution of oil refining prices, in line with crude oil and production, transport and distribution of electricity prices. The non-energy PPI moderated its y-o-y rate one tenth, reaching 0.9%.

4.- LABOUR MARKET

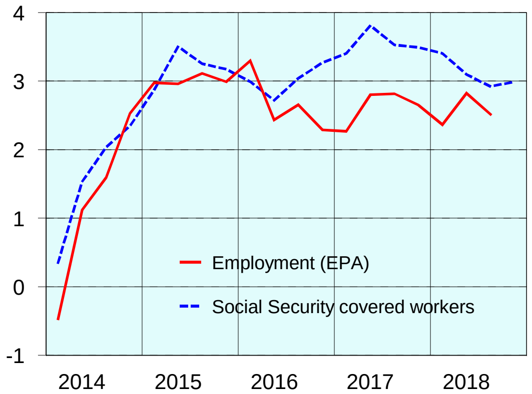
With regards to the labour market, the process of intense job creation continued in 2018, as shown by the employment figures of the Labour Force Survey (LFS) and Social Security covered workers. In the year as a whole, the number of Social Security covered workers grew by 3.1% in annual average, which means four consecutive years of growth exceeding 3%.

Employment creation concentrates in the private sector

The increase in employment mainly occurred in the private sector and, in particular, in the service sector. Thus, private employment increased by 373,200 people in the third quarter of 2018 compared to the same period of the previous year, 2.3% y-o-y, and public employment by 105,400, 3.4%. By sectors, the rise in employment affected all non-agricultural sectors, mainly services, which rose by 346,900 employed persons (2.4%), followed by construction, which recorded an increase of 85,600 employed persons (7.4%) and industry, with 55,000 more employed people (2.1%).

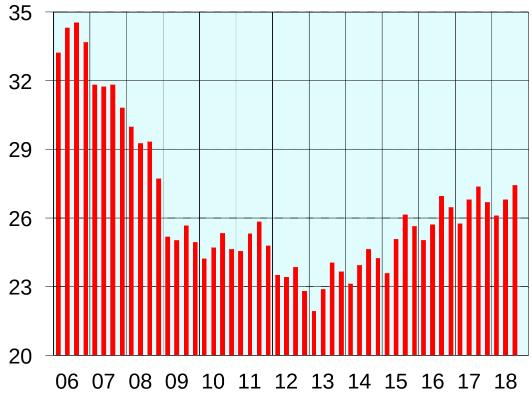
By type of contract, the temporary rate reached 27.4% of the employees in the third quarter of the year (16.3% in the Eurozone, in the second quarter of 2018), six tenths higher than the one registered in the second quarter and similar to the one recorded a year earlier, as a result of the 3.2% increase recorded by permanent employees (374,100 people more) and the 3.5% by temporary ones (152,800 more).

G 4.1 EMPLOYMENT (EPA and Social Security)
% y-o-y change



Source: EPA (INE) and Seguridad Social.

G 4.2 TEMPORARY EMPLOYMENT RATE
% wage earners



Source: EPA (INE).

The quality of the employment created improves

Regarding working hours, full-time employment, according to the Labour Force Survey, increased by 3% y-o-y in the third quarter, while part-time employment decreased by 0.4%, with the partiality rate standing at 13.9%, four tenths below that of a year earlier.

The partiality rate reduction is entirely due to the moderation of involuntary partiality (that is, the one referring to those who 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. This percentage is 3.7 points lower than a year earlier.

The figures registered by the Social Security confirm the positive trend of employment. In 2018 as a whole, the number of permanent contracts signed increased significantly (18.4% more than in 2017), although most contracts are still temporary contracts (approximately 90% of the contracts signed in 2018).

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

Regarding unemployment, the total number of unemployed people stood at 3.3 million in the third quarter of 2018, according to the Labour Force Survey. This figure is 405,700 lower than the one registered a year earlier. This evolution is in line with that of registered unemployment, which has fallen by 6.5% in 2018 as a whole. The unemployment rate stood at 14.6% of the labour force, almost two points below the one recorded a year earlier. It is the lowest unemployment rate registered since the end of 2008.

The youth unemployment rate (33% of the labour force in the third quarter of 2018 compared to the 36% recorded a year earlier) and the percentage of unemployed people who have been looking for a job for a year or more over the total of unemployed people (48.1% of the total unemployed in the third quarter of 2018, compared to the 50.7% recorded in the third quarter of 2017), also show a progressive reduction.

Table 4.1 **Labour market indicators**

	Annual data		*Quarterly data*				
	Change		Y-o-y change				Level
	(%)		(%)			(Thousands)	(Thousands)
	2017	2018 (1)	18-II	18-III	18-IV	18-III	18-III
QNA-CNTR (2)							
Employment	2.6	2.1	2.2	2.0	-	388.4	19968.6
Hours actually worked	1.9	2.7	3.0	2.9	-	240091.0	8517248.1
Full-time equivalent employment	2.9	2.5	2.5	2.5	-	449.8	18477.1
Agriculture	2.5	-0.9	-1.1	-1.4	-	-10.3	734.8
Industry	3.5	1.8	2.1	0.6	-	13.3	2351.9
Construction	6.5	8.5	8.6	8.7	-	94.7	1183.3
Services	2.5	2.3	2.2	2.5	-	352.0	14207.1
Employees	2.9	2.7	2.8	2.7	-	456.7	17504.0
EPA							
Employment	2.6	2.6	2.8	2.5	-	478.8	19528.0
Full-time	2.9	3.1	3.1	3.0	-	490.8	16814.2
Part-time	1.0	-0.5	1.0	-0.4	-	-12.0	2713.8
Part-time rate (3)	-0.2	-0.5	-0.3	-0.4	-	-	13.9
Actual hours worked per worker	-0.5	0.7	1.9	0.8	-	0.3	37.8
Employees	3.2	3.3	3.6	3.3	-	526.9	16433.6
Permanent	2.3	3.1	3.6	3.2	-	374.1	11925.7
Temporary	5.6	3.8	3.6	3.5	-	152.8	4507.9
Temporary employment rate (3)	0.6	0.1	0.0	0.1	-	-	27.4
Unemployment	-12.6	-10.8	-10.8	-10.9	-	-405.7	3326.0
Unemployment rate (3)	-2.4	-1.9	-1.9	-1.8	-	-	14.6
Active population	-0.4	0.2	0.5	0.3	-	73.1	22854.0
Activity rate (3)	-0.4	-0.2	0.0	-0.2	-	-	58.7
Social Security covered workers							
Total	3.6	3.1	3.1	2.9	3.0	536.7	18915.1
Registered unemployment							
Total	-9.3	-6.5	-6.2	-6.0	-6.2	-202.9	3173.2

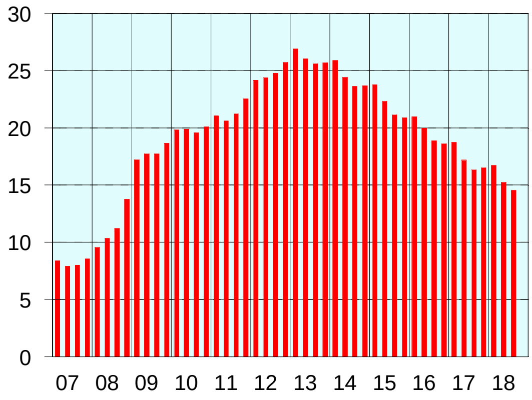
	Monthly data						
	Y-o-y change						Level
	(%)					(Thousands)	(Thousands)
	18-aug	18-sep	18-oct	18-nov	18-dec	18-dec	18-dec
Social Security covered workers							
Total	2.9	2.9	3.1	2.9	3.1	564.0	19024.2
Registered unemployment							
Total	-5.9	-6.1	-6.1	-6.4	-6.2	-210.5	3202.3

(1) Average of available period.
(2) Seasonally and calendar adjusted data.
(3) Y-o-y change in percentage points.
Sources: INE (CNTR and EPA) and MITRAMISS (Social Security and SEPE).

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

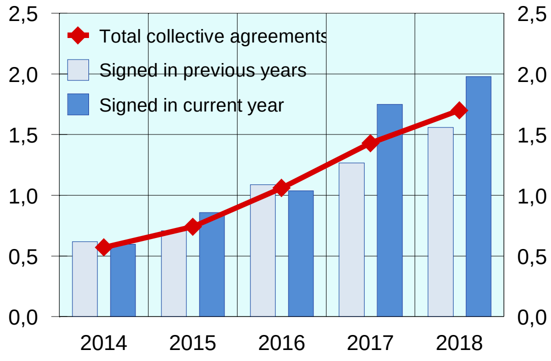
The agreed wage rise stood at 1.7% on average for 2018, for workers covered by collective agreements with effects in 2018 and registered up to December 2018 (8.8 million, equivalent to 55% of the total 16.2 million employees according to the LFS in the first three quarters of the year), just as the increase published with information available up to November. This rise is three tenths higher than that registered last year, with information up to December 2017, and two tenths higher than that resulting from using all the information currently available.

G 4.3 UNEMPLOYMENT RATE
% active population



Source: EPA (INE).

G 4.4 AGREED WAGES
% 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 35.9% of workers covered by agreements, the wage increase stands at 2.1% up to December, one tenth higher compared to the figure registered in the previous month.

Table 4.2 **Wage indicators**

	Y-o-y (%)							
	Annual data			*Quarterly data*				
	2016	2017	2018 (1)	17-IV	18-I	18-II	18-III	18-IV
QNA-CNTR (2) (3)								
Compensation per employee	-0.5	0.3	0.8	0.5	0.5	0.8	1.1	-
Sectors Agriculture	-1.9	1.2	-1.4	1.4	-0.3	-1.8	-2.1	-
Industry	0.3	0.5	0.5	0.5	0.0	0.4	1.1	-
Construction	-4.9	-1.1	0.1	-0.8	0.4	-0.4	0.4	-
Services	-0.7	0.4	1.0	0.6	0.6	1.0	1.3	-
Deflated by GDP	-0.8	-0.9	-0.1	-1.3	-0.6	0.0	0.2	-
private consumption	-0.5	-1.3	-0.7	-0.9	-0.5	-0.7	-0.9	-
Unit labour cost	-0.6	0.2	0.8	0.3	0.3	0.8	1.2	-
Sectors Agriculture	-5.9	4.7	-3.7	1.6	-2.8	-6.1	-2.0	-
Industry	-1.3	-0.4	0.4	-1.1	0.2	0.4	0.5	-
Construction	-1.2	-0.8	1.6	0.1	1.5	1.3	1.9	-
Services	0.1	0.4	0.8	0.7	0.3	0.9	1.2	-
Compensation per employee hour	-0.3	1.1	0.4	1.1	0.7	0.0	0.6	-
ETCL (2)								
Labour cost per worker	-0.4	0.2	1.1	0.8	0.7	0.9	1.6	-
Labour cost per hour worked	-0.1	0.0	1.6	0.6	0.9	1.2	2.5	-
Collective agreements								
Agreed wage rise (4)	1.1	1.4	1.7	1.4	1.5	1.6	1.7	1.7

(1) Average of available period.
(2) Seasonally and calendar adjusted data.
(3) In full-time equivalent terms, except for the compensation per employee hour.
(4) Agreements with effects in the year, with information until last day of the period.
Sources: own elaboration from INE (CNTR and ETCL) and MITRAMISS (Estadística de Convenios Colectivos).

5.- PUBLIC SECTOR

The Council of Ministers approves the Draft State Budget for 2019

On Friday 11th January, the Council of Ministers approved the Draft State Budget for 2019. This Budget makes fiscal consolidation compatible with the increase of public spending and the redistribution of wealth, strengthening the Welfare State, focusing on the most vulnerable groups hit by the crisis and increasing the resources of essential public services.

The accounts for 2019, which were submitted to the Congress on Monday 14th January, include the largest expenditure for pensions, dependency, scholarships for studying or fight against gender-based violence and child poverty, which results in the social spending representing 57% of the Budget. Likewise, they also include measures aimed at encouraging growth and employment, reinforcing spending items of vital importance to boost competitiveness and the growth potential of the Spanish economy, such as investment in Research, Development and Innovation (R & D + i), infrastructures or human capital.

The 2019 Budget combines the recovery of social rights with the sustainability of public accounts and the fiscal consolidation agreed with the European Commission. To this end, the public accounts adjust the expenses to the macroeconomic prospects to continue with the public deficit reduction and guarantee the economy growth taking into account the international context.

The Government deficit continues to fall

On 27th December 2018, the Ministry of Finance published the data of non-financial transactions of the General Government, in terms of National Accounts of the third quarter of 2018, as well as the non-financial transactions of the Central Government, the Regional Governments and the Social Security Funds, with consolidated data and in terms of National Accounts, corresponding to October 2018. The Ministry published as well the non-financial operations of the State, in terms of both National Accounts and Cash, corresponding to November. Likewise, the Ministry of Employment, Migrations and Social Security published the monthly budget execution data of the Social Security, in terms of recognised rights and obligations, corresponding to November. In almost all cases, an improvement can be observed in the accumulated balance in the period elapsed of 2018, as a percentage of GDP, compared to the same period of 2017.

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

Table 5.1. **Balance (*) of General Government (GG) non-financial transactions**
Data accumulated by the end of the period as % of GDP

	Third quarter		Change (pp)
	III.T.2018	**III.T.2017**	
National Accounts			
TOTAL GG CONSOLIDATED	**-1.17**	**-1.57**	**0.40**
Central Government	**-1.22**	**-1.52**	**0.30**
Regional Government	**0.17**	**0.04**	**0.13**
Local Government	**0.36**	**0.47**	**-0.11**
Social Security Funds	**-0.48**	**-0.56**	**0.08**
	2018 October	**2017 October**	**Change (pp)**
National Accounts			
GG excluding Local Government (consolidated)	**-1.07**	**-1.74**	**0.67**
Central Government	**-0.75**	**-1.22**	**0.47**
Regional Government	**0.17**	**0.04**	**0.13**
Social Security Funds	**-0.49**	**-0.56**	**0.07**
	2018 October	**2017 October**	**Change (pp)**
STATE			
National Accounts	*-1.02*	*-1.55*	*0.53*
Cash (1)	*-0.53*	*-1.10*	*0.57*
SOCIAL SECURITY			
Budget Outturn (2)	*-0.53*	*-0.59*	*0.06*

(*) Including the net balance of support provided to financial institutions. (1) Includes payments and cash received (from budgetary transactions of both the current exercise and closed exercises) as well as from extra-budgetary transactions. (2) Budget outturn in terms of recognised rights and obligations.
Sources: IGAE (Ministerio de Hacienda) y Ministerio de Trabajo, Migraciones y Seguridad Social.

The General Government consolidated deficit, excluding Local Governments, falls by 36.2% y-o-y up to October and reaches 1.07% of GDP

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded up to October 2018 a deficit of € 12.9 billion, in terms of National Accounts, equivalent to 1.07% of GDP, which represents a decrease of 36.2% with respect to the same period of the previous year (1.74% of GDP).

A primary surplus of € 11.2 billion (0.93% of GDP) was obtained up to October, compared to the € 4 billion registered a year earlier, which represents an improvement of 0.59 percentage points in the ratio to GDP.

The improvement in the General Government consolidated balance excluding Local Governments is explained by an increase in resources (6.8% in comparison to the figure accumulated up to October 2017) higher than that of uses (4.3%).

On the revenue side, taxes and social contributions continue to grow sharply (7.8% and 4.9% in y-o-y terms, respectively). Among taxes, the evolution of the Corporate Income Tax and the growth of Personal Income Tax and VAT mainly stand out. The dividends received from the

Bank of Spain, ENAIRE and SELAE should also be noted, which increased by € 264, € 293 and € 571 million, respectively in comparison to 2017.

Table 5.2. **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

	October		y-o-y growth	% of GDP	
	2017	**2018**		**2017**	**2018**
1. NON-FINANCIAL REVENUE	**333,696**	**356,264**	**6.8**	**28.61**	**29.40**
Taxes	186,438	201,002	7.8	15.99	16.59
* Taxes on production and imports	91,965	97,339	5.8	7.89	8.03
* Current taxes on income, wealth, etc.	92,145	101,306	9.9	7.90	8.36
* Capital taxes	2,328	2,357	1.2	0.20	0.19
Social contributions	118,243	124,042	4.9	10.14	10.24
Transfers within general government	9,141	9,701	6.1	0.78	0.80
Other revenue	19,874	21,519	8.3	1.70	1.78
2. NON-FINANCIAL EXPENDITURE	**353,948**	**369,175**	**4.3**	**30.35**	**30.46**
Intermediate consumption	30,896	31,667	2.5	2.65	2.61
Compensation of employees	80,031	82,534	3.1	6.86	6.81
Interest	24,218	24,157	-0.3	2.08	1.99
Subsidies	7,528	7,759	3.1	0.65	0.64
Social benefits other than social transfers in kind	140,308	146,436	4.4	12.03	12.08
Social transfers in kind: market production purchased by general government	23,138	23,884	3.2	1.98	1.97
Gross capital formation	14,087	16,464	16.9	1.21	1.36
Transfers within general government	19,475	20,027	2.8	1.67	1.65
Other expenditure	14,267	16,247	13.9	1.22	1.34
3. NET LENDING (+) NET BORROWING (-) (1-2)	**-20,252**	**-12,911**	**-36.2**	**-1.74**	**-1.07**

Source: IGAE. Ministerio de Hacienda.

On the expenditure side, an increase is observed in virtually all the items, where the contribution to the EU budget based on VAT and GNI resources and the gross capital formation should be noted, which grew by 17.5% and 16.9%, in y-o-y rates. The net balance of support provided to financial institutions up to October is positive and relatively small (€ 13 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 expenditure, increase significantly in comparison to the same period of 2017, due to the EPAs of the Caja de Ahorros del Mediterráneo (CAM) and Unnim. Expenditure related to contributory pensions continues registering an upward trend (4.9%), due to the rise in the number of pensioners (1.1%) and in the average pension (3.7%), an increase to which the additional increment for pensions included in the State Budget for 2018 has contributed. The compensation of employees increased by 3.1% up to October, reflecting the wage increase approved in the State Budget for last year with retroactive effect both in the State and in the Regional Governments.

On the contrary, expenditure related to unemployment benefits continues to fall (-0.4% y-o-y up to October), due to the fact that the number of beneficiaries of this contribution has decreased by 2.9%. However, a slowdown in the rate of decline is observed, since the reduction in spending on unemployment benefits is partially offset by the increase in other expenses associated with employment policies. Likewise, interests fell by 0.3% in y-o-y terms.

With regard to the balance of non-financial operations by subsectors, the Central Government ended the first ten months of 2018 with a deficit of 0.75% of GDP, 0.47 p.p. lower compared to the figure registered in the same period of 2017. The Regional Government recorded a surplus standing at 0.17% of GDP, 0.13 p.p. above the figure accumulated up to October 2017, and the Social Security Funds recorded a deficit of 0.49% of GDP, 0.07 p.p. lower compared to the figure recorded in the same period of 2017. Within the Central Government, the State reduced its deficit by 39.6%, while the deficit of the Other Bodies of the Central Government increased by € 135 million, mainly due to the amounts paid by the Deposit Guarantee Fund in relation to the Asset Protection Schemes.

Table 5.3. **General Government**

Non-financial transactions in terms of national accounts

Accumuted data in millions €, y-o-y growth and % of GDP

	Third quarter		**y-o-y growth**	**% of GDP**	
	2017	**2018**		**2017**	**2018**
1. NON-FINANCIAL REVENUE	**322,750**	**341,101**	**5.7**	**27.67**	**28.15**
Taxes	191,478	203,118	6.1	16.42	16.76
* Taxes on production and imports	104,150	109,411	5.1	8.93	9.03
* Current taxes on income, wealth, etc.	83,108	89,631	7.8	7.13	7.40
* Capital taxes	4,220	4,076	-3.4	0.36	0.34
Social contributions	106,465	111,704	4.9	9.13	9.22
Transfers within general government	-	-	-	-	-
Other revenue	24,807	26,279	5.9	2.13	2.17
2. NON-FINANCIAL EXPENDITURE	**341,033**	**355,272**	**4.2**	**29.24**	**29.32**
Intermediate consumption	42,594	43,496	2.1	3.65	3.59
Compensation of employees	88,488	90,945	2.8	7.59	7.50
Interest	22,112	22,073	-0.2	1.90	1.82
Subsidies	7,818	7,929	1.4	0.67	0.65
Social benefits other than social transfers in kind	127,532	132,821	4.1	10.93	10.96
Social transfers in kind: market production purchased by general government	21,291	21,938	3.0	1.83	1.81
Gross capital formation	16,766	19,802	18.1	1.44	1.63
Transfers within general government	-	-	-	-	-
Other expenditure	14,432	16,268	12.7	1.24	1.34
3. NET LENDING (+) NET BORROWING (-) (1-2)	**-18,283**	**-14,171**	**-22.5**	**-1.57**	**-1.17**

Source: IGAE. Ministerio de Hacienda.

With regard to the current transfers between sub-sectors of the General Government, the increase in transfers from the State to the Regional Governments (5.2%), up to € 67.6 billion, should be noted, mainly due to the increase in advanced payments from the Financing System (6.1%), as well as that of transfers from the State to Social Security Funds, which increase by 10.0%, of which 1.1 billion correspond to a transfer to support the financial balance of the Social Security System, without correspondence in 2017, and that of transfers received by the State (20.4%), reaching € 10.3 billion, mainly due to the revenue derived from the Regional Governments Financing System.

With regard to the quarterly data, the General Government registered a deficit, in terms of National Accounts, of € 14.2 billion up to the third quarter of 2018, equivalent to 1.17% of GDP which represents an annual reduction of 0.40 p.p., including the support provided to financial institutions. This lower deficit is explained by an increase of non-financial resources (5.7%) higher than the one registered by non-financial uses (4.2%). All sub-sectors improved their balance, except for the Local Government, whose surplus fell by € 1.2 billion. This result is largely due to the gross fixed capital formation growth and transfers made to other General Government, which grew by 17.8% and 13.2% y-o-y, respectively.

The State's deficit falls by 31.6% up to November and stands at 1.02% of GDP

Up to November 2018, the State registered a deficit of € 12.4 billion, in terms of National Accounts, equal to 1.02% of GDP, 31.6% lower compared to that of a year earlier (1.55 of GDP). This lower deficit is due to an increase in non-financial resources (8.5%) higher than that of non-financial uses (4.6%).

Table 5.4. **State**
Non-financial transactions in terms of national accounts. Monthly data
Accumuted data in millions €, y-o-y growth and % of GDP

	November		**y-o-y**	**% of GDP**	
	2017	**2018**	**growth**	**2017**	**2018**
1. NON-FINANCIAL REVENUE	**166,753**	**180,975**	**8.5**	**14.30**	**14.93**
Taxes	145,119	157,259	8.4	12.44	12.98
* Taxes on production and imports	85,129	89,349	5.0	7.30	7.37
* Current taxes on income, wealth, etc.	59,873	67,777	13.2	5.13	5.59
* Capital taxes	117	133	13.7	0.01	0.01
Social contributions	6,571	6,471	-1.5	0.56	0.53
Transfers within general government	9,582	11,174	16.6	0.82	0.92
Other revenue	5,481	6,071	10.8	0.47	0.50
2. NON-FINANCIAL EXPENDITURE	**184,847**	**193,353**	**4.6**	**15.85**	**15.96**
Intermediate consumption	4,143	4,254	2.7	0.36	0.35
Compensation of employees	15,434	15,857	2.7	1.32	1.31
Interest	24,129	24,022	-0.4	2.07	1.98
Subsidies	4,383	4,466	1.9	0.38	0.37
Social benefits other than social transfers in kind	13,810	14,442	4.6	1.18	1.19
Social transfers in kind: market production purchased by general government	360	467	29.7	0.03	0.04
VAT and GNI-based EU own resources	7,904	9,268	17.3	0.68	0.76
Transfers within general government	105,265	109,941	4.4	9.03	9.07
Gross capital formation	3,881	5,486	41.4	0.33	0.45
Capital transfers within general government	2,802	2,342	-16.4	0.24	0.19
Other expenditure	2,736	2,808	2.6	0.23	0.23
3. NET LENDING (+) NET BORROWING (-) (1-2)	**-18,094**	**-12,378**	**-31.6**	**-1.55**	**-1.02**

Source: IGAE. Ministerio de Hacienda.

The increase in resources was mainly boosted by taxes (8.4%) in which the evolution of the Corporate Income Tax (14.5%, partly due to the rise of the second instalment of the year, paid in October), Personal Income Tax (11.8%, partly due to the 2017 Tax Campaign) and VAT (6.1%) should be noted. Dividends and other income received (which grew by 74.8%) also contributed to the increase in resources, and so did the higher transfers received in relation to the Regional Governments Financing System, which increased by 20.9%, partly due to the System

Settlements corresponding to 2016 and 2015. On the other hand, investment grants fell (€ 535 million less), due to the lower amounts received from the European Regional Development Fund.

Among uses, it is worth mentioning the strong increase in gross fixed capital formation (41.4%), the contribution to the EU based on VAT and GNI resources (17.3%) current transfers to other General Government units (4.4%), in particular the Social Security Funds and the Regional Governments (5.7% and 5.3% respectively) and social benefits other than social transfers in kind (4.6%). Accrued interest fell by 0.4%.

The borrowing requirement of the State fell by 9.0% y-o-y up to November, reaching € 32.3 billion. This decrease is largely due to the lower cash deficit (€ 6.4 billion compared to the € 12.8 billion recorded a year earlier), partially offset by the increase in the net variation of financial assets (14.5%). The borrowing requirement was mainly financed through mid and long term domestic debt.

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

The deficit of the Social Security decreases, reaching 0.53% of GDP up to November 2018

The budget execution of the Social Security recorded a deficit up to November 2018 of € 6.5 billion, equal to 0.53% of GDP. The latter ratio is 0.06 p.p. lower in comparison to the one recorded in the same period of 2017 (0.59% of GDP). Social contributions increased by 5.4%, while pensions rose by 4.6%.

Table 5.5. **Social Security System Budget Outturn**

Budget outturn in terms of recognized rights and obligations. Monthly data

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

	2017 Outturn	2018 Budget	% Change	2017 November	2018 November	% Change
1. REVENUE	**127,753**	**135,253**	**5.9**	**118,198**	**124,615**	**5.4**
Social Security contributions	109,038	114,916	5.4	99,886	105,236	5.4
Current transfers	16,273	18,441	13.3	15,957	17,627	10.5
of which: from the State	12,903	14,876	15.3	12,887	14,499	12.5
Property income	736	228	-69.0	708	246	-65.2
Other revenue (1)	1,706	1,667	-2.2	1,648	1,505	-8.7
2. EXPENDITURE	**146,509**	**152,565**	**4.1**	**125,048**	**131,065**	**4.8**
Pensions	125,015	129,495	3.6	107,348	112,237	4.6
Contributory	115,729	119,791	3.5	99,211	103,914	4.7
Non-contributory	9,286	9,704	4.5	8,137	8,322	2.3
Sickness benefits	7,592	7,980	5.1	5,828	6,576	12.8
Maternity benefits	2,363	2,559	8.3	2,142	2,182	1.9
Other benefits	2,034	2,197	8.0	1,886	1,912	1.4
Wages and salaries	2,232	2,394	7.3	1,952	1,969	0.9
Goods and services purchases	1,346	1,542	14.5	1,170	1,211	3.6
Other revenue (2)	5,926	6,398	8.0	4,722	4,978	5.4
3. BALANCE OF NON-FINANCIAL TRANSACTIONS (1-2)	**-18,756**	**-17,312**	**-7.7**	**-6,849**	**-6,450**	**-5.8**
As % of GDP	-1.6	-1.4		-0.59	-0.53	

(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.

The loan received from the State up to November last year was 35.7% higher than the one recorded in the same period of the previous year. Likewise, up to November 2018, the State made a current transfer amounting to € 1.2 billion to the Social Security with the aim to support its budget balance, without correspondence in 2017.

The public debt to GDP ratio decreases in the third quarter of 2018

The Bank of Spain (BoS) published the quarterly data on General Government Debt data, following the Excessive Deficit Procedure (EDP) methodology. The debt reached a balance of 1,175.7 billion at the end of the third quarter of 2018, with the ratio over GDP standing at 98.3%[1], one tenth lower than in the same period of 2017.

By sub-sector, the Central Government debt stood at € 1,046.7 billion in September 2018, which represents 87.5% of GDP, 0.8 percentage points more than a year earlier. On the other hand, the Social Security debt stood at € 34.9 billion, equivalent to 2.9% of GDP, nine tenths higher than a year earlier. This increase is due to the loans granted by the State to the General Treasury of the Social Security.

The Regional Government debt stood at € 292.4 billion in September, 24.4% of GDP, three tenths lower than in the same period of 2017. Local Government registered a debt of € 28.0 billion up to September, representing 2.3% of GDP and implying a reduction of the ratio of four tenths in comparison to a year earlier. On the other hand, the debt owned by General Government units, which is deducted to obtain the General Government consolidated debt, amounted to € 244.3 billion, 20.4% of GDP, a ratio 1.2 points higher than the figure registered in September 2017. This item includes, among others, the loans granted by the State to other subsectors and the assets held by the Social Security Reserve Fund.

By instrument, the increase in long-term debt securities (by € 64.3 billion) and the decrease in long-term loans (by € 15.5 billion) should be noted, the latter partly due to the early amortisation of part of the ESM loan.

Taking into account the total deficit of the general government up to the third quarter of 2018 (€ 14.2 billion) and the increase in the EDP Debt in the same period (€ 31.3 billion), a positive flow stock adjustment is followed, reaching € 17.1 billion.

The General Government EDP Debt reaches € 1,061.0 billion in October 2018

According to the Bank of Spain, the General Government EDP Debt reached a balance of € 1,161.0 billion in October 2018, which represents a decrease of € 14.7 billion compared to September.

By subsectors, the State and the Regional Government set their debt at € 1,020.5 and € 292.4 billion, respectively, and the Social Security at € 34.9 billion. On the other hand, the Other Central Government Bodies and Local Government continued decreasing their debt in y-o-y terms, down to € 30.5 and € 26.9 billion.

On the other hand, the debt owned by General Government units, which is deducted to obtain the General Government consolidated debt, amounted to € 244.2 billion, which implies an

[1] Cumulative nominal GDP of four quarters up to the third of 2018.

increase of 11% in comparison to the figure registered in September 2017. This item includes, among others, the loans granted by the State to other subsectors and the assets held by the Social Security Reserve Fund.

By instrument, the increase in long-term debt securities (by € 57.6 billion) and the decrease in long-term loans (by € 21.6 billion) should be noted, the latter partly due to the early amortisation of part of the ESM loan.

The State's EDP Debt reaches € 1,029.6 billion in November 2018

By the end of November, the State's EDP Debt reached € 1,029.6 billion, compared to the € 987.2 billion recorded a year earlier. By instruments, € 894.2 billion correspond to long-term debt securities (€ 58.1 billion more than a year ago), 71.1 billion with short-term debt securities (€ 7.2 billion less) and the rest, € 64.3 billion, with loans and deposits (€ 8.4 billion less than in the same period of the previous year, due to the early repayment of part of the ESM loan). By counterpart sectors, € 545.7 billion are assets held by resident sectors (€ 14.9 billion more than in the same month of 2017) and € 484 billion correspond to the rest of the world (€ 27.5 billion more than in November 2017).

6.- BALANCE OF PAYMENTS

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

According to the Balance of Payments data, in the period between January and October 2018, the Spanish economy generated net lending to the rest of the world amounting to € 6.4 billion, a figure lower compared to the net lending of € 14.7 billion recorded in the same period of a year earlier.

The lower net lending is due to the reduction of the current account surplus, which has gone from registering € 13 billion in cumulative terms up to October 2017 to € 3.7 billion in the same period of 2018. In turn, this reduction is explained by the lower surplus of goods and services, partially offset by the lower deficit of primary and secondary income. On the other hand, the capital account surplus increases.

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

	January-October 2017			January-October 2018		
	Credit	Debit	Net	Credit	Debit	Net
Current and capital accounts	**388,926**	**374,230**	**14,700**	**403,965**	**397,571**	**6,394**
Current account	**386,547**	**373,581**	**12,971**	**400,261**	**396,550**	**3,711**
Goods and services	335,549	305,650	29,900	347,115	326,743	20,371
Tourism	*53,409*	*16,364*	*37,045*	*55,161*	*18,374*	*36,787*
Primary and secondary income	50,998	67,931	-16,932	53,146	69,807	-16,661
Capital account	**2,379**	**649**	**1,732**	**3,704**	**1,021**	**2,683**

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

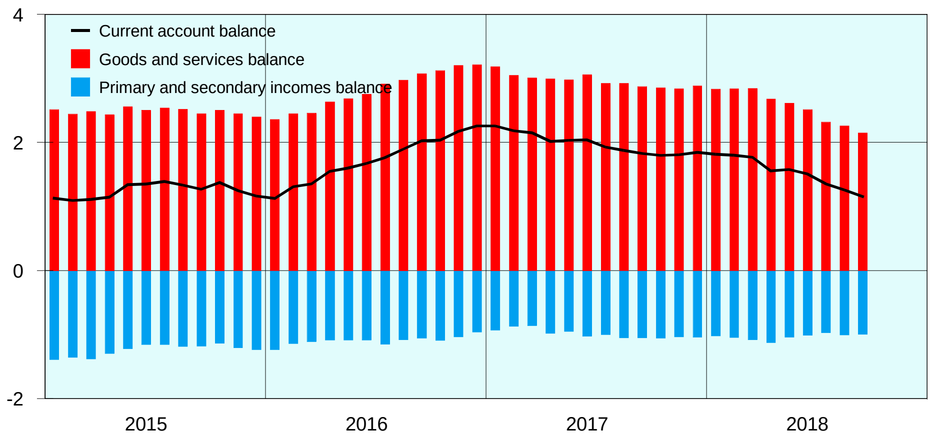
Trade of goods and services with the rest of the world generated a surplus of € 20.4 billion up to October 2018, 31.9% lower compared to the figure recorded in the same period of 2017 as a result of a slowdown of exports, higher than that of imports (they grew by 3.4% and 6.9%, respectively, compared to the rates of 8.8 and 10.9%, registered a year earlier).

The deficit of goods, according to Customs data, increased in the first ten months of 2018 by 33% y-o-y, due to energy goods, whose balance worsened by 17.9% (in line with the evolution of the price of imported oil which, measured in euros, increased by 30% on average during this period), as well as non-energy products, which went from recording a surplus of € 797 million in the period between January and October 2017 to a deficit of € 2.2 billion in 2018. Using the unit value indices of the Ministry of Economy and Business, a worsening is observed in the terms of trade of 1.2% in that period.

The balance of tourism continues recording surplus figures

The balance of tourism services accumulated a surplus of € 36.8 billion up to October, lower in comparison to the figure recorded in the same period of 2017 due to the less expansionary evolution of tourism revenues (3.3%, after the increase exceeding 10% registered a year earlier). Foreign tourists´ expenditure, according to the Tourist Expenditure Survey (EGATUR), increased by 2.7% y-o-y up to October last year (13.3% in the same months of 2017) and tourist arrivals grew by 0.5%, in comparison to the 9.3% registered in the previous year. Tourism payments rose by 12.3% y-o-y in the first ten months of 2018.

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



Sources: Banco de España and SGCPE.

The deficit of primary and secondary income falls

The balance of primary and secondary income accumulated a deficit of € 16.7 billion between January and October 2018, 1.6% lower than that recorded in the same months of 2017, as a result of an increase in revenues higher than that of payments (4.2% and 2.8%, respectively).

The disaggregated data for the first nine months of 2018 are included in the secondary income and, in particular, correspond to the financial flows with the European Union (EU), which show a balance of the net current transfers received of € 1.6 billion, (€ -1.2 billion registered a year earlier), with an increase in revenues (1.5%) lower than that of payments (6.3%).

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
	III	IV	I	II	III	II	III	I-III	I-III	I-III
Net current transfers	**-1,527**	**-2,152**	**2,038**	**-1,422**	**-2,237**	**34.7**	**46.5**	**-1,218**	**-1,620**	**33.1**
- Revenue	**964**	**601**	**5,161**	**970**	**699**	**-34.0**	**-27.5**	**6,729**	**6,831**	**1.5**
Refunds CAP	854	403	4,459	772	629	9.0	-26.3	5,771	5,861	1.6
ESF	25	147	660	163	20	-77.7	-18.4	786	843	7.3
Other subsidies	85	52	42	35	49	8.0	-41.5	172	127	-26.3
- Payments	**2,491**	**2,753**	**3,123**	**2,392**	**2,936**	**-5.3**	**17.9**	**7,946**	**8,451**	**6.3**
VAT	368	368	552	385	384	-17.7	4.4	1,245	1,322	6.1
GNI	1,594	1,850	2,008	1,633	2,045	-2.8	28.3	5,288	5,687	7.5
Traditional Own	382	419	387	373	370	0.9	-3.2	1,119	1,130	1.0
Other	147	116	175	0	138	-	-6.2	294	312	6.1
Capital transfers	**51**	**51**	**1,358**	**194**	**1,222**	**2.1**	**2,273.0**	**257**	**2,774**	**979.3**
ERDF	38	19	1,182	191	1,196	5.5	3,026.2	234	2,569	998.3
Cohesion Fund	0	0	173	0	0	-	-	0	173	-
Other	13	31	3	3	26	-65.5	95.2	23	32	38.2

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

With regards to revenues, public transfers received from the European Social Fund, aimed at promoting employment, rose by 7.3%, while in the transfers for the private sector, the subsidies received by farmers as refunds of the Common Agricultural Policy rose by 1.6%. On the payments side, within public payments for the EU, those related to the VAT Resource (6.1%), those related to GNI Resource (7.5%) and Traditional Own Resources (1%) rose, although it should be noted that these payments are not divided in the same way through all financial years.

The capital balance surplus increases

Up to October 2018, the capital balance generated a surplus of € 2.7 billion, 54.9% higher in comparison to the previous year, due to a rise in revenues (€ 1.3 billion) higher than that of payments (€ 372 million). Capital transfers from the European Union multiplied almost by 10 compared to the same period of the previous year, up to € 2.8 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 € 2.3 billion, up to € 2.6 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.

In the first ten months of 2018, the financial account recorded net capital outflows amounting to € 8.8 billion, versus the net outflows of € 10.3 billion registered a year earlier. Excluding the Bank of Spain, the financial account recorded net capital outflows worth € 20.3 billion up to October, below the net outflows registered a year earlier (€ 35 billion). This result includes positive balances (investments) in asset and liability transactions.

Direct investment from abroad increases in Spain

Up to October 2018, the net variation in liabilities generated net capital inflows worth € 69.8 billion, 7.8% more than in the same period of the previous year. The direct investment balance multiplied by four, recording net inflows amounting to € 40.2 billion, which were mainly channelled toward the non-financial residential sector. On the other hand, portfolio investment recorded net inflows amounting to € 30.0 billion, 14.7% lower than the net inflows of the same period of 2017, due to the results of the General Government and monetary financial institutions, which recorded net inflows amounting to € 30.3 and € 11.0 billion, while the non-financial private sector registered net outflows (€ 11.2 billion). Finally, other investments (loans, deposits and repos) recorded net outflows of € 470 million, in comparison to the net inflows of € 19.7 billion registered in the same period of 2017, mainly driven by the private financial sector and, to a lesser extent, by the General Government.

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

Million euro

	January-October 2017			January-October 2018		
	Assets change	Liabilities change	Balance	Assets change	Liabilities change	Balance
Financial account	**75,070**	**64,768**	**10,307**	**78,565**	**69,794**	**8,773**
- Excluding Bank of Spain	**99,724**	**64,768**	**34,960**	**90,116**	**69,794**	**20,326**
Direct investment	***19,263***	***9,834***	***9,432***	***28,773***	***40,232***	***-11,457***
Monetary financial institutions	4,625	974	3,651	7,202	3,376	3,826
Other resident sectors	14,637	8,860	5,777	21,572	36,858	-15,286
Portfolio investment	***69,720***	***35,207***	***34,515***	***44,626***	***30,032***	***14,594***
General Government	85	7,750	-7,665	704	30,250	-29,546
Monetary financial institutions	4,615	29,332	-24,717	5,925	11,025	-5,100
Other resident sectors	65,020	-1,875	66,895	37,997	-11,244	49,241
Other investment	***13,788***	***19,727***	***-5,941***	***15,773***	***-470***	***16,244***
General Government	-1,409	-1,429	20	-2,605	-8,409	5,804
Monetary financial institutions	13,163	16,300	-3,137	20,492	-16,844	37,336
Other resident sectors	2,034	4,856	-2,822	-2,114	24,783	-26,897
Financial derivatives	***-3,047***	***-***	***-3,047***	***944***	***-***	***944***
- Bank of Spain	**-24,654**	**-**	**-24,654**	**-11,551**	**-**	**-11,551**
Reserves	2,134	-	2,134	1,436	-	1,436
Claims on the Eurosystem	-23,313	-	-23,313	-7,428	-	-7,428
Other net assets	-3,475	-	-3,475	-5,559	-	-5,559
- Net errors and omissions	**-4,395**	**-**	**-4,395**	**2,377**	**-**	**2,377**

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

The assets net variation with the rest of the world, excluding the Bank of Spain, accumulated in the first ten months of the year net capital outflows of € 90.1 billion, 9.6% lower in comparison to the figures recorded a year earlier. Direct investment accumulated capital outflows amounting to € 28.8 billion, 49.4% higher than a year earlier, coming mainly from other resident sectors. The portfolio investment outflows fell by 36%, down to € 44.6 billion, concentrated in the non-financial private sector. On the other hand, other investment registered net outflows amounting to € 15.8 billion, 14.4% higher than a year earlier, led by the Monetary

Financial Institutions. Finally, financial derivatives registered net outflows amounting to € 944 million, in comparison to the net inflows of € 3.0 billion registered in the previous financial year.

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 € 11.6 billion, due to the fall recorded by the assets vis-à-vis the Eurosystem (€ 7.4 billion) and the other net assets by € 5.6 billion, while reserves increased by € 1.4 billion.

The debtor balance of the Net International Investment Position falls

The Net International Investment Position (NIIP) decreased its debtor balance in the third quarter of 2018, compared to the same period of 2017, by 3.3%, reaching € 965 billion, equal to 80.7% of GDP, a percentage 5.9 points lower in comparison to the figure registered in the third quarter of 2017. Assets amounted to € 1.9 trillion, 6.2% more compared to a year earlier, and liabilities to € 2.9 trillion, 2.9% more in comparison to the third quarter of the previous year. On the other hand, the gross external debt amounted to € 2 trillion in the third quarter of 2018, (167.5% of GDP), compared to the € 1.9 trillion registered in the same period of 2017 (167.3% of GDP).

The NIIP debtor balance, excluding the Bank of Spain, reached an amount of € 751 billion in the third quarter of 2018, 5% less than a year earlier. A 84.2% rise was registered in the debtor balance in the case of direct investment up to € 97.5 billion and decreases of the debtor balance of portfolio investment (-7.6%, down to € 525 billion), other investment (-24.9%, to € 122 billion) and financial derivatives (-11.7%, down to € 6.7 billion).

The Bank of Spain increased its debtor balance by € 7.4 billion in the third quarter of 2018 compared to a year earlier, up to € 213.8 billion. This increase is explained by the rise of € 2.6 billion of the reserves, while on the other hand, the Bank of Spain debtor balance vis-à-vis the Eurosystem grew by € 5.1 billion and the balance of other net assets by € 4.9 billion.

January 2019