April 2019

SPANISH ECONOMY REPORT

GOBIERNO
DE ESPAÑA

MINISTERIO
DE ECONOMÍA
Y EMPRESA

The Spanish Economy: recent developments and prospects: April 2019
Elaboración y coordinación: Dirección General de Análisis Macroeconómico
Madrid: Ministerio de Economía y Empresa, Centro de Publicaciones, 2019
V; 26 cm.

1. España-Situación económica
I. España. Subdirección General de Coyuntura y Previsiones Económicas
II. España. Ministerio de Economía y Empresa. Centro de Publicaciones
338.2(460)

NIPO: 102-19-035-X
e-NIPO: 102-19-036-5

DEPÓSITO LEGAL: M-8492-2014

Elaboración y coordinación: Secretaría de Estado de Economía y Apoyo a la Empresa
Dirección General de Análisis Macroeconómico
Subdirección General de Coyuntura y Previsiones Económicas
Impresión: Centro de impresión digital y/ diseño.
Ministerio de Economía y Empresa.

RECENT EVOLUTION OF THE ECONOMIC INDICATORS

Financial markets

The financial markets evolution in April was conditioned by the presentation of business results and the publication of macroeconomic indicators, which point to a moderation of economic growth in Europe. Such evolution was also affected by the expectations on the meetings held by the main central banks. The Federal Reserve (Fed) and the European Central Bank (ECB) have maintained their monetary policies, and the Central Banks of England (BoE), Japan (BoJ), Sweden and Canada have further delayed any future interest rate rises. Likewise, markets have been influenced by the extension of the Brexit timeline and the trade negotiations between the United States and China. In this context, public debt yields have registered a mixed behaviour, decreasing in peripheral European countries, the stock indices rebounded and the euro depreciated against the dollar.

The ECB keeps its monetary policy unchanged and will announce the details regarding possible future measures in one of its forthcoming meetings

The Governing Council of ECB, on its meeting held on 10th April, decided to maintain the interest rates on the main financing operations, the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.40%, respectively. The Governing Council expects the key ECB interest rates to remain at their current levels at least until the end of 2019 and, in any case, during the time necessary to ensure the continuation of the sustained convergence of inflation towards lower levels, although close to 2% in the mid-term.

The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the Asset Purchase Programme 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.

In the introductory statement to the press conference, the Governing Council announced that it stands ready to adjust all of its instruments, as appropriate, to ensure that inflation continues to move towards the Governing Council’s inflation aim in a sustained manner.

Likewise, the ECB also announced that the details regarding the precise terms of the new series of targeted longer-term refinancing operations (TLTRO-III) announced in the previous meeting would be communicated in one of its forthcoming meetings. The need to mitigate the possible effect of negative interest rates on bank intermediation would also be assessed.

The ECB estimates that: "The risks surrounding the euro area growth outlook remain tilted to the downside, on account of the persistence of uncertainties related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets”.

The Fed maintains its monetary policy

The Federal Open Market Committee (FOMC) of the Fed, in its two day meeting held on 30th and 1st May, the third meeting of the year, decided to maintain the Federal Funds interest rates unchanged within the target range of 2.25% and 2.50%. However, the IOER rate (interest rate paid on required and excess reserves) was reduced by 5 b.p., down to 2.35%, in order to maintain the effective fund rates (EFFR) in the middle of the target range 2.25-2.5%.

Likewise, the FOMC confirmed the slowdown in the pace of reduction of the Federal Reserve’s holdings of Treasury securities announced in the last meeting. Therefore, as of 2nd May, all monthly maturities exceeding 15 billion dollars will be reinvested, compared to the previous threshold of 30 billion. The decrease of its mortgage-backed assets holdings will continue at the current pace of 2 billion.

The Fed has improved its assessment both for growth and labour market, and considers that the recent inflation drop is likely to be transitory and not persistent. Likewise, it also considers that the monetary policy stance is appropriate and, as in the previous two meetings, it maintains a prudent attitude with regards to future rate hikes: "In light of global economic and financial developments and muted inflation pressures, the FOMC will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes”.

The BoE maintains its monetary policy and delays the future rate hikes

The Monetary Policy Committee of the BoE, in its meeting held on 2nd May, unanimously decided to maintain the Official Bank Rate at 0.75%, in force since 1st August. Likewise, it unanimously decided to continue with the public debt and corporate debt purchase programmes, which stand at 435 billion and 10 billion pounds, respectively.

The BoE has revised its growth forecasts upwards for the period 2019-2021 and its inflation forecasts downwards for 2019 and 2020. Likewise, it has revised the path of future interest rates downwards and expects the official interest rate to reach 1% by the end of the forecast horizon, in 2021.

As in previous statements, the BoE has underlined that the economic outlook and monetary policy stance will depend significantly on the characteristics and the schedule for the United Kingdom to leave the European Union and how households, businesses and financial markets respond.

The BoJ announces that it will continue with its expansionary monetary policy and introduces new measures

In the meeting held on 24th and 25th April, the 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 of 6 trillion yen, those of real estate investment companies (J-REITs) at an annual rate of 90 billion yen and those of marketable instruments and corporate bonds at a rate of 2.2 and 3.2 trillion yen per year, respectively.

The BoJ has revised downwards its growth forecasts for 2019 and 2020 and its inflation forecasts for 2020. The BoJ expects Japan's economy to continue to expand moderately, despite being affected by the slowdown of other countries’ economies. Likewise, it considered that the uncertainty regarding the prospects of the economic activity and prices is high and that it will take time to reach the price stability target.

On the basis of the above, the BoJ confirmed its intention to continue with an ultra-expansionary monetary policy. With regards to the interest rates policy, it clarified its intention to maintain the current rates for a long period of time, at least until spring 2020, taking into account the uncertainty regarding economic activity and prices, other countries' economies evolution and the effects of the VAT increase planned as of October.

In addition, the BoJ has announced a series of new monetary easing measures, including the extension of guarantees accepted for the provision of credit by the Bank and the relaxation of terms and conditions for the securities lending facility (SLF).

With regard to the asset purchase programme, and as in previous meetings, the BoJ confirmed its intention to continue with the current purchase programme until inflation exceeds the 2% target and remains stable at that level.

The 12-month Euribor remains stable and continues recording negative values

In the interbank market of the Eurozone, interest rates registered minor changes during April. Thus, on 6th May, the one, six and twelve-month Euribor stood at -0.365%, -0.230% and -0.114%, respectively, versus the -0.367%, -0.228% and -0.112% recorded at the end of March. The virtual stabilisation of the twelve-month Euribor in this period is due to the expectations of stability in interest rates and risk premiums required in the market (the OIS and the Euribor-OIS differential remained virtually unchanged).

T 1. Ten-years government bond yields and differentials
in % and basis points

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-31-18	Mar-29-19	May-06-19	Variation (bp)		Dec-31-18	Mar-29-19	May-06-19	Variation (bp)	
				Period	Annual				Period	Annual
	(1)	(2)	(3)	(3)-(2)	(3)-(1)	(4)	(5)	(6)	(6)-(5)	(6)-(4)
Germany	0.25	-0.07	0.01	8	-24					
Holland	0.39	0.13	0.18	5	-21	14	20	17	-3	3
Austria	0.50	0.24	0.30	6	-20	25	31	29	-2	4
Finland	0.55	0.27	0.32	5	-23	30	34	31	-3	1
France	0.71	0.32	0.36	4	-35	46	39	35	-4	-11
Belgium	0.77	0.41	0.45	4	-32	52	48	44	-4	-8
Ireland	0.91	0.57	0.54	-3	-37	66	64	53	-11	-13
Spain	1.42	1.12	0.98	-14	-44	117	119	97	-22	-20
Portugal	1.72	1.25	1.14	-11	-58	147	132	113	-19	-34
Italy	2.77	2.51	2.58	7	-19	252	258	257	-1	5
Greece	4.38	3.75	3.39	-36	-99	413	382	338	-44	-75

Source: Financial Times.

The 10-year Spanish bond yield falls below 1% and the risk premium stands at 97 b.p.

In the secondary public debt market, European public debt yields recorded a mixed behaviour in April, in which most peripheral countries registered decreases and core countries increases. The 10-year Spanish bond yield stood at 0.98% on 6th May, 14 b.p. below the figure recorded on 29th March, while the German bond yield rose by 8 b.p. in that period and returned to positive values, standing at 0.01%, so the Spain-Germany differential fell 22 b.p., down to 97 b.p. In the rest of Europe, the drop in Greek yields in this period should be noted (36 b.p.). In the United States, the 10-year bond yield stood at 2.49% on 6th May, 8 b.p. above the level reached at the end of March, and the differential between the 10-year bond and the two-year bond increased 6 b.p. in that period.

The Spanish Treasury reduces by 5 billion the net issuance foreseen for this year

The Spanish public Treasury will reduce by 5 billion the volume of net issuance expected for 2019, reaching € 30 billion, compared to the € 35 billion established at the beginning of the year. The net issuance foreseen for 2019 will be the lowest since 2007. The gross issuance forecast for the year as a whole also fell by the same amount, reaching € 204.5 billion, 4% lower compared to last year.

This reduction is possible thanks to the lower interest rates, the good performance of revenues and the evolution of budget execution, a more efficient management of the Treasury and the compliance by several Regional Government with the fiscal and financial requirements necessary to access market financing and recover their financial autonomy.

The average cost of outstanding debt continued to fall in the first months of the year, reaching levels below 2.4%. Likewise, the average cost of new issuances also fell compared to the end of 2018, reaching 0.6%. Finally, the average life of outstanding debt remains at 7.4 years in 2019, in line with the lengthening achieved in 2018.

New equity boost in April

In the stock markets, between the end of March and the beginning of May, the main indices have increased, driven by the evolution of business results and the expectations of a delay in the monetary policy normalisation. In Europe, the Eurostoxx 50 rose by 3.3% in the period between 29th March and 6th May. In Spain, the IBEX 35 rose by 1%, standing at 9,331.0 points. The rest of European markets also registered rises: 6.6% the German DAX, 2.5% the CAC 40 in Paris, 1.4% the FTSE 100 in London and 0.6% the Italian FTSE MIB. In the US market, the S&P 500 index rose by 3.5% in the same period.

T 2. International stock exchanges

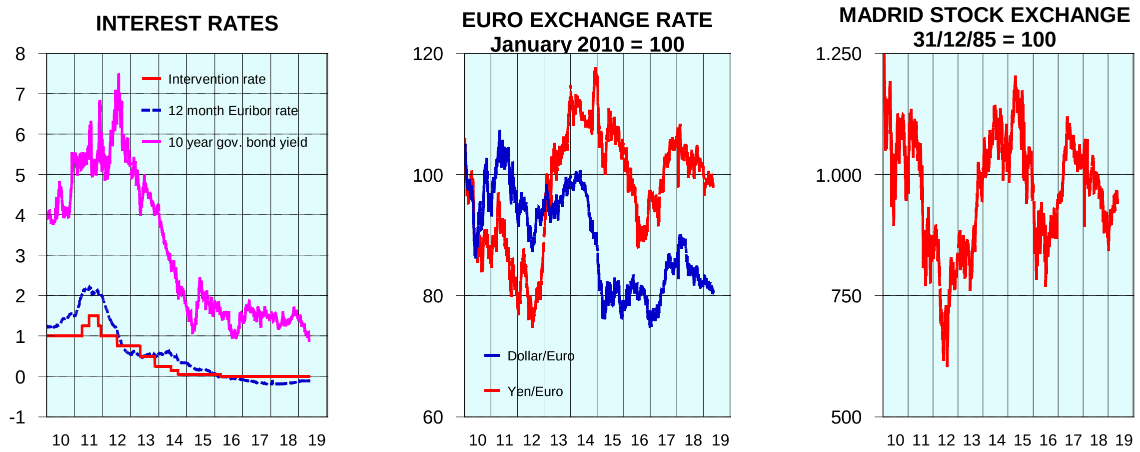
Countries	Index	Level May-06-19	% Variation Mar-29-19	% Variation Dec-31-18
Germany	DAX	12,286.88	6.6	16.4
France	CAC 40	5,483.52	2.5	15.9
Italy	FTSE MIB	21,409.29	0.6	16.8
Spain	IBEX 35	9,331.00	1.0	9.3
Eurozone	EUROSTOXX 50	3,462.95	3.3	15.4
United Kingdom	FTSE 100	7,380.64	1.4	9.7
United States	S&P 500	2,932.47	3.5	17.0
Japan	NIKKEI 225	22,258.73	5.0	11.2
China	SHANGHAI COMP	2,906.46	-6.0	16.5
Mexico	IPC	44,116.70	1.9	5.9
Brazil	BOVESPA	95,008.66	-0.4	8.1
Argentina	MERVAL	33,001.08	-1.4	8.9

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

The euro depreciates against the dollar

With respect to the currency market, the worsening of economic expectations in the Eurozone has strengthened the dollar exchange rate against the euro between the end of March and the beginning of May. Thus, in the period between 29th March and early May, the euro depreciated by 0.3% against the dollar and the yen and by 0.4% against the pound, trading at 1,1199 dollars, 124.13 yen and 0.8547 pounds by the end of the 6th May session. In the same period, the euro appreciated by 0.4% in nominal effective terms vis-à-vis the group of industrialised countries.

G1. MONETARY AND FINANCIAL INDICATORS (1)



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

The M3 broad monetary aggregate rose by 4.5% in March, two tenths more than in February,...

In relation to the analysis of the monetary sector, the ECB published the evolution of the monetary and credit aggregates in the euro area for March. The M3 broad aggregate rose by 4.5% y-o-y in March, two tenths more compared to the figure registered in the previous month (4.3%). This evolution is due to the intensification of the overnight deposits and cash in circulation growth rate (eight and six tenths more, respectively, up to 7.7% and 5.6%) while marketable instruments intensified the rate of decline 4.7 points, to -4.9% and other short-term deposits registered a fall identical to the one recorded in the previous month (-0.2%).

T 3. Eurozone monetary aggregates

Monetary aggregates	March 2019 Balance (Billion €)	% Year-on-year variation		
		January 2019	February 2019	March 2019
1. Currency in circulation	1,181	4.7	5.0	5.6
2. Overnight deposits	7,281	6.4	6.9	7.7
M1 (= 1 + 2)	8,462	6.2	6.6	7.4
3. Other short-term deposits (= 3.1. + 3.2.)	3,426	-0.8	-0.2	-0.2
3.1. Term deposits up to two years	1,113	-6.3	-4.9	-5.5
3.2. Deposits redeemable at notice up to three months	2,313	2.0	2.2	2.5
M2 (= M1 + 3)	11,888	4.0	4.5	5.1
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	619	-0.1	-0.2	-4.9
4.1. Repurchase agreements	74	-4.0	-7.0	-1.1
4.2. Money market funds shares/units	512	-0.1	0.9	-0.1
4.3. Securities other than shares up to two years	33	5.9	-0.8	-48.1
M3 (= M2 + 4)	12,507	3.8	4.3	4.5

Source: European Central Bank.

…and financing to the private sector in the Eurozone grew by 2.7%, one tenth less

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, increased by 2.7% y-o-y in March, one tenth less than in the previous month. This evolution is due to the lower rise of securities other than shares (4.1%, in comparison to the 5.3% registered in February) and loans (one tenth less, to 2.6%), while shares and other equity grew by 1.7%, compared to the 0.3% fall registered in the previous month. Within loans, those granted to non-financial corporations and households moderated the growth rate in comparison to February (two and one tenth, to 2.4% and 3.1%, respectively), while loans granted to insurance companies and pension funds rose by 4.2 points, up to 14.8%, and those granted to other financial intermediaries moderated the rate of decline by one tenth, to -1.3%.

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

	March 2019 Balance (Billion €)	% Year-on-year variation		
		January 2019	February 2019	March 2019
Credit to the private sector	**13,524**	**2.5**	**2.8**	**2.7**
Loans	**11,195**	**2.5**	**2.7**	**2.6**
Households	**5,786**	**3.2**	**3.2**	**3.1**
House purchases	*4,391*	*3.5*	*3.5*	*3.5*
Consumer credit	*694*	*6.2*	*6.0*	*6.0*
Other lending	*702*	*-1.2*	*-1.2*	*-1.6*
Non-financial corporations	**4,424**	**2.3**	**2.6**	**2.4**
Insurance companies & pension funds	**131**	**13.0**	**10.6**	**14.8**
Other financial intermediaries	**854**	**-1.8**	**-1.4**	**-1.3**
Securities other than shares	**1,527**	**5.3**	**5.3**	**4.1**
Shares and other equities	**802**	**-2.5**	**-0.3**	**1.7**

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

The stock of financing received by households and companies in Spain continues to increase,…

On the other hand, according to the data of financing to the non-financial sectors in Spain, published by the Bank of Spain (BoS), the stock of financing to the private non-financial sector increased by 1.5% y-o-y in March, as in the previous month. Financing received by firms increased by 2.4%, one tenth more than in February, due to the higher growth rate of debt securities (14.4%, in comparison to the 11.2% registered in the previous month), while foreign loans moderated the rise (5.1%, compared to the 5.7% registered in February) and bank loans intensified the fall (three tenths, to -1.5%). On the other hand, financing received by households increased by 0.2% in March, four tenths less than in February, due to the more moderate increase in bank loans for purposes other than housing (3.9% compared to the 5.2% registered in February), while bank loans for housing maintained the decrease of the previous month (-1.0%).

The ratio of doubtful loans to the total loans granted to households and companies remains at record lows since 2010

According to the data published by the Bank of Spain, the ratio of doubtful loans to the total loans granted to households and companies by financial institutions operating in Spain decreased by almost two points in February in comparison to the figure recorded a year earlier, standing at 5.82%, which is a ratio similar to that of the previous two months and reaching minimum levels since the end of 2010, when it reached 5.81%.

T 5. Financing to non-financial sectors resident in Spain

	March 2019 Balance (Billion €)	% Year-on-year variation		
		January 2019	February 2019	March 2019
Non-financial corporations and Households	**1,601**	**0.7**	**1.5**	**1.5**
Non-financial corporations	**898**	**0.9**	**2.3**	**2.4**
Bank loans	*483*	*-2.4*	*-1.2*	*-1.5*
Securities other than shares	*111*	*7.2*	*11.2*	*14.4*
External loans	*304*	*4.7*	*5.7*	*5.1*
Households	**703**	**0.5**	**0.6**	**0.2**
Bank loans. Housing	*519*	*-1.1*	*-1.0*	*-1.0*
Bank loans. Other	*184*	*5.1*	*5.2*	*3.9*
General Government	**-**	**2.8**	**2.6**	**-**
Total financing	**-**	**1.6**	**2.0**	**-**

Source: Banco de España.

New loan and credit operations to households continue to grow

The total amount of new loan and credit operations to households and non-financial corporations decreased by 5.7% y-o-y in March, 1.7 points less than in February. This lower decrease is explained by the more moderate drop in loans granted to non-financial corporations (-7.5% y-o-y, in comparison to the -10.5% registered in February), while the loans granted to households increased by 0.5% y-o-y, 3.4 points less than in the previous month. Loans to SMEs (using as a proxy for these credits those under one million euros) moderated the drop to -0.5% (-7.0% the previous month), and those exceeding one million euros to -13.9% (-14.7% in February).

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

	March 2019 Balance (Millions €)	% Year-on-year variation		
		January 2019	February 2019	March 2019
TOTAL	**438,133**	**2.9**	**1.7**	**1.5**
Loan and credit operations to households	**97,088**	**9.4**	**8.5**	**8.0**
House purchase	*43,783*	*10.7*	*9.9*	*9.9*
Consumer credit	*35,109*	*16.3*	*14.5*	*14.8*
Other lending	*18,196*	*-3.6*	*-3.6*	*-6.6*
Loan and credit operations to non-financial corporations	**341,045**	**1.2**	**-0.1**	**-0.2**
Up to 1 million euros	*173,471*	*-5.9*	*-6.6*	*-5.5*
Above 1 million euros	*167,574*	*9.7*	*7.5*	*5.9*

(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, the data accumulated in the last twelve months have been taken into account. Thus, the amount of new loan and credit operations to households in cumulative terms for the last twelve months, increased by 8.0% y-o-y in March, half a point less in comparison to the figure recorded in the previous month. This slightly less expansionary evolution is explained by a steeper fall of loans for other purposes (-6.6%, compared to the -3.6% recorded in the previous month), while the loans for consumption rose by 14.8%, 3 tenths more than in February, and loans for housing maintained the growth rate at 9.9%. The amount of new loan and credit operations to SMEs decreased by 5.5% y-o-y in March, 1.1 points more than in the previous month, and the amount of new operations exceeding one million euros increased by 5.9%, 1.6 points less than in February.

Spanish economy

Demand and production

The Spanish economy accelerated almost two tenths in the first quarter of 2019, up to 0.72% q-o-q, according to the flash estimate

According to the Quarterly National Accounts (QNA) flash estimate figures, GDP in volume and with calendar and seasonally adjusted data, recorded a q-o-q growth of 0.72% in the first quarter of 2019, almost two tenths higher than that of the two previous quarters (0.54% in the third quarter of 2018 and 0.55% in the fourth). In y-o-y terms, GDP increased by 2.4%, one tenth more than in the previous quarter, due to the greater contribution of net external demand, partially offset by the lower contribution of domestic demand. The Spanish economy continues to grow more than the average of the Eurozone. According to the flash estimate published by Eurostat, the Eurozone's GDP increased by 0.4% in q-o-q terms, three tenths less than the Spanish economy, and by 1.2% in y-o-y terms, half that of Spain.

With regards to the composition, domestic demand continues to boost economic growth, although its contribution to the GDP y-o-y rise has decreased slightly in the first quarter of 2019, by three tenths, reaching 2.2 percentage points (p.p.), mainly due to the lower growth rate of private consumption. On the other hand, net external demand contributed two tenths, after subtracting the same amount in the previous period, due to a fall in goods and services imports that more than doubles that of exports.

From the supply point of view, the gross added value of the industry sector rebounded in the first quarter of 2019 and that of services maintained the growth rate unchanged. On the other hand, construction activity continued to grow strongly, although at a somewhat more moderate pace, while the agriculture, farming, forestry and fishing sector showed a slightly negative y-o-y rate, compared to the growth registered in the previous quarter.

With regards to employment, it is worth noting the acceleration for the second consecutive quarter of the full-time equivalent employment, two tenths, up to 2.8% y-o-y, which represents a net creation of 510,217 jobs. Likewise, compensation per employee grew by 1.3% y-o-y, two tenths more than in the previous quarter, while unit labour costs increased by 1.7%, four tenths more.

The European Commission maintains an economic growth for Spain of 2.1% in 2019 and of 1.9% in 2020

The European Commission (EC), in its Spring Forecast report, maintained the real GDP growth rate foreseen for the Spanish economy in comparison to the Winter Forecast (it only included GDP and inflation forecasts), at 2.1% for 2019 and at 1.9% for 2020. These figures are higher than the ones forecast for the Eurozone (1.2% and 1.5%, respectively). The EC foresees a real GDP growth in Spain of 0.6% in q-o-q terms for the first quarter of 2019 and 0.5% q-o-q for the rest of the forecast horizon.

With regards to the growth composition, the domestic demand contribution to GDP growth remained unchanged from the autumn forecasts, at 2.2 p.p. in 2019 and 1.8 p.p. in 2020. In terms of domestic demand components, a moderation of four tenths is expected for private consumption in 2019 and of three additional tenths in 2020, to 1.9% and 1.6%, respectively. Likewise, investment is expected to slow down the growth rate by 2.7 points in 2019, reaching a rate of 3.6%, and to reach 2.9% in 2020. As for the external sector, the EC foresees an improvement in the contribution of the net external demand to growth in 2019 (from -0.3 p.p. in 2018 to -0.1 p.p.) and a neutral contribution in 2020. Exports recover in the forecast horizon, after the weakness registered at the end of last year, in line with the evolution of the Spanish export markets and with the gradual fading of some temporary factors that affected exports negatively last year, particularly in the car industry.

As for the labour market, the pace of job creation is expected to remain strong, although it will slow down over the projected period in line with the final demand moderation, and the unemployment rate will fall to 12.2% in 2020, the lowest figure since 2008.

Recent global activity indicators point to the extension of the activity dynamism

Global activity short-term indicators point to the extension of the activity dynamism, in a context of intense job creation and favourable financial conditions.

Among the qualitative indicators, the Global Activity Composite PMI for Spain, published by Markit, fell 2.5 points in April over the previous month, down to 52.9, continuing above the figure recorded by the Eurozone (51.5). This evolution is due to a less expansionary trend of the trade activity, partially offset by a greater dynamism of the manufacturing industry. In the same vein, the Economic Sentiment Index (ISE) published by the EC fell 2.6 points in April in comparison to the previous month, down to 104.1 (1990-2018 average = 100),

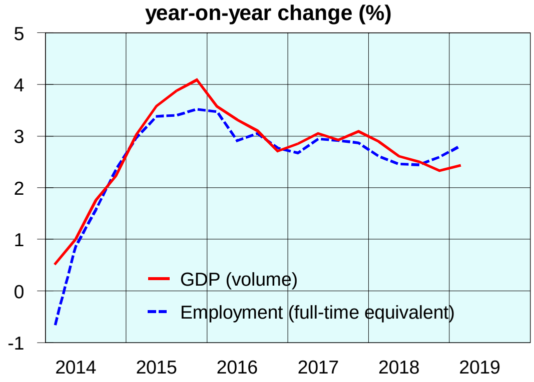
On the other hand, the Business Confidence Indicator, published by the INE, rose by 0.3% q-o-q in the second quarter of 2019, after the 1% fall registered in the previous quarter, due to the improvement of the expectations component, while the current situation component worsened. Among the analysed activity sectors, confidence increased in transport and accommodation and food services activities (2.9%), construction (0.3%) and other services (0.2%), and decreased in trade and industry (-0.4% in both).

Among the quantitative indicators, the Business Turnover Index (BTI), with calendar adjusted data, rose by 4.3% y-o-y in February, almost one point less than in the previous month

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

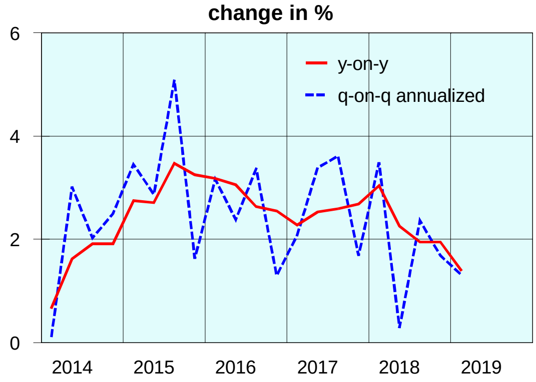
According to the Financial Accounts of the Spanish Economy, published by the Bank of Spain, the Spanish economy recorded net lending capacity vis a vis the rest of the world of € 10.2 billion in the fourth quarter of 2018, equivalent to 3.2% of the quarterly GDP (3.8% of GDP in the previous year). By sectors, the net financial transactions balance of non-financial corporations fell two percentage points compared to the same period of 2017, to 3.3% of GDP. On the other hand, the net borrowing of Public Administrations fell slightly, by 0.1 p.p., down to 5.6% of GDP, and the net lending of households and non-profit institutions serving households (NPISHs) and financial institutions increased by 0.9 and 0.4 p.p., respectively, up to 2.2% and 3.3% of GDP.

G 2. GDP AND EMPLOYMENT
year-on-year change (%)



Source: INE.

G 3. PRIVATE CONSUMPTION
change in %



Source: INE.

Private consumption remains strong…

Amongst GDP components on the demand side, final consumption expenditure of households and NPISHs in volume, registered a y-o-y increase of 1.4% in the first quarter of 2019, five tenths lower in comparison to the figure recorded in the previous quarter. In q-o-q terms, the increase in private consumption reached 0.3%, a figure slightly lower in comparison to the one registered in the previous quarter (0.4%).

The most recent short-term information shows, in general, a greater dynamism of private consumption, due to the favourable evolution of the labour market and the financing conditions, in a context of continuation of the deleveraging process. Retail sales, with deflated and work calendar adjusted data, accelerated slightly in the first quarter of the year, one tenth, up to 1.5%, as a result of the higher growth rate recorded by the food component (1.6%, double that of the previous quarter), while the non-food component rose by 1.3%, six tenths less than in the previous quarter. In the same vein, domestic availability of consumer goods, with seasonally and deterministic effects (calendar and outliers) adjusted data, recorded a y-o-y growth of 1.7% in the first quarter of the year, eight tenths higher when compared to the previous quarter, due to the favourable evolution of the food and durable consumer goods components. The favourable evolution of car registrations should also be noted, as, according to the Spanish Association of Vehicles Manufacturers (ANFAC, as per its Spanish abbreviation), it rebounded in April, up to a y-o-y rate of 2.6% (-4.3% in the previous month), after linking seven months of falls, mainly due to car rental companies, which registered a 27.1% growth, favoured by the calendar effect of the Easter Holidays, which this year were celebrated in April and last year in March.

With regards to the qualitative indicators, the Consumer Confidence Index published by the Sociological Research Centre (CIS) rose more than three points in April, as a result of the increase of its two components: current situation (3.3 points) and expectations (2.9 points). However, the consumer confidence indicator published by the European Commission fell 4.1 points in that month, down to a balance of -6.1, due to the decrease of all its components.

...and the households deleveraging continues

The net financial wealth of households and NPISHs fell by almost 3% y-o-y in the fourth quarter of 2018, reaching € 1.4 billion, as a result of a 1.6% decrease in financial assets, and a 0.9% increase of liabilities. By instruments, in the balance assets for households and NPISHs, cash and deposits, insurance, pensions and standardised guarantees, and other assets gained weight compared to the fourth quarter of the previous year, at the expense of the shares in capital and investment funds, while the relative importance of debt securities was similar to that of a year earlier. In liabilities, the loans weight decreased, almost one point, down to 91.1% of the total, and that of other liabilities increased by the same amount, to 8.9% of the total.

In parallel, the deleveraging process of households started in 2010 continued. Thus, the debt of households and NPISH reached 58.9% of GDP in the fourth quarter of 2018, 2.2 points below the figure registered a year earlier.

Investment showed a more expansionary tone in the first quarter...

With regard to investment, according to the QNA flash estimate, it should be noted that Gross Fixed Capital Formation (GFCF) showed a positive evolution in the first quarter of the year, in an environment of favourable conditions for investment, given the deleveraging of companies, the low interest rates and the good momentum of final demand. Specifically, the y-o-y growth in GFCF stood at 4.7%, three tenths above the figure registered in the previous quarter, as a result of the rebound experienced by the equipment goods component. On the other hand, investment in construction and intellectual property products lost momentum.

...due to the rebound of equipment investment

Investment in equipment goods and cultivated assets rose by 6.7% y-o-y in the first quarter of 2019, in comparison to the 2.8% registered in the previous quarter due to the strong rebound of investment in transport material and the more expansionary trend of the other machinery, equipment goods and cultivated assets components.

With regards to the short-term quantitative indicators, the favourable behaviour of the domestic availability of equipment goods indicator, with seasonally and deterministic effects (calendar and outliers) adjusted data stands out, which accelerated by 1.3 points in the first quarter (the latest observed data corresponds to February), up to 7% y-o-y, as well as truck registrations, which according to figures provided by the ANFAC, increased by 5.8% y-o-y in April, seven tenths more in comparison to the figure recorded in the previous month.

Among the most recent qualitative indicators, according to the Business Tendency Survey, the degree of use of productive capacity of investment goods reached 87.8% in the second quarter of 2019 (April data), eight tenths higher than in the previous quarter. On the other hand, the Industrial Climate Indicator for investment goods fell 9.8 points in April compared to the previous month, reaching a balance of 0.8 points, as a result of the decline in the order portfolio and production expectations components, while the stock level component evolved favourably.

Investment in housing moderates its growth rate

According to the Quarterly National Accounts flash estimate figures, construction investment slowed down the y-o-y progress pace in the first quarter of 2019, standing at 4.6%, 1.7 points lower than the figure registered in the fourth quarter. This evolution is explained by the slowdown of the residential component, 1.5 points down to 3.1% and, to a greater extent, of the other construction segment, which grew by 6.2%, almost two points less than in the previous quarter.

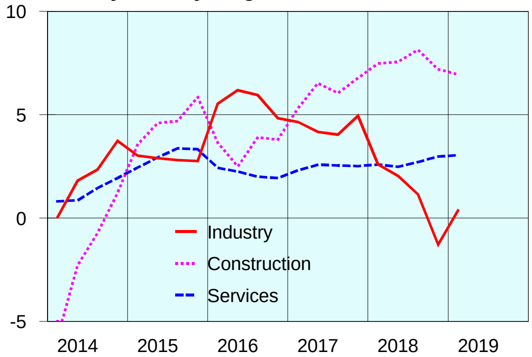
Among the available indicators, the number of housing sales, according to the INE Statistics based on the properties recorded in the Property Registers, registered an increase of

2.4% y-o-y in the first two month period of 2019, 5.1 points lower in comparison to the figure recorded in the fourth quarter of 2018. On the other hand, the number of mortgages on housing accelerated 3.5 points in that period, up to 16%.

The debt of non-financial corporations continues to fall

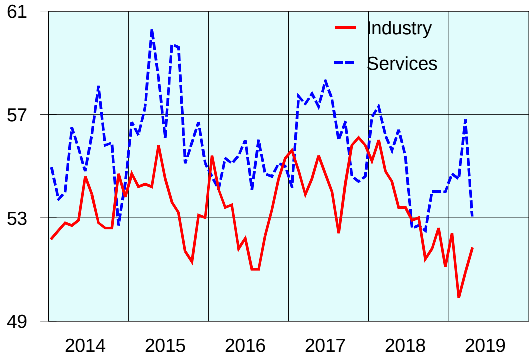
In this context, the debt of non-financial corporations continues to fall, reaching 93.2% of GDP in the fourth quarter of 2018, 3.2 points lower than in the same period of 2017 and similar to the levels registered at the beginning of 2005. On the other hand, the balance of these companies reflects a 0.2% increase in financial assets and a decrease of 2% in liabilities, which resulted in a 5.8% y-o-y decrease in net financial liabilities of the sector, reaching € 1.3 billion.

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



Source: INE.

G 5. PURCHASING MANAGERS' INDEX (PMI)



Source: Markit Group.

Activity increases in the main productive sectors

From the supply point of view, the industry activity improvement and the extension of the service sector dynamism stand out. Thus, the Gross Value Added (GVA) of the industry sector increased by 0.4% y-o-y, following the decrease of 1.3% registered in the previous quarter, and that of the services sector maintained the growth rate at 3%. On the other hand, the GVA of construction moderated the growth rate three tenths, to 6.9%, while that of agriculture, farming, forestry and fishing fell by 0.1%, compared to the increase of 3.6 % registered in the preceding quarter.

Amongst the industrial activity indicators, the Industrial Production Index (IPI), with calendar and seasonally adjusted data, recorded in March a y-o-y drop of 3.1%, almost 3 points higher than the previous month, although it ended the first quarter of the year with a virtual stabilisation (-0.2%), after the sharp fall registered in the fourth quarter of 2018 (-2.8%). In the breakdown by destination groups, the result of the IPI in the period between January and March is explained by the more favourable performance of all its components, especially equipment goods which, after registering a decrease of -1.1% in the fourth quarter of 2018, rose by 3.1% in the first quarter of 2019.

On the other hand, the Industry Turnover Index (ITI) and the Industry New Orders Index (INOI), with calendar adjusted data, rebounded in February, reaching y-o-y rates of 3.3% and 4.6%, respectively (1.8% and -0.9% in the previous month), mainly due to the equipment goods and energy components.

The qualitative activity indicators for the industry also reflect an improvement. The manufacturing PMI edged upwards in April, reaching 51.8, almost one point higher than the previous month, indicating a greater activity dynamism in the sector, due to the increase in production and new orders, which directly improved employment. On the other hand, the confidence indicator in the industry, as published by the EC, fell 2.7 points in that month, due to the worsening of the production expectations components in the sector and the increase in the stock level.

The construction sector activity leading indicators continued to register strong increases

With regards to construction activity leading indicators, according to construction new permits, buildable floorage in new construction, continued to register double-digit rates in February (18.2% y-o-y), although it was almost 11 points lower than the figure registered in January, due to the lower momentum of the residential component, which went from growing by 28.2% in January to 3.3% in February. On the other hand, the non-residential component reached a rate of 117.7% (31.2% in the previous month).

On the other hand, the Production Index in the Construction Industry (PICI), with deflated and calendar adjusted data and published by Eurostat, registered a y-o-y fall of 4.7% in February, 2.5 points higher than the previous month, due to the greater decline in the building component (-5.5%, compared to the -1.8% recorded in January), partially offset by the less contractive evolution of civil works, which reduced the rate of decline by 3.7 points, to -1.2%.

Confidence in construction, according to the EC indicator, fell 6.4 points in April, to -7.5, mainly due to the decrease experienced by the component of employment expectations in the sector. This component went from recording a balance of 8.5 points to a balance of -8.3, even though the order portfolio improved by more than four points.

The dynamism of activity in the service sector continues

With regards to the activity in the services sector, the Services Sector Turnover Index (SSTI), with calendar adjusted data, registered a y-o-y increase of 5%, in February, 1.2 points lower than the previous month, where a 4.1% increase corresponded to the trade branch, and 7% to other services, versus 5.7% and 7.2% respectively recorded in January. The first two months of the year ended with an increase of the SSTI of 5.6% y-o-y, one point higher than the last quarter of last year.

Among the qualitative indicators, the confidence indicator in the EC services increased by 2.1 points in April, to 15.2, as a result of the most favourable evolution of all its components. However, the sector activity PMI shows a more moderate growth rate of the trade activity in that month, reaching 53.1, which is 3.7 points lower than the previous month. This evolution is explained, according to Markit, by the political uncertainty before the elections that took place in late April and that led to postponing some projects, although the continuous increases in new orders and employment suggest that the growth slowdown in that month was temporary.

The tourism sector indicators continue to show a solid growth

Regarding the tourism sector, the arrival of 5.7 million international tourists to Spain in March 2019 stands out, a figure 4.7% higher than the one recorded a year earlier, which represents an acceleration of almost one point in comparison to the previous month. Likewise, the total expenditure by tourists who visited Spain in that month reached € 6.0 billion, which represents a y-o-y increase of 5.4%, 2.5 points higher than the previous month. As a result, the average expenditure per tourist increased by 0.7% in March, reaching € 1,069, and the average daily expenditure rose by 6.1%, up to € 150. By issuing market, the United Kingdom continues being the first in importance, both in number of tourists and in tourist expenditure, with a share of 19.7% and 17.2% of the total, respectively. In the period between January and March 2019, the number of tourists that visited Spain increased by 3.7% y-o-y and their spending by 4.1%, compared to the rises of 5.8% and 6.6% recorded in the preceding quarter respectively.

With regards to the air passenger traffic it rose by 4.6% in March (6.6% in February), as a result of the lower dynamism of international traffic, which slowed down by 2.8 points, to 3.5% y-o-y, and to a lesser extent of domestic traffic , which moderated the growth rate by three tenths, to 6.8%. On the other hand, overnight stays in hotel establishments fell by 1.8% y-o-y in March, after the 0.4% increase recorded in the previous month, due to the drop of domestic overnight stays (-4.9%, after the 2.4% growth registered in February), largely affected by the calendar effect of the Easter Holidays. The first quarter of 2019 ended with an average annual increase of air traffic of 6% and a decrease of total hotel overnight stays of 0.5% (7% and 2.1%, respectively, in the previous quarter).

Prices

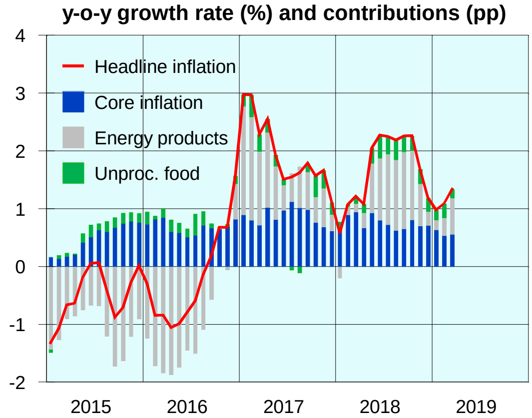
Inflation rose two tenths in March, up to 1.3%, due to oil prices

Inflation, measured by the y-o-y variation rate of the general Consumer Price Index (CPI), stood at 1.3% in March 2019, two tenths higher than in February, linking four months at approximately or slightly above 1%, after rates exceeding 2% registered in the central months of 2018 due to the acceleration of oil prices.

Energy products prices rose by 5.6% y-o-y in March, more than double that of the previous month, both due to the rise in fuel and lubricant prices (6.8%, almost three points more than in February, in line with oil prices) and electricity (3.5%, after the -1.1% recorded in the previous month), the latter influenced by the base effect associated with the sharp m-o-m fall registered in March 2018.

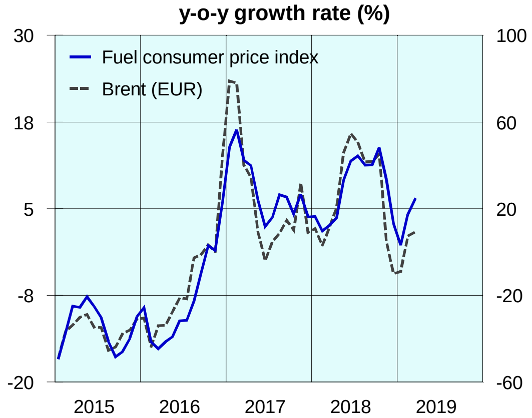
Non-processed food prices rose by 2% y-o-y, 1.4 points less than in February. In this evolution, one must note the slowdown in fresh fruits (0.6%, a rate 2.6 points lower than the one recorded in the previous month) and fresh vegetables and pulses (5.9%, 4.4 points lower).

G 6. HEADLINE INFLATION
y-o-y growth rate (%) and contributions (pp)



Source: own elaboration from INE.

G 7. OIL AND FUEL PRICES
y-o-y growth rate (%)

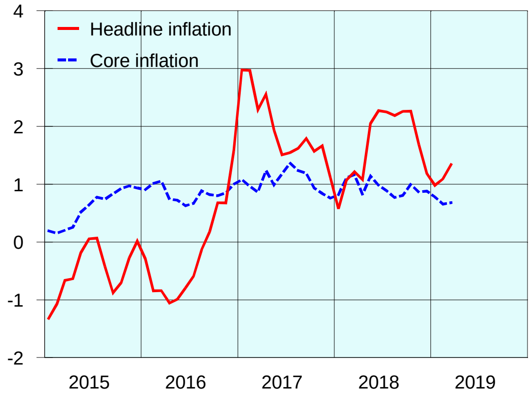


Source: own elaboration from INE and Reuters.

Core inflation remained close to 1%

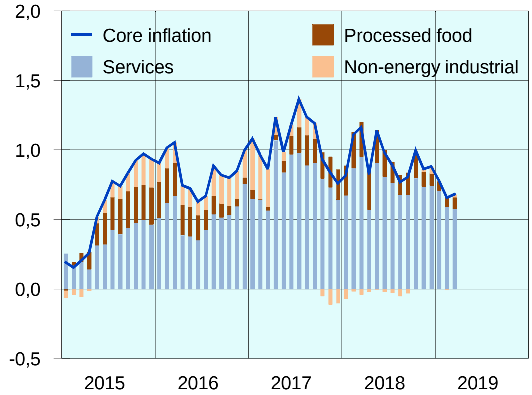
Core inflation, which excludes the most volatile elements from the CPI (non-processed food and energy products), remained at 0.7% y-o-y in March, due to the virtual stabilisation of the price growth rates for its three components. Within services (1.1%, as in February), among the components that contributed to reduce inflation, mainly tourism packages stand out (-6.9%, a drop seven tenths steeper than in February) and accommodation services (0.7%, after the 2.3% registered in the previous month), influenced by the calendar effect of the Easter Holidays, which this year were celebrated entirely in April, whereas last year they began in March. On the other hand, air passenger transport contributed to increase inflation (-7.5%, which represents a moderation of almost two and a half points of the decline rate) and hospitality (1.9%, a rate one tenth higher than February).

G 8. HEADLINE AND CORE INFLATION
y-o-y growth rate (%)



Source: own elaboration from INE.

G 9. CORE INFLATION
y-o-y growth rate (%) and contributions (pp)



Source: own elaboration from INE.

Thus, the trend of the last few months continues, by which the tourism package component has led the main oscillations regarding the trend in services, characterised by relatively stable rates (1.9% for hospitality, the individual item with the heaviest weight in the CPI, and 1.5% for maintenance and vehicles repair) or moderately increasing rates (1.6% housing rental, 2.9% insurance and 1.6% domestic service). Services prices, excluding tourism packages, continued to grow 1.5% y-o-y, in line with the rates observed in the last two years.

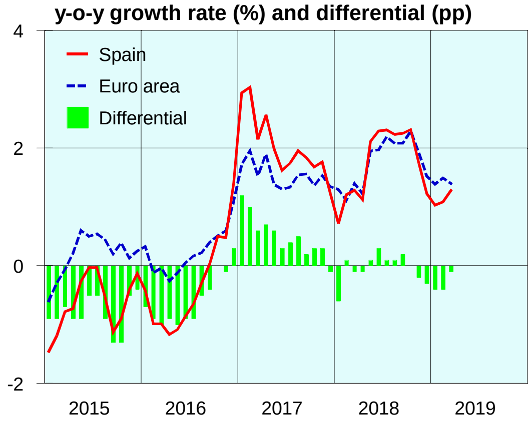
For its part, processed foods prices continued to grow at a rate of 0.4%, framed in a slowdown trend since mid-2018, mainly determined by olive oil price, which continues to accentuate the fall.

Regarding non-energy industrial goods prices, these have remained virtually stable for almost two years (0.2% in March, one tenth more than in February), mainly as a result of the compensation between the drop in mobile telephony equipment prices and the rise in clothing and footwear prices.

Inflation in Spain continues below that of the Eurozone

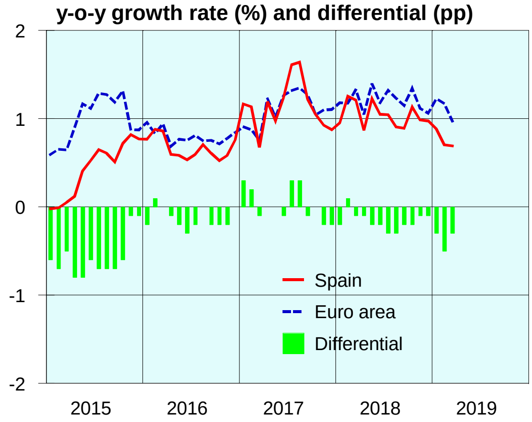
In harmonised terms, the y-o-y rate of the harmonised CPI rose two tenths in March, up to 1.3%, resulting in an inflation differential favourable to Spain with respect to the Eurozone (-0.1 p.p.).

G 10. HEADLINE HICP
y-o-y growth rate (%) and differential (pp)



Sources: INE and Eurostat.

G 11. CORE HICP
y-o-y growth rate (%) and differential (pp)



Source: own elaboration from INE and Eurostat.

For its part, the Spanish harmonised core inflation remained at 0.7% y-o-y in March, resulting in a core inflation differential of -0.3 p.p. with respect to the Eurozone.

According to the CPI flash estimate, inflation rose two additional tenths in April, up to 1.5%

According to the flash estimate published by the INE, the y-o-y rate of the CPI stood at 1.5% in April, two tenths above the figure recorded in March. In this evolution the INE highlights the rise in tourist packages prices in comparison to the fall recorded in April 2018.

In harmonised terms, if April final data confirm the figures of the flash estimate published by the INE for Spain (1.6%) and by Eurostat for the Eurozone (1.7%), the inflation differential for Spain against the Eurozone would stand at -0.1 percentage points.

Industrial prices accelerated in March due to energy

The Producer Price Index (PPI) rose by 2.4% y-o-y in March, seven tenths more than in the previous month, mainly due to the energy component, especially the electricity production, transport and distribution items (5.7%, a rate four points higher than the figure recorded in February, influenced by a base effect derived from the important m-o-m fall experienced in March 2018) and, to a lesser extent, oil refining (11%, a rate more than four points higher than the previous month).

For its part, the non-energy PPI, which has been registering a mild slowdown trend since 2017, remained virtually stable, maintaining a y-o-y rate of 0.1%, as the slight moderation in the rise of equipment goods prices was offset (two tenths, to 0.7%) by the milder drop in consumer goods (-0.8%, after the -0.9% recorded in the previous month, falls associated with the group of oil and fat manufacture).

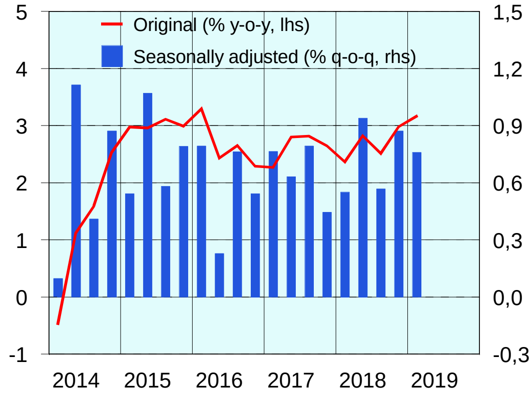
Labour Market

Employment rose by almost 600,000 people last year, the highest increase in twelve years

The Labour Force Survey (LFS) figures corresponding to the first quarter of 2019 point to a favourable evolution of employment, as do Social Security covered workers and employment in terms of National Accounts.

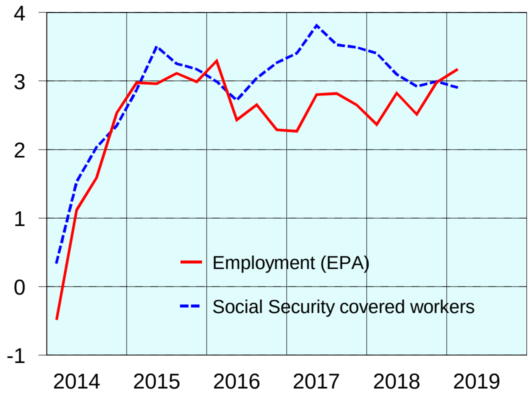
According to the LFS, employment reached almost 19.5 million people, an increase of 596,900 employed people in comparison to a year earlier, or 3.2%, a rate two tenths higher than the previous quarter and three tenths higher than the average Social Security covered workers in the same period.

G 12. EMPLOYMENT (EPA)
% change



Source: EPA (INE).

G 13. EMPLOYMENT (EPA and Social Security)
% y-o-y change



Source: EPA (INE) and Seguridad Social.

By branches, the improvement of the industry LFS employment stands out, as it rose by 1.2% y-o-y in the first quarter of 2019. This growth takes place after the progressive slowdown since the second half of 2017, from a rate of 5.6% in the second quarter of that year to a slightly negative rate (-0.1%) in the fourth quarter of 2018. Agriculture also contributed to the higher rate of job creation, although to a lesser extent, since it grew by 0.7%, one tenth more than in the previous quarter.

For its part, employment in services continued to grow at a rate of 3% y-o-y, while it slowed down slightly in the construction sector, by seven tenths, even though it continues to grow at high rates, by 11.2%.

81.9% of the employment created in the last twelve months corresponded to the private sector, which grew by 3.1% y-o-y, a rate four tenths higher than in the previous quarter and the highest since the third quarter of 2017. On the other hand, public employment grew by 3.5%, almost one point less than in the previous quarter, accounting for 16.5% of total employment, unchanged from the same quarter of 2018.

By sex, employment continued to grow at a similar rate among women (3.3% y-o-y, a rate four tenths higher than in the previous quarter and the highest since 2008) and men (3.1%, one tenth higher than in the previous quarter), with the respective employment rates standing at 44.1% and 55.7% of population over 16 years old. It should be noted that the employment rate among women is near record highs (44.6% in the third quarter of 2008), while it remains almost ten points below its maximum levels among men (65.4% in the third quarter of 2007). The share of employed women has been constant at approximately 46% since 2012.

The temporary rate falls in y-o-y terms for the first time since 2013

According to the professional situation, the growth rate of employees intensified three tenths, up to 3.6% y-o-y (565,500 more people), while self-employed workers increased by 1%, one tenth less than in the previous quarter. The weight of self-employed over the total number of employed persons stood at 16%, three tenths lower than a year earlier, thus continuing the slightly downward trend that began in 2014, mainly derived from the evolution in trade.

By type of contract, 80.5% of the y-o-y increase in employees corresponded to open-ended contracts (455,100 more people, up to a total of 12,124,000, record high) and the rest, to temporary employment (110,400), with variation rates of 3.9% (eight tenths higher than in the previous quarter and the highest since the third quarter of 2008) and 2.7% (1.2 points less than in the previous quarter), respectively.

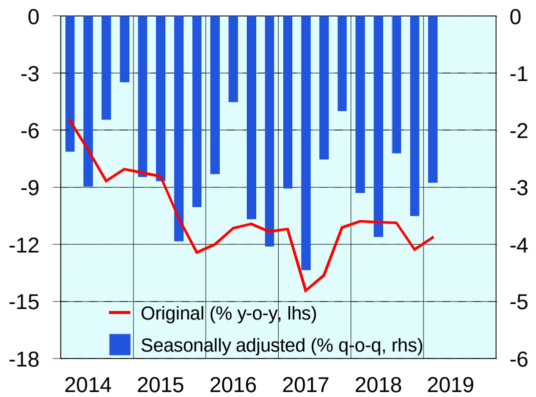
As a result, the temporary employment rate stood at 25.9%, two tenths lower than in the same quarter of 2018, which represents the first annual decline since the third quarter of 2013, standing almost nine points below the maximum before the crisis (34.5% in the third quarter of 2006). It should be noted that the y-o-y decline of the temporary rate comes from the private sector, where it decreased for the fourth consecutive quarter (nine tenths, down to 25.6%), while it continues to increase in the public sector (2.3 points, up 26.8%, surpassing the private sector's for the first time since the first quarter of 2010).

Involuntary part-time employment continues to decrease

Regarding working hours, full-time employment intensified the growth rate three tenths in the first quarter of 2019, to 3.2% y-o-y, while part-time employment moderated one tenth, to 3.1%. As a result, the part-time employment rate remained stable in comparison to the same period of the previous year, at 14.9%,

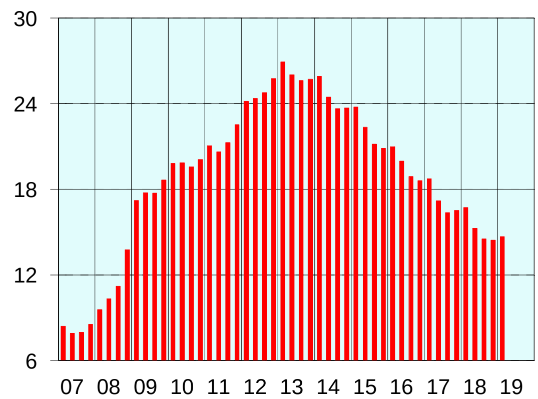
Thus, the part-time employment rate remains at the same level of 2018, the lowest in a first quarter since 2013, after the moderation experienced in recent years by the involuntary component (workers employed part-time because they have not found full-time job), which represented 52% of the total part-time employees in the first quarter of 2019, a percentage 2.7 points lower than that recorded twelve months earlier.

G 14. UNEMPLOYMENT (EPA)
% change



Source: EPA (INE).

G 15. UNEMPLOYMENT RATE
% active population



Source: EPA (INE).

Unemployment continues to fall sharply, especially long-term unemployment

Unemployment fell by 441,900 people in the first quarter of 2019 compared to a year earlier, which represents a fall rate of 11.6%, more than half a point lower than the previous quarter. This moderation in the unemployment drop is due to the group of people looking for their first job or those who had quit their last job more than a year ago, which reduced the rate of decline by two points, down to 15.4%. For its part, among the unemployed who quit their last job a year or less ago, by branches, the drop rate in the industry sector moderates slightly (two tenths, to -1.5%), while it intensifies in agriculture (almost three points, to -15.9%), construction (two points, to -14.9%) and services (1.3 points, to -6.5%).

According to unemployment duration, the number of people who have been unemployed for at least one year (long-term unemployment) fell by 18.7% y-o-y, representing the main contribution to the total unemployment reduction and reaching 38.6% of the total unemployed, the lowest percentage since the fourth quarter of 2010.

The unemployment rate falls two points in the last year, down to 14.7%

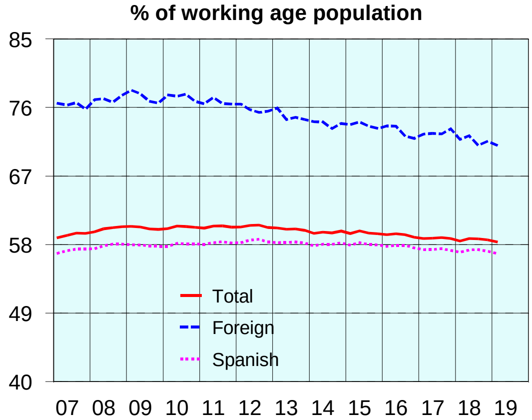
The unemployment rate fell two points compared to the previous year, reaching 14.7% of the labour force. Among young people (from 16 to 24 years old), the unemployment rate stood at 35%, 1.3 points lower than a year earlier. By sex, the male unemployment rate fell 2.3 points, down to 12.9%, and the female rate, almost two points, to 16.7%

The activity rate continues falling, despite the labour force increase

The population over 16 years old in households increased by 0.9% y-o-y in the first quarter of 2019 (0.8% in the previous quarter). This increase is due to the rise of both active population (0.7%, two tenths more than in the previous quarter and the highest since 2011) and inactive population (1.1%, one tenth lower than that of the previous quarter).

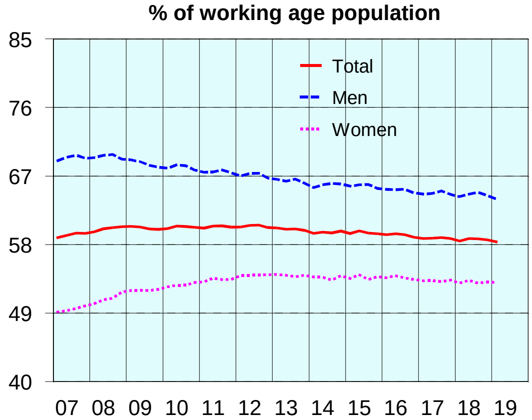
As a result, the activity rate among the population over 16 years old stood at 58.4% in the first quarter of 2019, one tenth lower compared to the same period of 2018 and the lowest since 2006, thus continuing the gradual reduction trend that started in 2013. The importance of population ageing in this trend should be noted, as reflected by the fact that the fall is less intense among those between 16 and 64 years old (74.6% in the first quarter of 2019, only seven tenths below the figure registered in the same period of 2016).

G 16. ACTIVITY RATE, BY ORIGIN
% of working age population



Source: EPA (INE).

G 17. ACTIVITY RATE, BY SEX
% of working age population



Source: EPA (INE).

According to nationality, the activity rate of Spanish citizens stood at 56.9%, one tenth lower than a year earlier, and decreased by seven tenths, down to 71.1% among the foreign population. By sex, men (64%, three tenths less than a year earlier) contributed to the slight annual decline of the activity rate, while women recorded an activity rate of 53%, one tenth higher than in the first quarter of 2018.

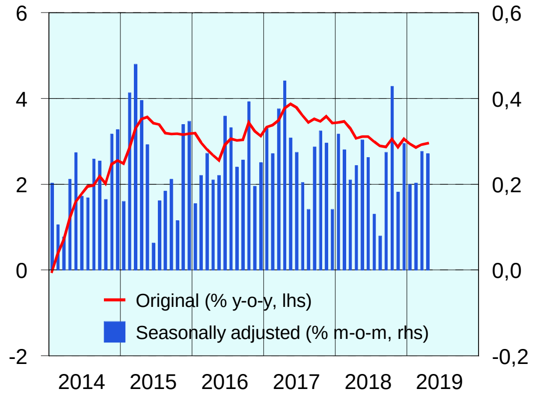
The main reason for not looking for a job among the inactive population is retirement (31.8% of inactive people providing a reason), and the second, to follow education or training courses (23%), although the main reason driving the y-o-y rate upward in recent quarters is the group integrated by those who are not looking for a job due to other reasons, those who do not know the reason and those who cannot be classified.

Considering their connection with the labour market, the evolution of the discouraged inactive population (they do not look for a job because they believe they will not find one) should be emphasised, as it fell by 8.4% y-o-y (-12.9% in the previous quarter), representing 0.7% of the working-age population, the lowest percentage, together with that of the previous quarter, since the beginning of 2009.

The number of Social Security covered workers grew by 3% in April

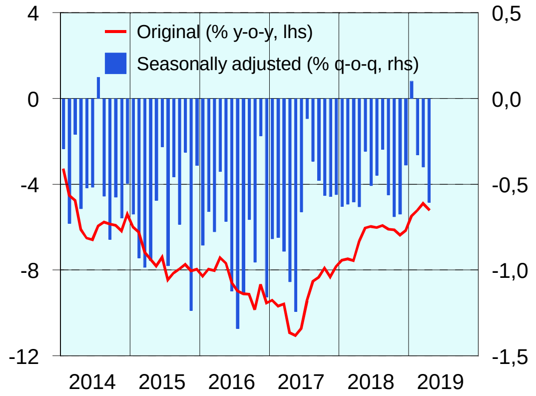
The Social Security covered workers figures corresponding to April 2019, point to the extension of the strong process of job creation. The average number of registrations in the total Social Security System reached 19,230,362, 551,901 higher than in April 2018, which means a y-o-y rate of 3%, close to the average since 2015 (3.2%).

G 18. SOCIAL SECURITY-COVERED WORKERS
% change



Source: Social Security.

G 19. REGISTERED UNEMPLOYMENT
% change



Source: SEPE.

By branches, job creation intensified in April in the services sector (3% y-o-y, two tenths higher than the previous month) and industry sector (1.8%, one tenth higher). On the other hand, the progress rate moderated in construction (nine tenths, to 6.8%) and agriculture (1.2 points, to 0.6%).

By sectors, public Social Security covered workers grew by 4.2% y-o-y (3.7% in March), while private Social Security covered workers continued to rise at a rate of 2.8%. According to the scope, the highest rate of public Social Security covered workers took place at state level (5.8%, a rate one point higher than the previous month), followed by regional level (5%, three tenths higher than in March), while at local level it remained at more moderate rates (1.8%, eight tenths higher than in March).

According to the professional situation, employees (3.5% y-o-y) increased at a faster rate than self-employed (0.6%). Among employees, the strong growth of permanent full-time workers in the General Regime stood out, 5.1%, linking eight consecutive months with rates above 5%. However, the new permanent contracts registered in the State Public Employment Service (SEPE) fell (-7.7%, compared to the -7% registered in March). For its part, the temporary Social Security covered workers in the Social Security General Regime accelerated by eight tenths, up to 1.6% y-o-y, while the new temporary hiring registered in SEPE virtually stabilised (0.5%), after growing more than 5% in the previous month.

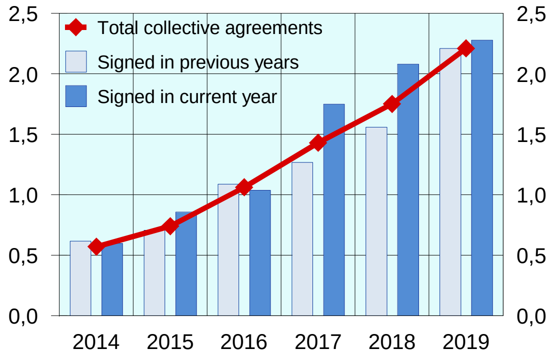
Registered unemployment fell by 5.2% y-o-y in April

At the end of April 2019 registered unemployment stood at 3,163,566 people, a figure 172,302 below that registered a year earlier, which represents a y-o-y rate of -5.2%. By sex, registered unemployment fell by 7.2% y-o-y in April among men and by 3.7% among women, with women concentrating almost 60% of total unemployment.

The agreed wage increase in collective bargaining stands at 2.2% for 2019

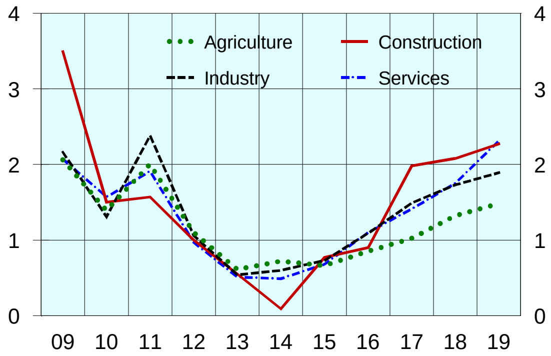
According to the Collective Agreements Statistics, published by the Ministry of Employment, Migrations and Social Security, the average agreed wage rise stood at 2.2% for 2019 for workers covered by collective agreements with effects in 2019 registered up to April (6.9 million, equivalent to 42.3% of the total employees in the first quarter of 2019 according to LFS figures). This rise is half a point higher than that of 2018 (1.7% in agreements registered up to December 2018). By branches, this acceleration is mainly explained by auxiliary services.

G 20. AGREED WAGES
% change



Source: MTMS. (Last month available data for 2019 and December data for rest of years).

G 21. AGREED WAGES, BY SECTOR
% change



Source: MTMS. (Last month available data for 2019 and December data for rest of years).

Among the agreements signed in 2019 (the rest are agreements effective in this year, but signed in previous years), which affect 3.4% of workers covered by collective agreements, the wage increase stands at 2.3% for the year as a whole, two tenths above the figure registered in the previous year.

The number of workers affected by opt-outs of the agreement stood at 8,427 with data corresponding to April 2019, 4.8% more than in the same period of the previous year, which is part of a gradual increase trend in the y-o-y variation rate since the one reached in 2014 (-58.5% y-o-y with information up to December of that year). In terms of workers affected, 99.1% of opt-outs up to April 2019 were reached by agreement, and 90.4% took place in SMEs.

External Sector

In February 2019, the Spanish economy generated net borrowing to the rest of the world

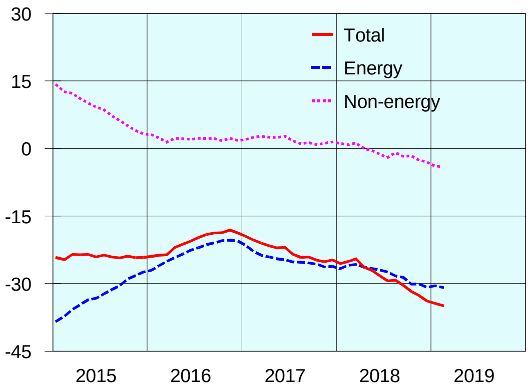
According to the Balance of Payments data, in February 2019, the Spanish economy generated net borrowing to the rest of the world amounting to € 2.5 billion, a figure higher compared to the net borrowing of € 1.6 billion recorded a year earlier. The higher external deficit is explained by the rise in the deficit of the current account balance, which reached € 2.8 billion in February, € 995 million higher than the amount registered in the same month of 2018, while the capital account surplus rose by € 45 million, up to € 226 million. The higher current deficit is due, in turn, to the lower surplus of goods and services (it went from € 574 million in February 2018 to € 381 in the same month of this year) and, to a greater extent, to the increase of the primary and secondary incomes deficit, € 3.2 billion in February 2019 compared to the € 2.3 billion recorded in the same month of 2018.

The trade deficit rose in February

According to Customs data, the trade balance recorded a deficit of € 2.6 billion in February 2019, 461 million above the deficit registered in the same month of 2018. This evolution was due to the increase in the energy deficit, by € 359 million, up to € 2.4 billion and, to a lesser extent, to the rise in the non-energy deficit, by € 102 million, reaching € 187 million (mainly due to the worsening of car and clothing and clothing accessories balances).

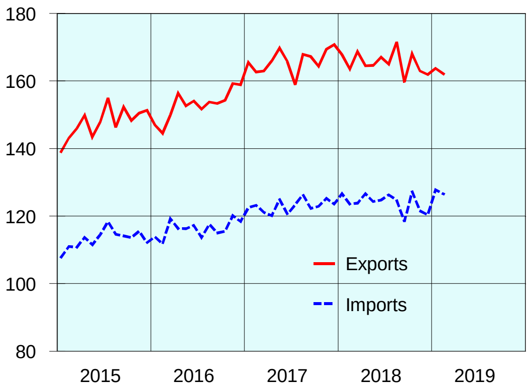
In cumulative terms for the last twelve months, the trade balance recorded a deficit of € 34.8 billion up to February 2019, 38.8% higher in comparison to the deficit accumulated in the twelve months up to February 2018. This trade deficit increase is explained virtually in the same proportion by the non-energy component (it went from recording a surplus of € 812 million to a deficit of € 4.0 billion) and by the energy component (its deficit grew by € 4.9 billion, up to € 30.8 billion).

G 22. TRADE BALANCE
accumulated 12 months, billion euros



Sources: DA and SGCPE.

G 23. FOREIGN TRADE, VOLUME
index 2005=100, s.a.



Sources: DA and SGCPE.

Goods exports recovered in February,...

According to Customs figures, goods exports increased in February by 1.9% y-o-y in nominal terms, after three consecutive months recording falls, and their prices, approximated by unit value indices, rose by 2.8% (0.8% in January), resulting in a 0.9% fall in real terms, after the 2.2% decrease registered in the previous month.

The groups that contributed the most to the growth of nominal exports were medicines, medicinal and pharmaceutical products, disinfectants and insecticides, fresh pulses and zinc. On the other hand, the negative contribution of petroleum products (contribution of -0.7 points) and cars (contribution of -0.3 points, significantly lower than the figure recorded in the previous months) stands out.

The analysis by product groups in real terms and in y-o-y rates, registered an uneven evolution in the different categories in February. There was a slowdown in exports of food consumer goods (0.6 points, down to 1.2%), those of capital goods (1.3 points, then stabilising) and those of non-energy intermediate goods (1.4 points, down to 0.6%). On the other hand, exports of non-food consumer goods (8.4 points, to -4.1%) and those of intermediate energy goods (4 points to -8%) moderated their fall.

By geographical areas, exports in volume to the European Union recovered in February, registering an increase of 1.6% y-o-y, after three months of falls (-2.4% in January), while exports outside the Union accentuated their fall 3.9 points, to -5.6%.

The "momentum" (change during the last three months in comparison to the previous three months) of exports, in real terms, registered a negative rate in February (-0.6%) for the fourth consecutive month, due to the negative contribution of exports to non-EU OECD countries and non-OECD countries. By products, the negative contribution of energy intermediate goods exports and non-food consumer goods stands out.

...and so did imports

Goods imports increased by 3.6% y-o-y in nominal terms in February, 2.7 points above the figure registered in the previous month, and their prices rose by 1.2% (-0.2% in January). This price evolution includes a rise in the prices of energy goods (5.6%) and a more moderate growth in the other products (0.5%). As a result, imports in real terms, rose by 2.4% y-o-y, compared to the 1.1% recorded in the previous month.

The groups that contributed the most to this growth of nominal imports were natural gas, crude oil, clothing and clothing accessories and cars. On the other hand, the negative contribution of oils, fats and waxes of animal and vegetable origin (contribution of -0.2 points) stands out and, to a lesser extent, that of beverages and tobacco and non-edible raw materials, except fuels, with a negative contribution of 0.1 points, in both cases.

The analysis by products in real terms and in y-o-y rates shows an uneven evolution. The imports of non-food consumer goods and capital goods accelerated 3 and 1.9 points, respectively, up to rates of 3.7% and 4.9%, and that of energy intermediate goods grew by 0.7%, after the fall of 12.9% recorded in January. On the other hand, imports of non-energy intermediate goods slowed down 2.5 points, to 2.1% and those of food consumer goods fell by 0.9%, after increasing by 3.6% in January.

By geographical areas and in real terms, imports from the European Union rose by 2.9 y-o-y in February, after the 0.6% growth registered in January, and those from the rest of the world maintained their y-o-y growth at 1.7%.

The "momentum" (change during the last three months in comparison to the previous three months) of imports registered a positive rate in February (2.1%) after five months registering negative rates, where the positive contribution of non-OECD countries and EU countries should be noted. By products, the positive contribution of non-energy intermediate goods stood out.

The financial balance generated net capital inflows in February

According to the Balance of Payments, the financial balance, excluding the Bank of Spain assets, generated net capital inflows of € 6.7 billion in February, versus the net inflows of 3.5 billion recorded a year earlier. This result is explained by the net inflows registered by portfolio investment (€ 13 billion) and direct investment (€ 295 million), partially offset by net outflows recorded in other investments (€ 6.4 billion) and financial derivatives (€ 112 million).

The assets net variation recorded net capital outflows (investments) amounting to € 6.9 billion in February, versus the net outflows of € 8.2 billion registered in the same month of 2018. On the other hand, the liabilities net variation generated net inflows (investments) of € 13.6 million, in comparison to the net inflows of € 11.7 billion recorded a year earlier.

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

The net debtor position of the Bank of Spain vis-à- vis the rest of the world fell by € 3.8 billion in February, due to the increase in reserves (€ 55 million) and, above all, to the reduction of the net debtor position vis-à-vis the Eurosystem (€ 4.2 billion), while the remaining net assets decreased by € 450 million.

Public Sector

Spain submits the 2019-2022 Stability Programme and the 2019 National Reform Programme to the European Commission

At the end of April, the Delegate Commission of the Government for Economic Affairs approved the submission of the 2019-2022 Stability Programme Update and the 2019 National Reform Programme to the European Commission, to comply with the obligation of all the Member States of submitting these reports every year in April, within the framework of the European Semester for the coordination of economic policies. Both documents explain the recent evolution of the Spanish economy, the progress in the reform agenda and the compliance with the specific recommendations made by the European Council in July 2018, in addition to exposing the mid-term macroeconomic and fiscal scenario.

The Stability Programme (SP) details the macroeconomic scenario foreseen by the Government for the period between 2019 and 2022. It predicts that the Spanish economy will gradually converge towards the potential growth rate and will continue to maintain positive growth differentials with respect to the Eurozone. In particular, GDP growths of 2.2% and 1.9% are expected in 2019 and 2020, respectively. The Authority for Fiscal Responsibility (AIReF) has endorsed the macroeconomic scenario and considers it to be prudent as a whole.

Economic growth will continue to create jobs, with growth rates close to those of the GDP throughout the forecast period. As a result, the unemployment rate will continue to fall, reaching levels below 14% of the labour force in 2019 and 10% in 2022.

The SP confirms the process of fiscal consolidation, foreseeing a public deficit fall, down to 2% of GDP in 2019, and a gradual decrease in the coming years that will allow reaching the budget balance in 2022. As of 2019, primary surpluses will be recorded and this will make it possible to accelerate the reduction of the public debt to GDP ratio to levels below 90% by the end of the forecast period.

Eurostat confirms that Spain will leave the Excessive Deficit Procedure and reduces public deficit down to 2.48% of GDP in 2018

On 23rd April, Eurostat published the deficit and public debt figures of the European Union countries in the framework of the Excessive Deficit Procedure (EDP), validating the data submitted by Spain. The public deficit of 2018 stands at € 30 million, 2.48% of GDP, which represents a decrease of 0.15 percentage points of the ratio reported on 29th March (2.63% of GDP), and it is six tenths lower than that of 2018. On the other hand, the public debt reached € 1,173.1 billion by the end of 2018, 97.09% of GDP, compared to the 97.16% reported in March. These revisions are due to the treatment agreed with Eurostat regarding the registration of certain operations that had initially been accounted for in 2018.

The deficit of the General Government, excluding Local Governments, stands at 0.95% of GDP in February 2019

On 30th April, the Ministry of Finance published the data of non-financial transactions of the Central Government, the Regional Governments and the Social Security Funds with consolidated data and in terms of National Accounts, corresponding to February 2019. The Ministry published as well the non-financial transactions of the State, in terms of both National Accounts and Cash, corresponding to March.

T 7. Balance (*) of General Government (GG) non-financial transactions
Data accumulated by the end of the period as % of GDP

	2019 February	2018 February	Change (pp)
National Accounts			
GG excluding Local Government (consolidated)	*-0.95*	*-0.86*	*-0.09*
Central Government	**-1.00**	**-0.92**	**-0.08**
Regional Government	**-0.01**	**-0.05**	**0.04**
Social Security Funds	**0.06**	**0.11**	**-0.05**
	2019 March	2018 March	Change (pp)
STATE			
National Accounts	*-0.54*	*-0.35*	*-0.19*
Cash (1)	*-0.73*	*-0.62*	*-0.11*
SOCIAL SECURITY			
Budget Outturn (2)	*0.29*	*-0.26*	*0.03*

(*) 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.
Source: IGAE (Ministerio de Hacienda) and Ministerio de Trabajo, Migraciones y Seguridad Social

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 March.

On the other hand, the Bank of Spain (BoS) published the General Government Debt data, following the Excessive Deficit Procedure (EDP) methodology, for February 2019 and the Debt data for the State, corresponding to March.

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded up to February 2019 a deficit in terms of National Accounts, equivalent to 0.95% of GDP (0.86% of GDP in the same period of the previous year).

A primary deficit of € 7.6 billion (0.61% of GDP) was registered up to February, compared to the € 5.7 billion recorded a year earlier (0.47% of GDP).

The evolution in the General Government consolidated balance excluding Local Governments is explained by an increase in resources (4.4% in comparison to February last year) lower than that of uses (5.9%).

T 8. General Government excluding Local Government sub-sector
Non-financial transactions in terms of national accounts. Monthly data.
Accumulated amounts in millions €, y-o-y growth and % of GDP

	February		y-o-y	% of GDP	
	2018	2019	growth	2018	2019
1. NON-FINANCIAL REVENUE	**58,847**	**61,425**	**4.4**	**4.87**	**4.89**
Taxes	30,634	31,039	1.3	2.54	2.47
* Taxes on production and imports	18,361	18,930	3.1	1.52	1.51
* Current taxes on income, wealth, etc.	11,696	11,538	-1.4	0.97	0.92
* Capital taxes	577	571	-1.0	0.05	0.05
Social contributions	24,253	25,892	6.8	2.01	2.06
Transfers within general government	1,705	1,891	10.9	0.14	0.15
Other revenue	2,255	2,603	15.4	0.19	0.21
2. NON-FINANCIAL EXPENDITURE	**69,257**	**73,362**	**5.9**	**5.73**	**5.84**
Intermediate consumption	6,419	6,461	0.7	0.53	0.51
Compensation of employees	14,871	15,653	5.3	1.23	1.25
Interest	4,757	4,320	-9.2	0.39	0.34
Subsidies	1,283	1,111	-13.4	0.11	0.09
Social benefits other than social transfers in kind	26,416	28,650	8.5	2.19	2.28
Social transfers in kind: market production purchased by general government	4,501	4,537	0.8	0.37	0.36
Gross capital formation	2,910	2,859	-1.8	0.24	0.23
Transfers within general government	3,409	3,820	12.1	0.28	0.30
Other expenditure	4,691	5,951	26.9	0.39	0.47
3. NET LENDING (+) NET BORROWING (-) (1-2)	**-10,410**	**-11,937**	**14.7**	**-0.86**	**-0.95**

Source: IGAE (Ministerio de Hacienda)

On the revenue side, the increase is mainly due to social contributions and, to a lesser extent, to the collection of taxes and transfers from other General Government units. With regards to the collection of taxes, they increased by 1.3% y-o-y, due to taxes on production and imports, which grew by 3.1%, largely because of a 4.8% rise in VAT revenues. Likewise, the Auctions of greenhouse gas emission allowances amounted to € 159 million (84.9% more than a year earlier). Income derived from Tax on Property Transfers and Documented Legal Acts in the Regional

Governments increased by 9.6% (€ 131 million) with respect to the same period of 2018. On the contrary, the Tax on the Value of the Production of Electric Energy collected by the State went from contributing with € 382 million up to February 2018, to registering a negative net amount of € 7 million up to February this year. This was due to the measures approved in RDL 15/2018, to exempt from tax the energy produced and included in the system during the last quarter of 2018 and the first of 2019.

On the other hand, income derived from current taxes on income and wealth fell by 1.4%, weighed down by the Corporate Income Tax, which decreased by 55.6% partly due to the submission in January 2018, after the deadline, of a settlement corresponding to the financial year 2016, for an amount exceeding € 300 million and the high amount of the inspection reports filed up to February last year. In addition, revenues from Non-Residents Income Tax decreased by 24.3%, mainly due to the rise in reimbursements of € 111 million.

With regards to social contributions, they rose by 6.8%. This result has been influenced by the increase in the number of Social Security covered workers (2.9% y-o-y), as well as by the various measures approved by RDL 28/2018, among which the rise of the minimum and maximum contribution bases in the general regime should be noted (22.3% and 7.0%, respectively). The smallest negative adjustment for uncertain collection, € 374 million less than in the same period of the previous year should also be mentioned.

On the expenditure side, the compensation of employees increase (5.3%, partly due to the general salary increase of 2.25% since January this year, added to the rise applied since the entry into force of the 2018 General State Budget, in July last year), social benefits other than transfers in kind (8.5%, partly due to the increase in pensions applied since January 2019, following RDL 28/2018, which is added to the growth applied since July 2018) and other capital transfers should be noted. The latter were affected by the registration in the first two months of 2019 of refund requests, amounting to € 725 million, of the undue withholdings made on the maternity and paternity benefits during the years 2016 and 2017. Likewise, the higher contribution to the EU based on VAT and GNI resources should also be mentioned, which increased by 42.3% y-o-y and the rise in unemployment benefits (3.7%, mainly due to the growth in the number of beneficiaries of the contributory level by 6.4%, with higher benefits than the rest of beneficiaries, which fell by 5.7%). On the other hand, accrued interest (-9.2%), subsidies (-13.4%) and gross fixed capital formation (-2.2%) decreased in y-o-y terms.

With regard to the balance of non-financial operations by subsectors, the Central Government ended the first two months of this year with a deficit of 1% of GDP, 0.08 p.p. higher compared to the figure registered in the same period 2018. The Regional Government recorded a deficit standing at 0.01% of GDP, 0.04 p.p. below the figure registered in February last year, and the Social Security Funds recorded a surplus of 0.06 of GDP, a figure five hundredths less in comparison to the same period of 2018. Within the Central Government, the State increased its deficit by 19.1% y-o-y, while the deficit of the Other Central Government Bodies fell by 52.3%, mainly due to the drop in other capital transfers, due to the lower amounts registered in relation the Asset Protection Schemes (known in Spanish as EPAs).

Regarding transfers between sub-sectors of the General Government, the increase in current transfers from the State to the Regional Governments (6.8%), up to € 12.9 billion, should be noted, mainly due to the rise of advanced payments from the Financing System (8.2%). Likewise, the decrease of current transfers from the State to Social Security Funds (-5.3%), down to € 3.1 billion and exclusively sent to the System, and the increase of advanced payments of the State to the Local Governments by the Financing System (4.7%) should also be noted.

The State's deficit, in terms of National Accounts rises slightly up to March in y-o-y terms

Up to March 2019, the State registered a deficit, in terms of National Accounts, equal to 0.54% of GDP, 0.19 p.p. higher compared to that of a year earlier (0.35%). This slightly higher deficit is due to a rise in non-financial resources (1.1%) lower than that of non-financial uses (6.0%).

T 9. State

Non-financial transactions in terms of national accounts. Monthly data

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

	March		y-o-y growth	% of GDP	
	2018	2019		2018	2019
1. NON-FINANCIAL REVENUE	**45,533**	**46,049**	**1.1**	**3.77**	**3.67**
Taxes	40,723	40,616	-0.3	3.37	3.24
* Taxes on production and imports	27,661	28,740	3.9	2.29	2.29
* Current taxes on income, wealth, etc.	13,026	11,866	-8.9	1.08	0.95
* Capital taxes	36	10	-72.2	0.00	0.00
Social contributions	1,635	1,607	-1.7	0.14	0.13
Transfers within general government	2,137	2,288	7.1	0.18	0.18
Other revenue	1,038	1,538	48.2	0.09	0.12
2. NON-FINANCIAL EXPENDITURE	**49,822**	**52,803**	**6.0**	**4.12**	**4.21**
Intermediate consumption	1,115	1,263	13.3	0.09	0.10
Compensation of employees	3,914	4,147	6.0	0.32	0.33
Interest	6,045	5,513	-8.8	0.50	0.44
Subsidies	1,079	546	-49.4	0.09	0.04
Social benefits other than social transfers in kind	3,350	3,602	7.5	0.28	0.29
Social transfers in kind: market production purchased by general government	26	29	11.5	0.00	0.00
VAT and GNI-based EU own resources	3,133	4,130	31.8	0.26	0.33
Transfers within general government	28,032	30,463	8.7	2.32	2.43
Gross capital formation	1,408	1,082	-23.2	0.12	0.09
Capital transfers within general government	172	177	2.9	0.01	0.01
Other expenditure	1,548	1,851	19.6	0.13	0.15
3. NET LENDING (+) NET BORROWING (-) (1-2)	**-4,289**	**-6,754**	**57.5**	**-0.35**	**-0.54**

Source: IGAE. Ministerio de Hacienda.

The evolution of resources is mainly explained by the decrease in taxes (-0.3%), driven in turn by current taxes on income and wealth, which went down by 8.9% in comparison to the same period of the previous year. Personal Income Tax rose by 2.2%, once the part corresponding to the Regional Governments (which rose by 8.6%) was deducted. However, revenues from Corporate Income Tax fell by 81.9%, mainly as a result of a refund to a single company, linked to past reports, for an amount slightly exceeding € 700 million, due to the late submission, in January 2018, of a Corporation Tax settlement corresponding to the financial year 2016 for an amount exceeding € 300 million, and due to the high amount of the inspection reports filed up to February last year. Non-Resident Income Taxes fell by 20.5%, due to an increase of € 138 million in reimbursements. Income from taxes on production and imports grew by 3.9%, due to VAT, which rose by 4.6% y-o-y.

The slight tax decrease was more than offset by the higher transfers received from other general government units (7.1%), the lower negative adjustment for amounts unlikely to be collected (€ 253 million less) and the greater dividend received from the Bank of Spain (€ 905 million, 19.7% more), so total resources rose by 1.1%.

Among uses, it is worth mentioning the increase in the contribution to the EU based on VAT and GNI resources (31.8%) and current transfers to other general government units (8.7%). The largest increase was observed in those made to Social Security Funds by 34.3%, up to € 6.4 billion, which include a transfer of € 666 million to maintain the budget balance of the Social Security System, without correspondence until March 2018. The transfers made to the Regional Governments and the Local Governments rose by 3.3% and 4.6%, respectively. It is also worth highlighting the rise in the compensation of employees (6.0%) and social benefits (7.5%), due to the increases in salaries and pensions, already mentioned.

The decrease in interest (-8.8%) and investment (-23.2%) was significant due to the allocation of investments corresponding to four of the eight bankrupt toll roads whose management reverted to the State up to March 2018. Investment aid and other capital transfers grew by 2.9%, recording the registration of the tax return on maternity and paternity benefit, amounting to € 741 million up to March 2019. It should be considered that this expenditure has been partially compensated with certain expenses recorded in 2018 (as the part of the Administration’s Liability (RPA in Spanish) not registered as an investment, corresponding to the four motorways rescued up to March last year).

In terms of Cash, the State recorded a deficit of € 9.2 billion, 0.73% of GDP up to March, 0.11 p.p. above in comparison to the figure recorded in the same period of 2018 (0.62% of GDP).

The borrowing requirement of the State up to March rose by 42.5% in comparison to the same period of the previous year, reaching € 23.7 billion. This increase is due to the greater cash deficit (€ 1.7 billion more) and the growth in the net acquisition of financial assets (€ 5.4 billion more), the latter mainly derived from the greater balance of the current account of the State in the Bank of Spain (€ 7.5 billion more than in the same period of 2018). The borrowing requirement has been almost entirely financed through domestic medium and long-term debt.

The borrowing requirement of the State up to March was higher than the cash deficit due to net acquisitions of financial assets by the State, mainly associated with the evolution of the current account of the State in the Bank of Spain.

The Social Security registers a surplus up to March

The budget execution of the Social Security, in terms of recognised rights and obligations, recorded a surplus up to March 2019 of 0.29% of GDP, 0.03 p.p. higher than in the same period of 2018 (0.26% of GDP). Revenues grew by 11.7% in y-o-y terms, driven by social contributions, which rose by 8.1%. The increase in current transfers received (31.8%) and, in particular, those received from the State (35.7%) should be noted, which includes the transfer of € 666 million to maintain the budget balance of the System, without correspondence in the same period of 2018.

On the other hand, payments increased by 11.1%, where the pensions evolution should be noted as they rose by 6.8%. The rise in benefits for temporary disability, which went from € 910 to € 2 billion, should also be mentioned.

T 10. Social Security System Budget Outturn

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

Accumulated data in millions euros and y-o-y growth

	2018 December	2019 Budget	% Change	2018 March	2019 March	% Change
1. REVENUE	**135,026**	**135,253**	**0.2**	**34,129**	**38,130**	**11.7**
Social Security contributions	114,999	114,916	-0.1	28,278	30,566	8.1
Current transfers	18,081	18,441	2.0	5,477	7,219	31.8
of which: from the State	14,650	14,876	1.5	4,707	6,386	35.7
Property income	273	228	-16.4	34	11	-68.9
Other revenue (1)	1,673	1,667	-0.3	341	334	-2.0
2. EXPENDITURE	**151,988**	**152,565**	**0.4**	**31,003**	**34,443**	**11.1**
Pensions	130,783	129,495	-1.0	27,464	29,343	6.8
Sickness benefits	7,491	7,980	6.5	910	1,976	117.2
Maternity benefits	2,388	2,559	7.2	569	598	5.0
Other benefits	2,058	2,197	6.7	622	635	2.1
Wages and salaries	2,254	2,394	6.2	481	493	2.4
Purchase of goods and services	1,393	1,542	10.7	271	300	10.8
Other revenue (2)	5,620	6,398	13.8	686	1,098	60.0
3. BALANCE OF NON-FINANCIAL TRANSACTIONS (1-2)	**-16,962**	**-17,312**	**2.1**	**3,126**	**3,687**	**17.9**
As % of GDP	-1.4	-1.4		0.26	0.29	

(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 and Dirección General de Ordenación de la Seguridad Social.

The General Government EDP Debt stands at € 1,188.1 billion in February

The Bank of Spain (BoS) published the General Government Debt monthly data, according to the Excessive Deficit Procedure (EDP) methodology. According to the BoS, the General Government Debt reached a balance of € 1,188.1 billion in February, which represents an increase of € 10.4 billion in comparison to the figure registered in January and of € 30 billion versus a year earlier. It should be noted that the evolution of the monthly balance is volatile and is conditioned by the concentration of issuances in the first months of the year and redemptions in January, April, July and October.

By subsectors, the State and the Regional Governments debt rose compared to the same month of the previous year, reaching € 1,046.2 billion and € 293.3 billion, respectively, as well as the Social Security Administration, which set their debt at € 41.2 billion. On the other hand, the Local Corporation and the Other Central Government Bodies continued reducing their debt in y-o-y terms, to € 26.1 and € 31.4 billion, respectively.

The debt held by the General Government units, which is deducted to obtain the debt in consolidated terms, amounted to € 250.1 billion, which represents an increase of € 22.1 billion in comparison to a year earlier. This item includes, among others, the loans granted by the State to other subsectors and the assets of the Social Security Reserve Fund.

By instrument, the increase in long-term debt securities (by € 48 billion) and the decrease in short-term debt securities (by 5.9 billion) and the fall of loans (by € 12.3 billion) in comparison to the same period of last year should be noted, the latter due to the early amortisation of part of the ESM loan.

By the end of March, the State's EDP Debt reached € 1,058 billion, compared to the € 1,014.4 billion recorded a year earlier. Out of this balance, € 233 million correspond to debt in currencies other than the euro.

By instruments, € 922.3 billion correspond to long-term debt securities (€ 52.9 billion more than a year ago), € 68.7 billion with short-term debt securities (€ 3.9 billion less) and the rest, € 67 billion, with loans and deposits (€ 5.1 billion less than in the same period of the previous year, due to the early amortisation of part of the ESM loan).

By counterpart sectors, € 558.9 billion are assets held by resident sectors (€ 21.3 billion more than in the same month of 2018) and € 499.0 billion correspond to the rest of the world (€ 22.3 billion more than in March 2018). Out of the assets held by residents, € 13.8 billion are held by other General Government units (€ 3.4 billion less than a year ago).

May 2019