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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

1.- FINANCIAL MARKETS

The evolution of the financial markets in the third quarter of 2019 was conditioned by the trade tensions and the uncertainty regarding Brexit, as well as by the higher degree of monetary accommodation of the main central banks, with reductions of interest rates in the United States and a new package of monetary stimuli in the Eurozone. In a context where less favourable than expected macroeconomic data had been published, which point to a moderation of economic growth in the world economy, European public debt yields have declined across the board, reaching record lows in August, stock indices have shown mixed behaviour and the euro has depreciated against the dollar.

The ECB introduces new monetary stimuli

The Governing Council of the European Central Bank (ECB), on its meeting held on 12th September, took a number of monetary policy measures in response to the persistence of inflation below its target, in a context of high uncertainty and downward risks for the Eurozone growth. In the first place, it decreased the interest rate on the deposit facility by 10 basis points, down to -0.50%, and kept the interest rates on the main financing operations and the marginal lending facility unchanged at 0.00% and 0.25%, respectively. The Governing Council now expects the ECB key interest rates to remain at their current or lower levels until a sustained convergence of inflation outlook is observed to a level sufficiently close to, but lower than, 2%.

Moreover, the ECB announced that net purchases will be restarted under the asset purchase programme (APP) at a monthly rate of € 20 billion as from 1st November. The Governing Council expects them to run for as long as necessary in order to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates. Likewise, there will be a full reinvestment of the capital payments from maturing securities purchased under the asset purchase programme for an extended period of time past the date when the key interest rates start raising, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

On the other hand, the modalities of the new series of quarterly targeted longer-term refinancing operations (TLTRO-III) will be changed. The interest rate in each operation will be reduced by 10 basis points and will now be set at level of the average rate applied in the Eurosystem’s main refinancing operations over the life of the respective TLTRO. For banks whose eligible net lending exceeds a benchmark, the interest rate applied in TLTRO-III will be lower, and can be as low as the average interest rate of the deposit facility. The maturity of the operations will be extended from two to three years.

Finally, a two-tier system for the reserve remuneration will be introduced, in which part of bank’s holdings of excess liquidity will be exempt from the negative deposit facility rate.

Likewise, the ECB revised its growth forecasts downwards for the Eurozone in 2019 and 2020, as well as its inflation estimates for the entire period 2019-2021. The ECB pointed out that the growth risks of the Eurozone continue to be biased downward and highlighted, among them, the continued presence of some uncertainty with regards to geopolitical factors, the growing threat of protectionism and the vulnerabilities in emerging countries.

Table 1.1. **Financial and monetary indicators**

	2017	2018	2019 May.	Jun.	Jul	Aug.	Sep.	Oct.
A) Interest rates (percentages)(1)								
Official rates (2)								
Eurozone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	1.50	2.50	2.50	2.50	2.25	2.25	2.00	2.00
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euribor rates								
3 months	-0.33	-0.32	-0.31	-0.33	-0.36	-0.41	-0.42	-0.43
12 months	-0.15	-0.17	-0.13	-0.20	-0.28	-0.36	-0.34	-0.33
Debt market (3)								
3 years	-0.08	-0.03	-0.24	-0.31	-0.43	-0.47	-0.44	-0.46
5 years	0.36	0.41	0.07	-0.09	-0.21	-0.31	-0.27	-0.28
10 years	1.56	1.42	0.88	0.51	0.36	0.14	0.18	0.16
Bank rates (3)								
Loans and credit. Synthetic rate	2.55	2.37	2.34	2.15	2.48	2.28	-	-
Mortgage loans (households)	2.19	2.21	2.40	2.26	2.23	2.19	-	-
Deposits. Synthetic rate	0.08	0.06	0.05	0.05	0.05	0.04	-	-
B) Spreads (basis points)(1)								
Spain-Germany 10 years	118	96	96	77	70	76	76	72
USA-Germany 10 years	197	246	249	235	325	227	226	217
C) Eurozone monetary aggregates(4)								
M1	8.80	6.60	7.20	7.20	7.80	8.40	-	-
M2	5.20	4.30	5.20	5.00	5.50	6.20	-	-
M3	4.70	4.10	4.80	4.50	5.10	5.70	-	-
D) Exchange rates(1)								
Dollar/euro	1.129	1.181	1.118	1.129	1.122	1.113	1.100	1.091
% (4)	12.3	-3.8	-5.3	-3.3	-4.0	-3.7	-5.6	-5.0
Yen/euro	126.7	130.4	122.9	122.1	121.4	118.2	118.2	117.7
% (4)	9.2	-4.3	-5.1	-5.0	-6.8	-7.8	-9.4	-9.2
Yen/dollar	112.2	110.4	109.9	108.1	108.2	106.2	107.5	107.9
%(4)	-2.8	-0.5	0.2	-1.8	-2.9	-4.3	-4.0	-4.4
Effective nominal euro rate	96.6	99.0	97.4	97.9	97.5	98.1	97.4	97.2
% (4)	5.4	-0.5	-0.7	0.0	-1.8	-0.8	-2.0	-1.7
E) Stock market indexes % (5)								
Madrid General Index	7.6	-15.0	5.4	7.4	4.6	2.6	7.0	3.2
IBEX 35	7.4	-15.0	5.4	7.7	5.0	3.6	8.3	4.4
Eurostoxx – 50	6.5	-14.3	9.3	12.7	15.5	14.2	18.9	13.7
Dow Jones	25.1	-5.6	6.4	14.0	15.2	13.2	15.4	11.8
Standard & Poors 500	19.4	-6.2	9.7	17.3	18.9	16.7	18.7	15.2
Nikkei 225	19.1	-12.1	2.9	6.3	7.5	3.4	8.7	8.8

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

The Fed reduces the interest rates for the second time this year

The Federal Open Market Committee (FOMC) of the Federal Reserve (Fed), in its two-day meeting held on 17th and 18th September decided to reduce the Federal Funds interest rates by 25 basis points, placing them within the target range of 1.75%-2.00%. This is the second consecutive drop of 25 b.p., after that experienced after the meeting held on 30th and 31st July. Likewise, the FOMC unanimously decided to reduce the interest rate on required reserves down to 1.80%, and the primary interest rate to 2.50%. With regard to the future path of the Federal Fund interest rates, the Fed's projections have been revised downwards in comparison to the figures provided in July, the central range considered most appropriate to achieve the monetary policy targets standing between 1.6% and 2.1% in 2020.

In the press conference that followed the meeting, the President of the Fed commented that, if the economy weakens, it would be appropriate to make further rate cuts, and left the door open to buy assets again. In the meeting held in July, the FOMC decided to end the programme to reduce the balance sheet (holdings of debt by the Treasury and MBS) in August, two months before the originally planned date (October), setting it at 3.8 trillion dollars.

The BoJ maintains its ultra-expansionary monetary policy

In the meeting held on 18th and 19th September, the Bank of Japan (BoJ) decided by a majority of 7 votes to 2, to keep the negative interest rate to current accounts that financial institutions hold at the Bank at -0.1%. Similarly, the BoJ unanimously decided to keep its asset purchase programme started in 2013 unchanged. This programme 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.

With regards to the interest rates policy, the BoJ confirmed 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. The BoJ considers that the downward risks for the economic activity and prices are significant and has confirmed its willingness to introduce additional stimulus measures. In its meeting held on 29th and 30th July, the BoJ updated its macroeconomic projections, revising downwards its growth forecasts for 2019 and its inflation estimates for 2019 and 2020.

The BoE maintains its monetary policy and believes that downward risks continue to increase

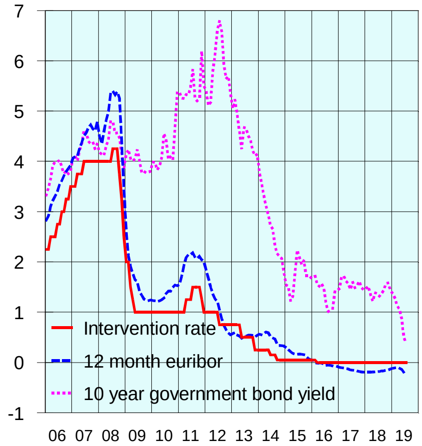
The Monetary Policy Committee of the Bank of England (BoE), in its meeting held on 18th September, unanimously decided to maintain the Official Bank Rate at 0.75%, in force since 1st August of last year. It also decided to continue with the public debt and corporate debt purchase programmes, which stand at 435 billion and 10 billion pounds, respectively.

The BoE highlighted that the downward risks and uncertainty continue to increase, as a result of the trade tensions and the uncertainty regarding Brexit. As in previous statements, the BoE has underlined that the economic outlook and monetary policy stance will depend on the Brexit's effects on supply, demand and the exchange rate. At its meeting held on 31st July, the BoE had revised its growth forecasts for 2019 and 2020 downwards, and its inflation forecasts downwards for 2019 and upwards for 2020.

The Central Bank of Australia reduces the official interest rate for the third time this year

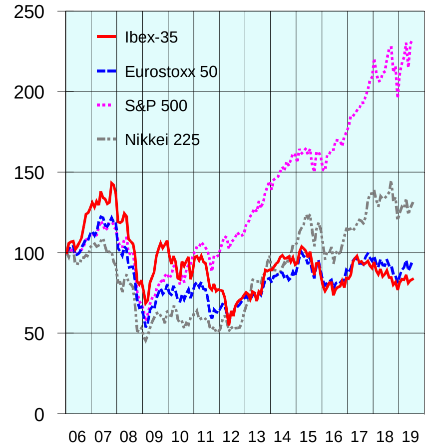
In its meeting held on 1st October, the Reserve Bank of Australia decided to reduce the cash rate by 25 basis points, down to 0.75%, its record low. It is the third fall so far this year, after the one registered in June and July.

G 1.1 INTEREST RATES
monthly averages (a)



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

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



Source: Bolsa de Madrid, Nasdaq and Stoxx.

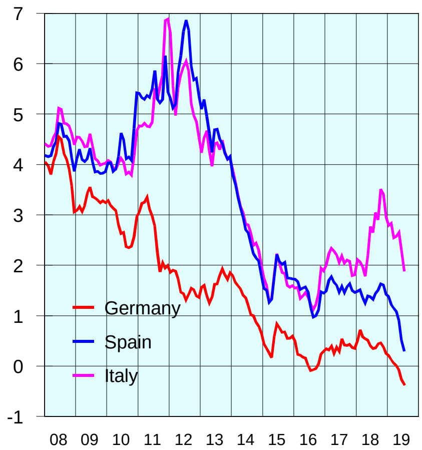
The Norges Bank increases the interest rates

On the other hand, the Central Bank of Norway (Norges Bank), in its meeting held on 19th September, decided to increase the reference interest rates by 25 basis points, up to 1.5%, which is the fourth rise of the year

The 12-month Euribor decreases and registers a record low in August

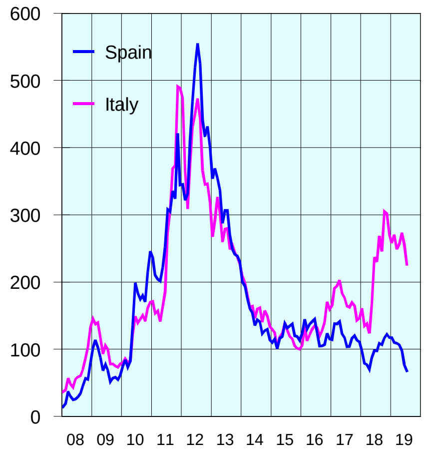
In the interbank market of the Eurozone, interest rates fell significantly in all its terms during the third quarter of the year. The one-year Euribor reached its record low in the third week of August and then edged upwards slightly. Thus, on 2nd October, the one, six and twelve-month Euribor stood at -0.468%, -0.384% and -0.323%, respectively, versus the -0.388%, -0.311%

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



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

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



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

and -0.214% recorded at the end of June. The decline of the twelve-month Euribor in this period is due to the growing expectations of decreases in interest rates (the OIS -Overnight index swap- fell 6 b.p.), as well as the fall in risk premiums required in the market (the Euribor-OIS differential fell 5 b.p.).

The Spanish Treasury reduces down to 20 billion the net issuance foreseen for this year

The Spanish public Treasury will reduce by 10 billion additional euros the volume of net issuance expected for 2019, which will reach € 20 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 € 194.5 billion, 8.7% lower compared to last year.

This reduction is possible thanks to the positive evolution of the Treasury financing costs and the investors' confidence in the Spanish economy. The reduction of emissions will allow an estimated saving in the payment of interest of over € 2.0 billion compared with the forecast at the beginning of the year.

The average cost of outstanding debt continued to fall to record lows, reaching 2.29%. Likewise, the average cost of new issuances also fell compared to the end of 2018, reaching 0.37%. Finally, the average life of outstanding debt remains at 7.55 years in 2019, slightly above that registered in 2018 (7.45 years).

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

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-31-18	Jun-28-19	Oct-02-19	Variation in bp		Dec-31-18	Jun-28-19	Oct-02-19	Variation in bp	
	(1)	(2)	(3)	Period (3)-(2)	Annual (3)-(1)	(4)	(5)	(6)	Period (6)-(5)	Annual (6)-(4)
Germany	0.25	-0.33	-0.55	-22	-80					
Holland	0.39	-0.16	-0.41	-25	-80	14	17	14	-3	0
Austria	0.50	-0.04	-0.29	-25	-79	25	29	26	-3	1
Finland	0.55	-0.03	-0.28	-25	-83	30	30	27	-3	-3
France	0.71	-0.01	-0.25	-24	-96	46	32	30	-2	-16
Belgium	0.77	0.06	-0.22	-28	-99	52	39	33	-6	-19
Ireland	0.91	0.18	0.00	-18	-91	66	51	55	4	-11
Spain	1.42	0.40	0.19	-21	-123	117	73	74	1	-43
Portugal	1.72	0.48	0.19	-29	-153	147	81	74	-7	-73
Italy	2.77	2.10	0.91	-119	-186	252	243	146	-97	-106
Greece	4.38	2.49	1.36	-113	-302	413	282	191	-91	-222

Source: Financial Times.

Public debt yields decrease across the board, and the 10-year Spanish bond reaches a new record low in August

In the secondary public debt market, the greater flexibility of the monetary policy, with interest rates declines in the United States and an ECB new stimulus package, as well as the uncertainty regarding trade tensions, Brexit and weak economic growth, have edged yields downwards during the third quarter of the year, reaching record lows in Europe in August. The 10-year Spanish bond yield stood at 0.19% on 2nd October, 21 b.p. lower than the figure recorded on 28th June. On the other hand, the German bond yield fell 22 b.p. in that period, and continued registering negative values (-0.55%), with the Spain-Germany differential standing at 74 b.p., 1 b.p. higher than at the end of June. In the rest of Europe, the drop in the Greek and Italian yields in this period should be noted (119 and 113 b.p., respectively). In the United States, the 10-year bond yield stood at 1.59% on 2nd October, 42 b.p. below the level reached at the end of June. On the other hand, the yield of the three-month bills stood at 1.79%, 33 b.p. below the figure recorded at the end of June, and continues above that of the 10-year US bond. The differential between both remains at negative values (-19 b.p.) and has widened 7 b.p. since the end of June.

Rating agencies upgrade the credit rating and outlook of Spain

Standard & Poor's and the Canadian agency DBRS published their credit rating of the Spanish debt on 20th September. S&P raised Spain's rating, from A- to A with a stable outlook, highlighting Spain's higher greater growth compared to that of the Eurozone, the strong downward trend of the Debt-to-GDP ratio and the progress in fiscal consolidation. On the other hand, DBRS reaffirmed Spain's A rating, improving the trend from stable to positive due to the solid economic growth and sustained improvement in public finances.

Stock indices close the quarter registering mixed results

In the stock markets, the main indices decreased until mid-August, in a context of a more accommodative monetary policy, uncertainty regarding the weakness of economic growth and increased trade tensions. However, the indices edged upward in the second half of August, after the easing of trade tensions and the moderation of political uncertainty in Europe, extending its recovery until the end of September and partially offsetting the accumulated losses. In Europe, the Eurostoxx 50 index rose by 0.9% in the period between 28th June and 2nd October. In Spain, the IBEX 35 fell by 3.1%, standing at 8,912.20 points. The rest of European markets registered a mixed behaviour: the FTSE 100 in the United Kingdom and the German DAX decreased (-4.1% and -3.8%, respectively), while the CAC 40 in Paris and the Italian FTSE MIB increased (1% and 0.3%, respectively). In the US market, the S&P 500 index fell by 1.8% in the same period.

Table 1.3. **International stock exchanges**

Countries	Indexes	Level Oct-02-19	% Variation Jun-28-19	% Variation Dec-31-18
Germany	DAX	11,925.25	-3.8	12.9
France	CAC 40	5,422.77	1.0	14.6
Italy	FTSE MIB	21,298.24	0.3	16.2
Spain	IBEX 35	8,912.20	-3.1	4.4
Eurozone	EUROSTOXX 50	3,413.31	0.9	13.7
United Kingdom	FTSE 100	7,122.54	-4.1	5.9
United States	S&P 500	2,887.61	-1.8	15.2
Japan	NIKKEI 225	21,778.61	2.4	8.8
China	SHANGHAI COMP	2,905.19	-2.5	16.5
Mexico	IPC	42,222.90	-2.2	1.4
Brazil	BOVESPA	101,031.44	0.1	15.0
Argentina	MERVAL	30,792.05	-26.3	1.6

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

The euro depreciates against the dollar

With respect to the currency market, the ECB new stimulus package, the political uncertainty and the weaker than expected macroeconomic data in Europe, have pushed the euro exchange rate against the dollar downwards during the third quarter of 2019. Thus, in the period between the end of June and the beginning of October, the euro depreciated by 4% against the dollar, by 4.2% against the yen and by 0.8% against the pound, trading at 1.0925 dollars, 117.47 yen and 0.8897 pounds by the end of the 2nd October session. In the same period, the euro depreciated by 0.8% in nominal effective terms vis-à-vis the group of industrialised countries.

The M3 broad monetary aggregate rise by 5.7% in August, six tenths more than in July, and reaches the highest rate since 2009,…

In relation to the analysis of the monetary sector, the ECB published the evolution of the monetary and credit aggregates in the Eurozone for August. The M3 broad aggregate rose by 5.7% y-o-y in August, six tenths more compared to the figure registered in the previous month. This evolution is due to the acceleration of overnight deposits and other short-term deposits (seven and nine tenths, respectively, up to 9.0% and 1.0%), while marketable instruments intensified the rate of decline (-2.9%, compared to the -1.6% registered in July) and the cash in circulation moderated its growth two tenths, to 4.7%.

Table 1.4. **Eurozone monetary aggregates**

Monetary aggregates	August 2019 Balance (Billion €)	% Year-on-year variation		
		June 2019	July 2019	August 2019
1. Currency in circulation	1,198	4.7	4.9	4.7
2. Overnight deposits	7,585	7.7	8.3	9.0
M1 (= 1+2)	**8,783**	**7.2**	**7.8**	**8.4**
3. Other short-term deposits (= 3.1.+3.2.)	3,462	-0.1	0.1	1.0
3.1. Term deposits up to two years	1,117	-6.2	-5.5	-2.7
3.2. Deposits redeemable at notice up to three months	2,346	3.0	3.0	2.9
M2 (= M1+3)	**12,245**	**5.0**	**5.5**	**6.2**
4. Marketable instruments (= 4.1.+4.2.+4.3.)	627	-4.8	-1.6	-2.9
4.1. Repurchase agreements	72	1.1	10.6	-0.7
4.2. Money market funds shares units	532	-1.0	1.6	4.6
4.3. Securities other than shares up to two years	24	-39.9	-40.5	-63.2
M3 (= M2+4)	**12,873**	**4.5**	**5.1**	**5.7**

Source: European Central Bank.

…and financing to the private sector in the Eurozone grows by 3.1%, two tenths more than in the previous month

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, increased by 3.1% y-o-y in August, two tenths more than in the previous month. This evolution is due to the higher rise of loans and shares and other equity (3.5% and 2.0%, respectively, compared to the 3.2% and 1.8% registered in July), while securities other than shares moderated the growth rate two tenths, to 1.2%. Within loans, those granted to non-financial corporations, insurance companies and pension funds, and other financial intermediaries increased the growth pace 0.2, 5.9 and 0.7 points, up to 3.5%, 13.0% and 3.3%, respectively, while those granted to households maintained their growth rate at 3.2%.

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

	August 2019 Balance (Billion €)	%Year-on-year variation June 2019	July 2019	August 2019
Financing to the private sector	**13,742**	**3.0**	**2.9**	**3.1**
Loans	**11,399**	**3.2**	**3.2**	**3.5**
Households	**5,865**	**3.2**	**3.2**	**3.2**
House purchases	*4,456*	*3.4*	*3.5*	*3.5*
Consumer credit	*714*	*6.4*	*6.2*	*6.1*
Other lending	*695*	*-1.1*	*-1.3*	*-1.2*
Non-financial corporations	**4,510**	**3.3**	**3.3**	**3.5**
Insurance companies & pension funds	**141**	**5.8**	**7.1**	**13.0**
Other financial intermediaries	**883**	**1.8**	**2.6**	**3.3**
Securities other than shares	**1,541**	**3.2**	**1.4**	**1.2**
Shares and other equities	**802**	**1.1**	**1.8**	**2.0**

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

Financing received by households and non-financial corporations 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), financing to the private non-financial sector increased by 1.1% y-o-y in August, two tenths less than in the previous month (this rate is calculated as the effective flow of a period divided by the balance outstanding at the beginning of the period). Financing received by non-financial corporations increased by 1.8%, two tenths less than in July, due to the decline in foreign loans (-0.8%, after growing by 0.2% in July) and the lower growth of debt securities (18.0%, one point less than in July), while bank loans y-o-y rate rose by four tenths, up to 0.1%. On the other hand, the financing received by households increased by 0.3% in August, as in July, an evolution that is explained by the maintenance of bank loans for housing at -1.1%, while the growth rate of bank loans for purposes other than housing moderated three tenths, to 4.3%.

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

	August 2019 Balance (Billion €)	% Year-on-year variation June 2019	July 2019	August 2019
Non-financial corporations and households	**1,568**	**0.7**	**1.3**	**1.1**
Non-financial corporations	**863**	**0.9**	**2.0**	**1.8**
Bank loans	*478*	*-1.2*	*-0.3*	*0.1*
Securities other than shares	*118*	*15.8*	*19.0*	*18.0*
External loans	*266*	*-0.4*	*0.2*	*-0.8*
Households and NPISH	**705**	**0.4**	**0.3**	**0.3**
Bank loans. Housing	*517*	*-1.0*	*-1.1*	*-1.1*
Bank loans. Other	*188*	*4.5*	*4.6*	*4.3*
General Government	**-**	**3.9**	**3.0**	**-**
Total financing	**-**	**2.0**	**2.0**	**-**

Source: Banco de España.

The ratio of doubtful loans continues to fall, standing at record lows since December 2009

According to the data published by the BoS, the ratio of doubtful loans to the total loans granted to households and companies by financial institutions operating in Spain decreased 1.1 points in July in comparison to the figure recorded a year earlier, standing at 5.23%, the lowest figure since December 2009, when it reached 5.08%.

New loan and credit operations to households, in cumulative terms for the last twelve months, fall in August

The total amount of new loan and credit operations to households and non-financial corporations increased by 9.9% y-o-y in August, after growing by 0.4% in July. This growth is explained by the rebound in loans granted to non-financial corporations (13.1% y-o-y, 9.9 points more than in July), as well as by the more moderate fall in loans granted to households (-0.7%, compared to the -9.7% recorded in the previous month). Loans granted to SMEs (using as a proxy for these credits those under one million euros) fell by 5.3% in August, after increasing by 1.2% in the previous month, and those exceeding one million euros increased by 36.0%, 30.7 points more than in July.

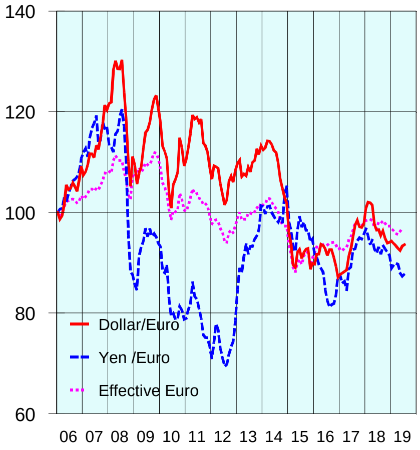
In order to facilitate the analysis, given the high volatility of these series, the data accumulated in the last twelve months are analysed next. Thus, the amount of new loan and credit operations to households in cumulative terms for the last twelve months, decreased by 0.2% y-o-y in August, after growing by 0.2% in the previous month. This evolution is explained by the lower growth in loans for consumption (5.3%, compared to the 7.6% recorded in July), partially offset by the more moderate decrease in loans for other purposes (-11.4%, compared to the -12.1% registered in July) and due to the acceleration of loans for housing (0.7%, two tenths more than in the previous month). The amount of new loan and credit operations to SMEs decreased by 3.2% y-o-y in August, two tenths less than in July, and the amount of new operations exceeding one million euros increased by 1.5%, after falling by 0.4% in the previous month.

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

	Balance August 2019 (Million €)	% Year-on-year variation		
		June 2019	July 2019	August 2019
TOTAL	**437,239**	**-1.0**	**-1.5**	**-0.8**
Loan and credit operations to households and NPISH	**97,589**	**2.8**	**0.2**	**-0.2**
House purchase	*44,130*	*4.1*	*0.5*	*0.7*
Consumer credit	*35,095*	*8.4*	*7.6*	*5.3*
Other lending	*18,364*	*-9.1*	*-12.1*	*-11.4*
Loan and credit operations to non-financial corporations	**339,650**	**-2.0**	**-2.0**	**-0.9**
Up to 1 million euros	*174,805*	*-3.5*	*-3.4*	*-3.2*
Above 1 million euros	*164,845*	*-0.5*	*-0.4*	*1.5*

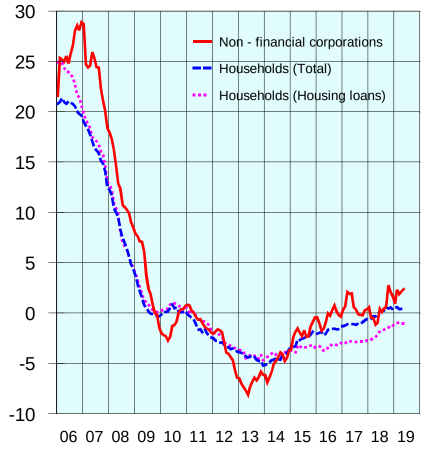
(1) Accumulated data for the last 12 months.
Source: Banco de España.

G 1.5 EXCHANGE RATES
monthly averages. January 2006 = 100



Source: European Central Bank (ECB).

G 1.6 CREDIT IN SPAIN
year on year percentage change



Source: Banco de España (BE).

2.- DEMAND AND PRODUCTION

The INE published the 2019 Statistical Review of the Spanish National Accounts for the period 1995-2018,...

On 16th September, the INE published the 2019 Statistical Review of the Spanish Annual National Accounts for the period 1995-2018. This review is due to the need to periodically update (at least every five years, according to international recommendations) the sources and estimation methods used in its preparation. It is a harmonised review among the countries of the European Union, Eurostat and the European Central Bank, and is done in coordination with the Bank of Spain and the General Intervention of the State Administration.

The average impact of the 2019 Statistical Review on GDP at current prices in the period 1995-2018 stands at 0.4% in comparison to the 2010 Base, the revisions being negative for most of the series. Likewise, the downward revision of the GDP annual variation rates, both in volume and at current prices, has been, on average, of 0.1 points. In the 2016-2018 period, the real GDP variation rate was revised downwards, between one and two tenths (3%, 2.9% and 2.4% in 2016, 2017 and 2018, in the revised series, compared to 3.2%, 3% and 2.6%, in the 2010 Base).

...pointing to a more moderate growth in the first half of 2019

Likewise, the INE published the Quarterly National Accounts (QNA) figures for the second quarter of 2019, which update the flash estimate published at the end of July and are consistent with those of the Annual National Accounts after implementing the 2019 Statistical Review. Real GDP growth is revised downwards in the first quarter of the year, two tenths, down to 0.5% q-o-q, and one tenth in the second quarter, to 0.4%, pointing to a more contained growth profile than the one initially estimated by the INE.

According to the QNA figures, published by the INE after the implementation of the comprehensive statistical review of its annual series for the period 1995-2018, GDP, in volume and with calendar and seasonally adjusted data, recorded a q-o-q growth rate of 0.4% in the second quarter of 2019, one tenth lower in comparison to the figure recorded in the previous quarter, and 2% y-o-y, two tenths below that of the first quarter.

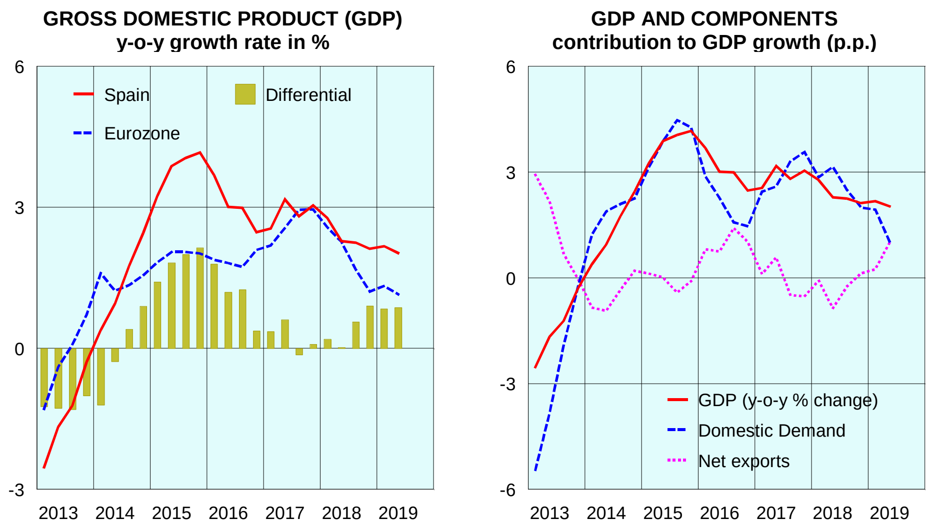
However, the growth differential continues to be favourable to Spain with respect to the Eurozone, in a complex international context characterised by the persistence of trade and geopolitical tensions, and by the slowdown in economic activity and world trade. According to the estimate published by Eurostat, the GDP of the Eurozone, in volume, increased by 0.2% in q-o-q terms in the period between April and June, two tenths less than that of the Spanish economy. On the other hand, the y-o-y growth of the Eurozone GDP increased by 1.2%, eight tenths lower than the figure recorded in Spain.

In addition, according to the revised National Accounts figures, the economic growth composition is balanced between domestic and external demand, both contributing one percentage point to GDP growth in the second quarter of 2019. In comparison to the previous quarter, the contribution of domestic demand fell nine tenths, due to the slowdown in investment and private consumption, while that of net external demand increased by eight tenths, as a result of the higher growth rate of exports and the greater drop in imports.

From the supply point of view, and in real terms, the Gross Added Value recorded a slightly less favourable y-o-y evolution in the second quarter of the year for all activity branches, with the exception of the industry sector, where it registered positive rates again, after four quarters of consecutive declines.

Regarding the primary distribution of income, the weight of the compensation of employees on the quarterly GDP grew in the second quarter in y-o-y terms (six tenths, up to 45.7%), at the expense of the gross operating surplus/gross mixed income and the net taxes on production and import (they decreased two and three tenths respectively, to 44.1% and 10.3%).

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



Sources: INE *(QNA-2019 Statistical Review)* and Eurostat.

The Bank of Spain revises downwards the growth forecast for the Spanish economy

According to the update of its macroeconomic forecasts for the Spanish economy, the Bank of Spain (BoS), revised downwards its growth forecast for the Spanish economy in 2019, four tenths, to 2.0%, and, to a lesser extent, in 2020 and 2021, two and one tenths, respectively, down to 1.7% and 1.6%. These reviews are partly explained by the changes made by the INE in the National Accounts series derived from the 2019 Statistical Review, as well as by the increase in external uncertainty and the worsening of the external context.

According to the BoS and with regards to the real GDP growth composition, domestic demand contributed 1.4 percentage points in 2019, nine tenths less than in the June forecasts, and the net external demand six tenths, half a point higher compared to the previously estimated figure. For 2020 and 2021, the BoS revises the domestic demand contribution downward (four and two tenths, respectively) and that of net external demand upwards (two tenths in 2020 and one tenth in 2021).

As for employment, in line with the evolution of the activity, the BoS revised downwards the growth rate forecast for the number of full-time equivalent employment throughout the period, between one and two tenths. The unemployment rate will continue to fall, but slightly less than expected in June, reaching 13% in 2021 (annual average). The lower reduction in the unemployment rate in the projection horizon is also explained by the greater growth of labour force.

The most recent indicators point to a continuation of the expansionary trend of the Spanish economy in the third quarter of the year

Quantitative indicators of global activity point to an extension of the expansionary trend of the Spanish economy in the third quarter of the year, in a context of intense, although more moderate, job creation and loose financing conditions. According to the statistics prepared by the Tax Agency and based on monthly VAT returns, total large firm sales, with fixed-sample, deflated and adjusted for calendar and seasonal variations data, rose by 1.6% y-o-y in August, similar to the figure recorded in the previous month, where the acceleration of exports in that month should be noted. On the other hand, the Business Turnover Index increased by 2.6% y-o-y in July, with calendar adjusted data, a rate similar to that of the previous month (2.8%), where the trade, extractive and manufacturing branches recorded a more dynamic progress and, those of non-financial market services and electricity and water supply, sanitation and waste management sectors a less dynamic one.

On the other hand, the main qualitative indicators of global activity also point to a continuation of the expansionary trend between July and September, although more moderate than in the second quarter. The global activity composite PMI (Purchasing Managers´ Index) for Spain published by Markit, reached 51.7 in September, almost one point below the figure recorded in the previous month (52.6), closing the third quarter of the year at a level similar to that of the previous quarter (52 points, compared to the 52.4 registered in the second quarter). On the other hand, the Economic Sentiment Index, published by the European Commission, fell 3.1 points in September, down to 104.2 (1990-2018 average = 100), although it ended the third quarter with a 105.6 level, eight tenths higher than the previous quarter. Likewise, the composite leading indicator for Spain, designed by the OECD to anticipate turning points in the economic activity with regards to its trend, fell two tenths in August compared to the previous month, reaching 98.6.

2.1.- Domestic Demand

The contribution of domestic demand to the rise of GDP y-o-y fell nine tenths in the second quarter, down to 1.0 percentage points (p.p.), according to the revised National Accounts figures. By components, this slowdown compared with the first quarter is mainly explained by the lower dynamism of investment and, in particular, by the fall in the equipment goods component and, to a lesser extent, by the lower growth in private consumption.

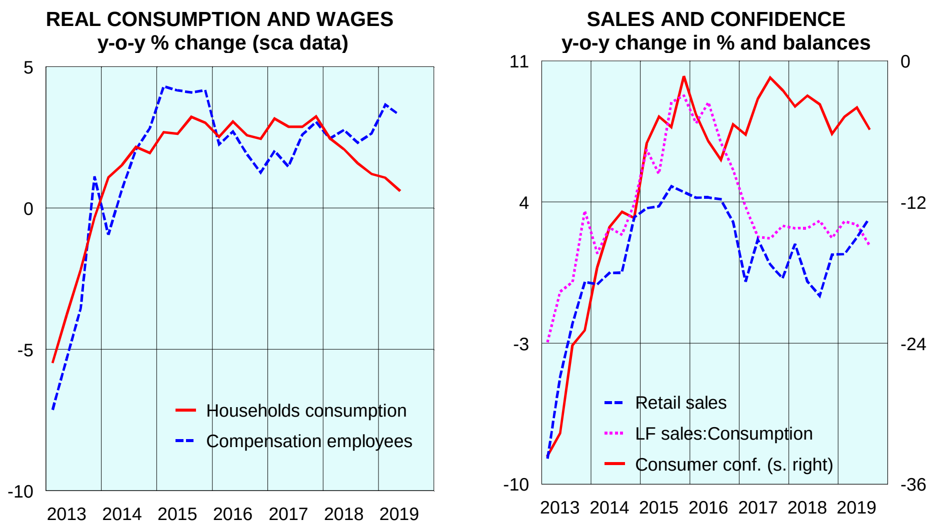
Private consumption moderates in the second quarter of 2019,...

According to the QNA data, final consumption expenditure of households and non-profit institutions serving households (NPISHs) in volume and with calendar and seasonally adjusted data grew by 0.6% y-o-y in the second quarter, a rate four tenths lower that of the previous quarter, in a context of job creation, growth in real wages and an increase in the household savings rate.

Recently published quantitative indicators of private consumption show in general a slight moderation in the third quarter. Thus, domestic sales in large companies of consumer goods and services, with deflated, fixed-sample and calendar and seasonally adjusted data decreased in August their y-o-y growth rate, 0.7 points, to 0.8%. With regard to passenger car registrations, according to the figures provided by ANFAC (Spanish Association of Vehicles Manufacturers), they rebounded in September up to a y-o-y rate of 18.3%, although they ended the third quarter with an average annual decline of 11.4%. These rates are affected by a base effect associated with a strong rebound in August and subsequent fall in September 2018, as the purchases were brought forward before the entry into force of the WLTP and RDE particle emission measurement regulation on 1st September. On the other hand, retail sales, at constant prices and with work calendar adjusted data, accelerated one point in the two month period between July and August, up to 3.2% y-o-y, due to the greater dynamism of its two components, food (six tenths, up to 1.9%) and non-food (1.5 points, up to 4.4%).

Among the qualitative indicators, the Consumer Confidence Indicator prepared by the EC remained at -6.2 in September, closing the third quarter with a level of -5.8, 1.8 points lower compared to the previous quarter, as a result of the worsening of all its partial components. In the same vein, the Consumer Confidence Index (CCI) published by the Sociological Research Centre, fell 10.8 points in the third quarter, to 87.9, below the 100 threshold (indicative of a negative perception of consumers).

G 2.2 PRIVATE CONSUMPTION INDICATORS



Sources: INE, CE and AEAT.

…and the household savings rate reaches record highs for the last ten years, according to the revised National Accounts series

According to the Quarterly Non-Financial Accounts for the Institutional Sectors (QNFAIS), published by the INE in line with the new National Accounts series, the net lending of the Spanish economy has been revised almost one point of GDP upwards in 2018, due to the improvement of the household account, which went from a net borrowing of 1.2% of GDP according to previous estimates, to a slight net lending (due to higher net non-wage income and current transfers received). As a result, the household savings rate has been revised upwards in 2018, from 4.9% of its gross disposable income (GDI) up to 5.9% in the revised series. In the second quarter of 2019, households and NPISH generated net lending of € 33.0 billion, € 9.0 billion higher than a year earlier, due to the increase in savings in the sector and the fall in investment. In turn, the higher savings (25.3% y-o-y) is explained by a GDI increase higher than that of nominal private consumption (5.8% and 2.1%, respectively), with the savings rate reaching 19.3% of the GDI, three points higher compared to the figure recorded in the same quarter of the previous year and the highest since the second half of 2009. With calendar and seasonally adjusted data, the savings rate of households and NPISH reached 8.7 %, two points higher than the figure recorded in the previous quarter. Regarding the households' investment rate, it stood at 5.4% of its GDI, two tenths lower than the rate in the previous quarter and in the same period last year.

Table 2.1. **Quarterly National Accounts**

Chain-linked volume index reference 2015; corrected data from seasonal and calendar effects

				year-on-year change				q-o-q change	
	2017	**2018**	**2019(4)**	**III-18**	**IV-18**	**I-19**	**II-19**	**I-19**	**II-19**
DEMAND									
Domestic consumption	2.5	1.9	1.2	1.7	1.4	1.3	1.0	0.3	0.1
- Private consumption	3.0	1.8	0.8	1.6	1.2	1.0	0.6	0.2	0.0
- Public consumption	1.0	1.9	2.2	1.9	2.2	2.2	2.2	0.5	0.4
Gross fixed capital investment	5.9	5.3	2.8	5.3	3.5	4.8	1.0	1.4	-0.2
- Equipment (1)	8.5	5.6	3.0	6.7	1.6	8.1	-1.7	3.4	-1.7
- Construction	5.9	6.6	3.5	6.1	5.7	4.2	2.9	0.6	0.5
- Intelectual Property Products	1.3	1.1	0.5	0.7	1.0	-0.1	1.1	-0.1	0.9
Change in inventories (2)	0.0	0.2	0.0	0.2	0.2	0.0	0.1	-0.1	0.0
Domestic demand (2)	3.0	2.6	1.5	2.5	2.0	1.9	1.0	0.4	0.1
Exports of goods and services	5.6	2.2	1.3	1.6	0.1	0.3	2.2	0.6	1.7
- Goods (fob)	5.1	2.1	-0.3	1.9	-1.0	-2.2	1.6	-0.3	2.8
- Services	6.8	2.3	4.8	1.0	2.7	6.0	3.5	2.3	-0.7
Imports of goods and services	6.6	3.3	-0.5	2.5	-0.3	-0.4	-0.7	0.1	0.9
- Goods (fob)	6.5	1.9	-2.1	0.9	-2.0	-1.7	-2.5	-0.2	0.6
- Services	7.3	9.8	6.5	10.3	7.9	5.5	7.5	1.2	2.1
Net foreign balance (2)	-0.1	-0.3	0.6	-0.2	0.1	0.2	1.0	0.1	0.3
GROSS VALUE ADDED									
Agriculture (3)	-3.0	5.9	-2.3	3.0	6.9	0.0	-4.6	-4.1	-2.7
Industry. Total	3.1	-0.4	-0.3	-0.2	-1.5	-0.7	0.2	0.3	0.5
- Manufacturing	4.9	0.7	-0.2	0.2	-0.3	-0.1	-0.3	0.0	0.0
Construction	4.9	5.7	5.8	6.2	5.9	6.4	5.2	1.6	0.8
Services	2.9	2.7	2.8	2.6	2.7	2.9	2.8	0.8	0.5
GDP m.p.	**2.9**	**2.4**	**2.1**	**2.2**	**2.1**	**2.2**	**2.0**	**0.5**	**0.4**
GDP at current prices	4.3	3.5	3.7	3.2	3.4	3.4	3.9	0.6	1.5

(1) Equipment and cultivated assets. (2) Contribution to GDP growth (percentage points). (3) Agriculture, forestry and fishing.

(4) First semester.

Source: INE *(CNE-2019 Statistical Review)*.

On the other hand, final consumption expenditure of the General Government, in volume, and with calendar and seasonally adjusted data, recorded a y-o-y rate of 2.2% in the period between April and June 2019, a rate identical to the one registered in the previous quarter.

Investment lost momentum in the second quarter,...

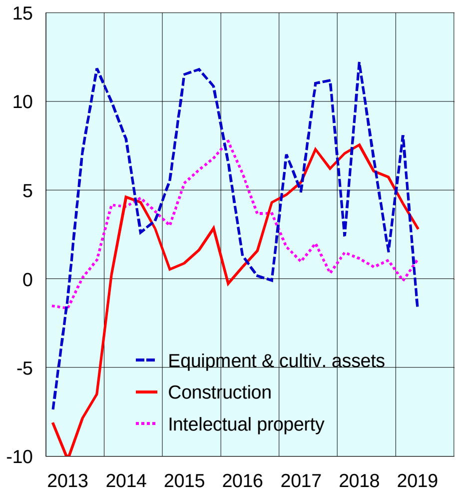
According to the QNA, gross fixed capital formation (GFCF) rose 1% in the second quarter, a rate 3.8 points lower compared to the previous quarter. This evolution is mainly explained by the fall in cultivated assets and equipment goods investment, following the rebound registered in the first quarter, and, to a lesser extent, by the growth moderation in non-residential construction investment.

...mainly due to the equipment investment component

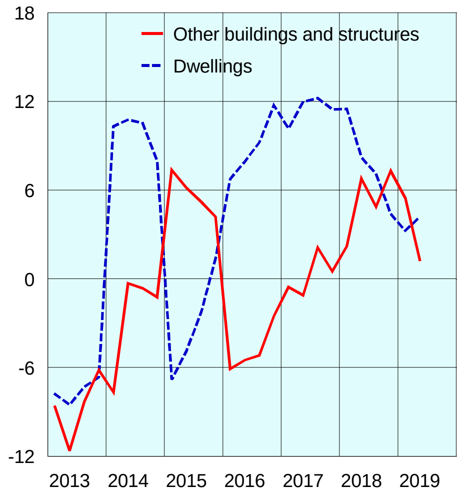
Thus, investment in equipment goods and cultivated assets registered a y-o-y rate of -1.7%, between April and June 2019, compared to the significant increase of the first quarter (8.1%), in a complex international context characterised by the persistence of trade and geopolitical tensions, the uncertainty regarding Brexit, which is affecting not only investment but also trade flows and manufacturing production, both in Spain and in other European economies.

The most recent short-term information regarding investment shows mixed signals in the third quarter of 2019. The Industrial Climate Indicator in investment goods recorded a balance of 4.9 points in the third quarter, 1.8 points higher than the figure recorded in the previous quarter, due to the more favourable evolution of the production expectations and stock level components, while order portfolio components fell. On the other hand, domestic large firms´ sales of equipment and software, deflated, and with fixed-sample and seasonal and calendar adjusted data, recorded a y-o-y increase of 6.5% in August, 3.3 points higher than the figure recorded in July. Truck registrations, according to figures provided by ANFAC, closed the third quarter with a 1% decrease, compared to the 1.8% increase registered in the previous quarter.

G 2.3 GROSS FIXED CAPITAL FORMATION
y-o-y growth rate in %



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



Source: INE *(QNA-2019 Statistical Review)*, seasonally and calendar adjusted data.

Investment in construction showed a less expansionary trend in the second quarter, its y-o-y growth reaching 2.9%, 1.3 points lower than in the previous quarter, an evolution that is in turn explained by the lower growth rate of non-residential investment (1.3%, 4.2 points less than in the previous quarter), partially offset by the acceleration of housing investment, one point up to 4.2%.

Among the indicators related to residential investment, the number of mortgages on housing rebounded in July, reaching a y-o-y rate of 13.1%, compared to the 2.5% fall registered in the previous month. On the other hand, according to the INE statistics based on the properties recorded in the Property Registers, the number of housing purchases fell by 21.1% y-o-y in August, after rising by 3.8% in the previous month. According to the housing conditions, the new and used housing purchases fell (-21% and -21.1%, respectively, compared to the 12.1% and 2.1% rates recorded in July). This evolution is largely due to the negative impact derived from the deferral of operations before the entry into force on 16th June of the new Mortgage Law, which meant, among other things, the adaptation of banks' computer systems to the requirements of this regulation, for which the law established a moratorium of a month and a half.

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

			2018		2019			Latest
	2018	**2019(1)**	**III**	**IV**	**I**	**II**	**III(1)**	**Data**
Households & bussiness financing (2)	-2.7	-1.1	-3.0	-1.5	-1.1	-1.2	-0.7	Aug.19
Private Consumption								
Composite Consumption Indicator (3)	1.1	1.3	0.9	0.5	1.0	1.6	-	Q.II.19
Consumer Goods. Apparent cons. (3)	2.3	0.9	2.2	1.3	2.6	1.1	-4.3	Jul.19
IPI consumer goods (adjusted)	-0.7	2.3	-0.9	-1.7	0.5	3.9	2.7	Aug.19
Consumer goods imports (vol.)	2.2	0.1	0.8	1.6	1.3	-1.6	1.8	Jul.19
Retail sales index (4)	0.7	2.2	-0.8	1.4	1.4	2.2	3.3	Aug.19
Passenger car registrations	7.0	-7.4	15.9	-7.6	-6.9	-4.8	-11.4	Sep.19
Real wages (5)	2.4	3.5	2.3	2.6	3.7	3.3	-	Q.II.19
Consumer goods. Capacity utiliz. (%)	74.8	77.3	72.9	74.5	77.4	76.2	78.2	Q.III.19
Consumer confide. indicator (balances)	-4.2	-4.8	-3.7	-6.2	-4.8	-4.0	-5.8	Sep.19
Large firms sales. Consumption (6)	2.7	2.8	3.1	2.2	3.0	2.9	1.9	Jul.19
Households financing (2)	-2.0	-0.9	-2.3	-1.6	-1.0	-0.9	-0.5	Aug.19
Equipment Investment								
Composite Equipment Indicator (3)	5.2	4.0	6.1	3.3	3.6	4.4	-	Q.II.19
Capital Goods. Apparent cons.(3)	7.1	4.4	7.6	5.7	8.5	3.0	-2.9	Jul.19
IPI consumer goods (adjusted)	2.1	2.4	2.6	-1.1	3.1	2.6	0.8	Aug.19
Capital goods imports (vol.)	2.0	1.0	5.4	2.5	4.1	-1.4	-0.1	Jul.19
Corporations financing (2)	-4.4	-1.0	-6.2	-2.8	-1.9	-1.5	1.1	Aug.19
Truck registrations	6.7	1.5	4.0	0.7	3.3	1.8	-1.0	Sep.19
Capital goods. Capacity utilization (%)	86.5	87.4	86.2	84.9	87.0	87.8	87.3	Q.III.19
Large firms sales. Capital (6)	4.7	4.9	3.8	5.8	3.7	6.9	3.1	Jul.19

(1) Available period data. (2) Deflated by CPI. (3) Adjusted for seasonal, calendar and outliers effects. (4) Adjusted for calendar effects, at constant prices. (5) QNA series; seasonal and calendar effects adjusted divided by household consumption deflator. (6) Calendar adjusted, deflated & fixed sample.
Sources: SGCPE (MECE), BE, INE, DA, ANFAC, MICT, CE and AEAT.

Non-financial corporations recorded a greater net borrowing in the second quarter

According to the Quarterly Non-Financial Accounts for the Institutional Sectors results, non-financial corporations registered a net borrowing equivalent to 2.1% of the quarterly GDP in the second quarter of 2019, 1.8 points higher compared to the figure registered in the same period of the previous year. This higher net borrowing is mainly explained by the strong increase in business investment (10.5%) and, to a lesser extent, to the decrease in gross savings (-2.8%). In turn, the lower savings are the result of the increase in net property income paid (14.5%) and, to a lesser extent, the rise of net current transfers paid, which could not be offset by the increase in gross operating surplus (2.6%).

The profitability ratios of companies improved, according to the Central Balance Sheet

According to the Quarterly Central Balance Sheet data published by the Bank of Spain, the nominal gross added value at factor cost of non-financial companies in the sample decreased by 3.5% in the second quarter of 2019, after rising by 4.6% in the first quarter. This evolution of productive activity, together with the acceleration of personnel expenses (3.4%, compared to the 2.9% registered in the previous quarter), resulted in a decrease of the gross economic result (GER) of 9.3%, after the 6.4% increase recorded in the first quarter. The GER drop in the period between April and June, together with the rebound in financial expenses (1.8%, compared to the -8.4% recorded in the previous quarter), resulted in a fall in the net ordinary result of 3.1% (+ 9.1% in the first quarter). In this context, the ordinary return on net assets for all the companies in the sample stood at 4.1%, one point higher than a year earlier. On the other hand, the ratio that measures the financial cost (financial expenses over liabilities) reached 2.1%, one tenth more compared to a year earlier, so the differential between them rose one point, up to 2.1 percentage points.

2.2.- External Demand

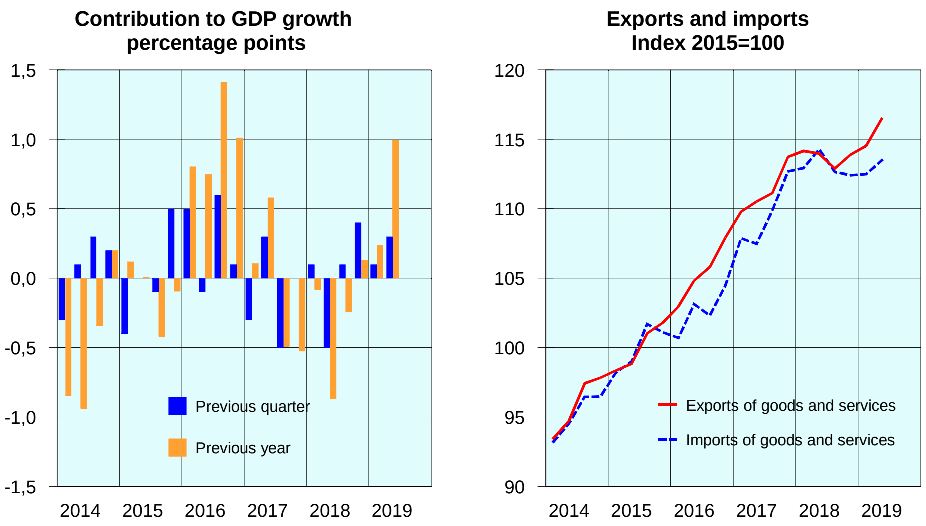
The contribution of net external demand to the GDP y-o-y growth rebounds in the second quarter, mainly due to the acceleration of exports

According to figures from the QNA, net external demand contributed one point to the GDP variation in the second quarter of 2019, eight tenths more than in the previous period, due to the acceleration of goods and services exports, almost two points, up to 2.2%, and the more intense decline in imports, which registered a 0.7% decline, three tenths higher compared to the previous quarter. In comparison to the major economies of the European Union, the y-o-y rate of Spanish exports was higher than that of Germany (0.1%) and the United Kingdom (-1.4%), and lower than that of Italy (3.8%) and France (2.5%).

The favourable evolution of exports in the period between April and June 2019 is explained by the rebound in goods, which went from falling by 2.2% in the first quarter to growing by 1.6% in the second, while those of services slowed down 2.5 points, to 3.5%. Among the latter, the growth of both tourist and non-tourist services moderated (1.9 and 3 points, respectively, to 2.2% and 4.5%).

In the second quarter of 2019, a lower dynamism was observed in the activity of Spain’s main trading partners, in general. The q-o-q GDP growth remained stable in France (0.3%) and Italy (0.1%); slowed down in the United States (three tenths, down to 0.5%); and the GDP of Germany and the United Kingdom fell (-0.1% and -0.2%, respectively, compared to the 0.4% and 0.6% recorded in the first quarter). Among the main emerging economies, China's real GDP intensified the growth rate by two tenths, up to 1.6%; and those of Brazil and Mexico went from falling in the first quarter (-0.1% and -0.3%, respectively) to stabilising in the second quarter, in the first case, and registering a positive rate, in the second case (0.4%). On the other hand, Russia maintained its growth rate at 0.2%, while in India and Turkey it moderated (one point and half a point, respectively, to 1.3% and 1.2%).

G 2.5 EXTERNAL SECTOR



Source: INE.

Price-competitiveness improves in the second quarter,…

The competitiveness trend index, based on consumer prices against the developed countries, prepared by the Secretary of State for Trade, recorded a competitiveness gain of 2.1% y-o-y in the second quarter of 2019, thus extending the improvement trend recorded in the previous quarters, due to the 1.2% depreciation of the nominal effective exchange rate and 0.9% fall of the relative prices index. Regarding the European Union, a competitiveness gain of 0.6% was recorded, confirming the trend change that began in the first quarter, as a result of the decrease in relative consumer prices index (0.7%), while the nominal effective exchange rate rose by 0.2%. Finally, a competitiveness gain of 1.9% with regards to the BRICS countries was recorded, extending the trend change that began in the previous quarter, as a result of the 2.4% decline in the relative price index, partly softened by the appreciation of the nominal effective exchange rate (0.6%).

…and real exports of goods gain market share

In this context, the y-o-y growth of real goods exports in the second quarter of 2019 was positive (1.6%), compared to the fall recorded by the global trade in goods (-0.6%, according to Central Planning Bureau of the Netherlands), which resulted in a market share gain, almost completely offsetting the loss registered in the first quarter, reaching 1.98%.

According to Customs figures, deflated by unit value indices, which are more volatile than the QNA figures, the "momentum" of exports (variation in volume in the last three months compared to the previous three months) was positive in June (5.9%) after the -0.9% registered in March, due to the positive contribution from all areas, especially the countries belonging to the

European Union. By products, the positive contribution of non-food consumer goods and non-energy intermediate goods stands out.

In y-o-y terms and according to Customs figures, real exports of goods rose by 3% in the second quarter of 2019, following the 1.7% fall registered in the first quarter. By product type, food consumer goods and energy and non-energy intermediate goods exports accelerated 1.3, 12.8 and 2 points, respectively, up to 2.4%, 18.9% and 2.8%; capital goods exports grew by 7.1%, following the fall registered in the previous quarter (-0.6%); and non-food consumer goods exports moderated their fall 9.5 points, to -0.2%.

Within the non-food consumer goods group, car exports decreased by 6.6% y-o-y, after the 10.9% fall registered in the first quarter, subtracting 0.7 percentage points to total exports growth. However, they recovered in July registering a y-o-y rate of 6%. This is the first positive figure since September last year.

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

	Weight in Total	**Year-on-year change (%)**				**Contribution to growth**			
	2018	**2018**	**2019**			**2018**	**2019**		
		IV	**I**	**II**	**Jul.**	**IV**	**I**	**II**	**Jul.**
Total exports	**100.0**	**-1.2**	**-1.7**	**3.0**	**2.6**	**-1.2**	**-1.7**	**3.0**	**2.6**
Consumer goods	*37.2*	*-4.6*	*-5.7*	*0.8*	*10.3*	*-1.6*	*-2.0*	*0.3*	*3.2*
Foods	13.7	-0.6	1.1	2.4	12.8	-0.1	0.1	0.3	1.4
Others goods	23.5	-7.0	-9.7	-0.2	8.8	-1.5	-2.2	0.0	1.8
Cars	10.7	-11.9	-10.9	-6.6	6.0	-1.1	-1.1	-0.7	0.5
Capital goods	*8.6*	*2.5*	*-0.6*	*7.1*	*-3.2*	*0.2*	*-0.1*	*0.7*	*-0.4*
Excl. heavy trans. equipment	8.4	0.5	-0.9	5.7	-4.8	0.1	-0.1	0.6	-0.5
Intermediate goods	*54.3*	*0.6*	*1.2*	*3.9*	*-1.3*	*0.3*	*0.7*	*2.2*	*-0.8*
Energy	4.9	-3.7	6.1	18.9	-4.3	-0.2	0.2	0.7	-0.2
Non-energy	49.3	1.0	0.8	2.8	-1.1	0.5	0.4	1.5	-0.6
Total imports	**100.0**	**0.3**	**1.4**	**-1.0**	**1.5**	**0.3**	**1.4**	**-1.0**	**1.5**
Consumer goods	*27.6*	*1.6*	*1.3*	*-1.6*	*1.8*	*0.4*	*0.3*	*-0.4*	*0.4*
Foods	7.0	2.3	0.7	-2.9	-2.7	0.1	0.0	-0.2	-0.2
Others goods	20.6	1.3	1.4	-1.2	3.3	0.2	0.3	-0.2	0.6
Cars	5.9	0.8	0.1	-6.7	-9.3	0.0	0.0	-0.4	-0.4
Capital goods	*8.5*	*2.5*	*4.1*	*-1.4*	*-0.1*	*0.3*	*0.4*	*-0.1*	*0.0*
Excl. heavy trans. equipment	8.4	1.9	3.9	-1.9	-2.1	0.2	0.4	-0.2	-0.2
Intermediate goods	*63.9*	*-0.6*	*1.0*	*-0.7*	*1.5*	*-0.4*	*0.6*	*-0.5*	*1.0*
Energy	14.9	7.6	-4.5	-1.7	-7.2	1.0	-0.6	-0.2	-0.9
Non- energy	49.0	-2.7	2.3	-0.5	3.6	-1.4	1.2	-0.3	1.9

Sources: Customs and SGCPE.

Goods exports to the EU recover

By geographic destination, according to Customs data, in the second quarter of 2019, exports to the European Union (EU) and the Eurozone, in volume and in y-o-y terms, rose by 4%

and 4.6%, respectively, after the negative rates of -1.5% and -2.6% recorded in the previous quarter. The nominal sales growth to Germany, Portugal and new EU partners and the falls of those to the United Kingdom should be noted. Exports to the rest of the world recovered their dynamism, growing by 1.1% in real terms, after falling by 2% in the previous quarter. The breakdown by geographic destination outside the European Union reveals double-digit growth rates of nominal sales to sub-Saharan Africa and New Industrial Economies of Asia (the ones assigned to Venezuela represented the highest growth, although they remain at very low levels), while the main falls were registered by sales to Argentina, Turkey and the Middle East. Consequently, the contribution to the total increase of exports of those to the EU stood at 2.6 points and to the rest of the world was of four tenths, compared to the negative contributions of one point and seven tenths registered in the previous quarter.

The final consumption expenditure of non-residents in the economic territory moderates

According to QNA figures, expenditure of non-resident households in the economic territory, in volume, increased by 2.2% y-o-y in the second quarter of 2019, after the 4.1% registered in the previous quarter. For the third quarter of 2019, the main indicators of foreign tourism, among them, inbound tourists and foreign overnight stays in domestic hotels, show an extension of this moderation.

On the other hand, real exports of non-tourism services registered a 4.5% y-o-y increase in the second quarter of 2019, three points lower in comparison to the figure registered in the previous quarter. According to the International Trade in Services Survey published by the INE, referring to the second quarter of 2019, the services with greater contribution to the nominal growth of exports were transport (3.8%), intellectual property (0.9%), business and personal, cultural and recreational (both 0.4%); while services related to telecom, computer and information technology services subtracted two tenths and goods transformation without transfer of ownership, insurance and pension and financial services subtracted one tenth.

Real imports of goods intensified their y-o-y fall in the second quarter

Furthermore, goods and services imports, in real terms and according to QNA figures, fell by 0.7%, three tenths more than in the previous quarter. The largest drop in imports in the second quarter was due to the goods component (-2.5%, compared to the -1.7% registered in the first quarter), while service imports accelerated two points, up to 7.5%, as a result of the greater dynamism of non-tourist services (7.9%, compared to the previous 5.1%) and, to a lesser extent, residents consumption in the rest of the world, which rose by 6.6%, one tenth more than in the previous quarter.

According to Customs figures, deflated by unit value indices, the "momentum" of goods imports (change in imports of goods in volume during the last three months versus the previous three months) turned positive in June (0.2%), following the 2.1% recorded in March, reflecting a positive contribution of non-EU OECD countries. By products, the positive contribution of non-food consumer goods should be noted.

In y-o-y terms and according to Customs figures, imports of goods in volume, deflated by unit value indices, fell by 1% in the second quarter of 2019, following the 1.4% growth registered in the first quarter.

By type of product and in volume, in the second quarter of 2019, imports of food and non-food consumer, capital and non-energy intermediate goods, went from registering positive rates in the first quarter, to recording negative rates of -2.9%, -1.2%, -1.4% and -0.5%, respectively, while imports of intermediate energy goods moderated their fall 2.8 points, to -1.7%. Within the non-food consumer goods group, imports of the passenger cars component fell by 6.7%, following the 0.1% increase registered in the first quarter of 2019.

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

	Weight in Total	Year-on-year change (%)				Contribution to growth			
	2018	2018	2019			2018	2019		
		IV	I	II	Jul.	IV	I	II	Jul.
Total exports	**100.0**	**-1.2**	**-1.7**	**3.0**	**2.6**	**-1.2**	**-1.7**	**3.0**	**2.6**
EU	*65.6*	*-0.6*	*-1.5*	*4.0*	*3.4*	*-0.4*	*-1.0*	*2.6*	*2.2*
Euro-area	51.5	0.1	-2.6	4.6	3.1	0.1	-1.3	2.4	1.6
Non-EU	*34.4*	*-2.3*	*-2.0*	*1.1*	*1.2*	*-0.8*	*-0.7*	*0.4*	*0.4*
USA	4.5	-3.2	6.9	4.9	-4.4	-0.1	0.3	0.2	-0.2
Latin America	5.6	-3.0	-5.8	-1.6	6.3	-0.2	-0.3	-0.1	0.3
China	2.2	-9.0	-7.5	5.5	-5.0	-0.2	-0.2	0.1	-0.1
Other countries (1)	10.5	-9.7	-12.0	-9.9	-4.6	-1.0	-1.2	-1.1	-0.5
Total imports	**100.0**	**0.3**	**1.4**	**-1.0**	**1.5**	**0.3**	**1.4**	**-1.0**	**1.5**
EU	*53.8*	*-2.7*	*1.4*	*-3.1*	*2.7*	*-1.5*	*0.8*	*-1.8*	*1.5*
Euro-area	43.4	-2.4	0.9	-3.4	1.6	-1.1	0.4	-1.5	0.7
Non-EU	*46.2*	*4.3*	*1.4*	*1.9*	*0.0*	*1.8*	*0.6*	*0.8*	*0.0*
USA	4.1	-4.5	16.5	24.4	-0.7	-0.2	0.8	1.2	0.0
Latin America	5.9	0.7	-7.0	-8.1	-15.2	0.0	-0.4	-0.5	-0.9
China	8.4	2.7	5.7	14.3	15.3	0.2	0.4	1.0	1.3
Other countries (1)	11.7	-0.6	-4.8	-7.9	1.7	-0.1	-0.5	-0.8	0.2

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

By geographical areas, real imports of goods from the European Union and those from the Eurozone fell by 3.1% and 3.4% respectively in the second quarter of 2019, following the 1.4% and 0.9% rises, respectively, registered in both areas in the previous quarter. In nominal terms, the purchases to Benelux, new EU partners and Italy stand out, compared to the falls recorded by those from France, Portugal, the United Kingdom and Germany. On the other hand, imports from the rest of the world accelerated 0.5 points, reaching an increase of 1.9% in the second quarter of 2019. In the breakdown by geographical origin, and in nominal terms, the growth of purchases from Venezuela, Argentina, the United States and China stands out. On the other hand, the falls of those from Brazil, the Middle East and Russia should be highlighted.

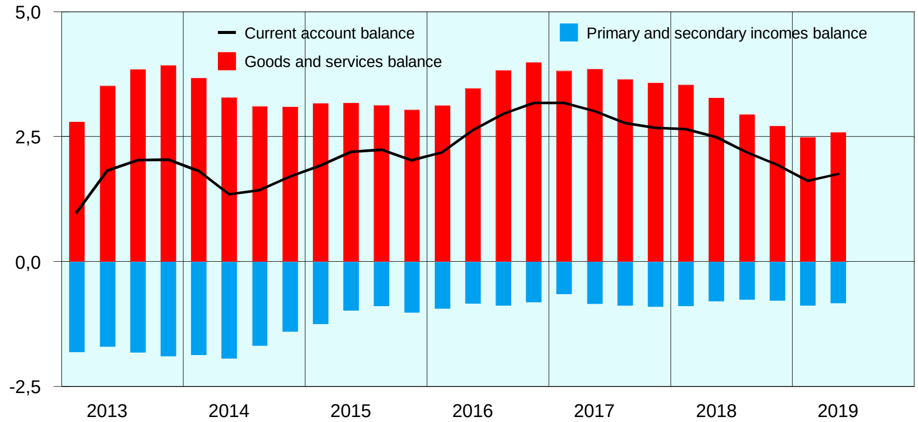
Imports of tourist services remain unchanged

According to QNA figures, in the second quarter of 2019, real spending of households residents abroad rose by 6.6% y-o-y, a rate similar to the figure observed in the previous quarter. On the other hand, imports of non-tourism services increased by 7.9% y-o-y, 2.8 points more than in the previous quarter. According to the latest data released by the INE, the services with the highest positive contribution to this rate in the second quarter of 2019 were business (6.8%), intellectual property (1%), insurance and pension (0.8%), financial (0.6%) and telecom, computer and information technology (0.5%) services.

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

According to the Quarterly Non-Financial Accounts for the Institutional Sectors (QNFAIS) published by INE, resulting from the comprehensive 2019 Statistical Review of the National Accounts series, the Spanish economy registered a net lending vis a vis the rest of the world amounting to € 11.6 billion in the second quarter of 2019, higher than that estimated for the same period of 2018 (€ 9.8 billion). With calendar and seasonally adjusted data, the net lending stood at 2.5% of GDP, seven tenths above that of the previous quarter. The greater net lending of the economy, in gross terms, is explained by a greater surplus in foreign exchanges of goods and services (€ 13.5 billion, compared to the € 12.1 billion registered in the same period of 2018), as well as by the greater capital balance (four million more, up to € 676 million), together with a reduction in the deficit of income and current transfers (€ 437 million less, to € 2.6 billion).

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



Sources: Banco de España and SGCPE.

2.3.- Productive Activity

The industry GVA recovers slightly in the second quarter of the year

From the supply point of view, in y-o-y rates and with calendar and seasonally adjusted data, the Gross Value Added (GVA) of the industry sector increased by 0.2%, after four quarters of consecutive falls, mainly due to the improvement of the non-manufacturing industry. On the other hand, the GVA of the construction and services sectors moderated the growth rate, 1.2 and 0.1 points, respectively, to 5.2% and 2.8%; and the GVA of the agriculture, farming, forestry and fishing sector fell 4.6%, after the null variation registered in the previous quarter. With regards to taxes net of subsidies on products, these fell by 0.4% y-o-y in the second quarter, one tenth less than in the first quarter.

The apparent productivity per worker in terms of National Accounts, fell by 0.5% in the second quarter as a result of a y-o-y increase in GDP (2.0%) lower than that of full-time equivalent employment (2.5%). In the breakdown by major activity branches, agriculture and services show a less favourable evolution, while industry moderates its rate of decline and construction rises.

Table 2.5. **Employment and productivity**

Year-on-year change (%)

				2018				2019	
	2017	**2018**	**2019(4)**	**I**	**II**	**III**	**IV**	**I**	**II**
EMPLOYMENT (1)									
Agriculture (2)	2.9	0.0	-1.0	0.6	0.0	-0.7	0.0	-0.4	-1.6
Industry total	3.1	1.9	1.2	3.2	2.6	1.5	0.4	1.0	1.4
Manufacturing	3.7	2.0	1.2	3.6	2.9	1.5	0.2	1.0	1.4
Construction	6.2	8.2	7.6	7.1	7.6	7.8	10.4	10.2	5.0
Services	2.5	2.3	2.6	2.2	2.1	2.3	2.5	2.6	2.7
Total	2.8	2.5	2.6	2.6	2.4	2.5	2.7	2.7	2.5
PRODUCTIVITY (3)									
Agriculture (2)	-5.7	5.9	-1.3	5.3	7.9	3.7	6.9	0.5	-3.0
Industry total	0.0	-2.3	-1.4	-2.7	-2.8	-1.7	-1.8	-1.7	-1.2
Manufacturing	1.1	-1.4	-1.4	-1.8	-1.7	-1.3	-0.5	-1.1	-1.6
Construction	-1.2	-2.4	-1.6	-1.9	-1.9	-1.5	-4.1	-3.4	0.1
Services	0.4	0.4	0.2	0.8	0.4	0.3	0.1	0.3	0.1
GDP per employee	0.0	-0.2	-0.5	0.2	-0.1	-0.2	-0.6	-0.6	-0.5

(1) Full-time equivalent jobs. National Accounts. (2) Agriculture, forestry and fishing. (3) GVA per employee (adjusted series and full-time equivalent jobs). (4) First semester.
Source: INE *(CNE-2019 Statistical Review).*

Industrial production increased in August

Broadly speaking, the industrial activity showed a more favourable evolution. Among the main sector's indicators, the Industrial Production Index (IPI), with calendar and seasonally adjusted data, rose by 1.7% y-o-y in August, half a point more than in the previous month, closing the first eight months of the year with an average annual growth of 0.9% (0.3% in 2018 as a whole). In the breakdown by destination groups, the higher IPI y-o-y growth in August was due to equipment goods (they rose by 2.9%, after falling in July for the first time since January of this year), consumer goods (they accelerated eight tenths, up to 3.2%) and intermediate goods (they moderated the fall 1.2 points to a rate of -0.7%). On the other hand, energy slows down 5.4 points, to 1.7%.

The Industry New Orders Index (INOI), a leading indicator of the activity in the sector, rose 0.5% y-o-y in July, with calendar adjusted data, one tenth less than in June, due to the drop in equipment goods, after the sharp increase recorded in the previous month, partially offset by the rebound in intermediate goods and the lower drop in energy. On the other hand, consumer goods maintained the growth rate at 2.8%.

The Turnover Index in Industry (ICNI), with calendar adjusted data recovered in July. It went from registering a y-o-y decrease of 0.8% to grow slightly (0.1%), mainly due to the lower drop in energy and, to a lesser extent, the acceleration of consumer goods. On the other hand, equipment and intermediate goods registered rates of 1.6% and -2.5%, respectively, identical to the ones registered in the previous month.

Table 2.6. **Activity and Production Indicators**
Year-on-year change or balances in %

INDICATORS	2018	2019(1)	2018 III	2018 IV	2019 I	2019 II	2019 III(1)	Latest data
Composite Activity Indicator (2)	2.5	2.3	2.4	2.3	2.4	2.3	-	Q.II.19
Electric power consumption (3)	0.3	-3.0	1.6	-2.1	-2.1	-2.5	-4.3	Sep.19
Non energy imports (vol.)	1.1	0.9	-0.8	-0.8	2.2	-0.9	2.7	Jul.19
Economic Sentiment Indicator (90-18=100)	108.0	105.2	106.7	106.4	105.2	104.8	105.6	Sep.19
Large Firms Sales (4)	3.0	2.2	3.0	2.4	2.7	1.9	1.9	Jul.19
Large Firms Sales. Domestic (4)	2.7	2.0	2.9	2.4	2.6	1.6	1.5	Jul.19
Industry								
Composite Industry Indicador (2)	2.4	1.5	2.2	1.7	1.6	1.5	-	Q.II.19
IPI calendar adjusted	0.3	1.0	0.3	-2.8	-0.1	1.7	1.5	Aug.19
Large Firms Sales. Industry (4)	1.5	1.6	1.8	1.2	2.8	0.6	1.0	Jul.19
Industry goods Exports (vol.)	-2.7	-1.3	-5.0	-4.0	-6.2	1.9	4.1	Jul.19
Employment (LFS)	2.3	1.4	2.1	-0.1	1.2	1.5	-	Q.II.19
Social Security covered workers (5)	2.7	1.5	2.6	2.2	1.8	1.5	1.3	Sep.19
Industry confidence indicator (balances)	-0.1	-3.5	-2.6	-1.9	-3.8	-4.6	-2.0	Sep.19
Industry capacity utilization %	79.5	80.7	79.3	78.6	80.8	80.4	80.8	Q.III.19
Construction								
Composite Construction Indicator (2)	4.1	2.1	3.3	3.5	2.3	1.9	-	Q.II.19
Production in Construction Index (ca)	2.3	-0.9	-1.0	4.2	-4.1	1.0	2.7	Jul.19
Large Firms Sales.Construction (4)	3.2	2.2	4.6	1.0	2.8	0.8	5.0	Jul.19
Employment (LFS)	8.3	8.1	7.4	11.9	11.2	5.0	-	Q.II.19
Social Security covered workers (5)	6.7	5.8	7.0	6.5	7.0	5.9	4.4	Sep.19
Official bidding (at current prices)	-14.6	44.0	-8.1	-42.4	1.0	155.8	94.7	Jul.19
Floorage approvals: total	23.9	7.7	27.0	18.3	11.4	5.5	5.2	Jul.19
Floorage approvals: housing	24.5	6.2	32.7	23.3	11.0	6.8	-4.8	Jul.19
Construction confidence indicator (balances)	-4.6	-5.3	-8.3	-1.6	-0.6	-7.8	-7.4	Sep.19
Mortgages. Amount borrowed	13.4	12.3	15.1	18.8	23.0	1.2	16.2	Jul.19
Housing Prices	6.7	6.0	7.2	6.6	6.8	5.3	-	Q.II.19
Services								
Composite Services Indicator (2)	3.1	3.0	2.8	3.2	3.2	2.8	-	Q.II.19
Large Firms Sales. Services (4)	3.1	2.4	3.0	2.6	2.6	2.2	2.3	Jul.19
Railway passengers	3.3	1.8	3.4	4.5	2.8	1.0	1.5	Aug.19
Railway traffic goods (Tm per km)	-4.3	1.4	-1.9	-1.2	-0.5	2.8	2.2	Aug.19
Air traffic passengers	5.8	5.1	3.7	7.0	6.0	5.5	3.7	Aug.19
Hotel overnight stays	-0.2	1.5	-1.1	2.2	-0.5	2.9	1.3	Aug.19
Foreign tourists	1.1	1.5	-2.2	5.7	3.7	2.3	-0.9	Aug.19
Employment (LFS)	2.5	2.8	2.4	3.0	3.0	2.5	-	Q.II.19
Social Security covered workers (5)	3.1	2.9	2.9	3.0	2.9	3.0	2.8	Sep.19
Services confidence indicator (balances)	21.7	14.8	21.6	18.0	15.5	14.8	14.2	Sep.19
Retail trade confidence indicator (balances)	10.7	5.9	10.4	10.3	7.7	5.8	4.3	Sep.19

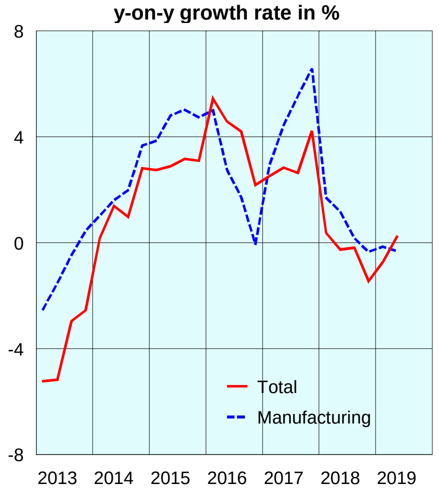
(1) Available period data. (2) Adjusted for seasonal, calendar and outliers effects. (3) Adjusted for calendar and temperature effects. (4) Calendar adjusted, deflated and fixed sample. (5) Total system. Monthly average.
Sources: SGCPE (MECE), REE, DA, CE, AEAT, INE, MTMS, Eurostat, MFOM, RENFE and AENA.

With regards to the most recent qualitative indicators of the industry sector, the confidence indicator in the industry edged downwards in September, reaching a net balance of -4.6 points, 6.2 points lower than in August, closing the third quarter with an improvement of 2.6 points, up to a net balance of -2. The manufacturing industry PMI for Spain reached 47.7 in September, a level that was more than one point lower than the previous month and below the 50 threshold, for the fourth consecutive month, indicating a contraction in the sector. Likewise, the growth rate in the number of Social Security covered workers in the industry moderated one tenth in September, to 1.3% y-o-y, mainly due to the manufacturing sector.

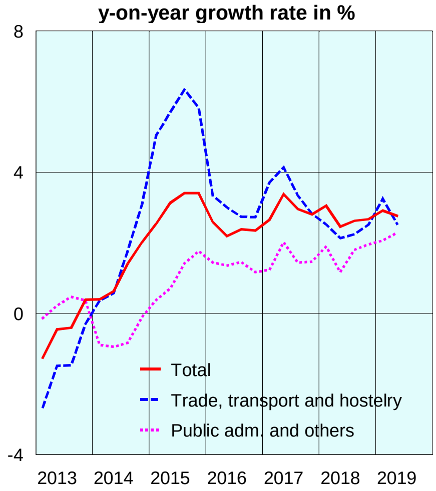
Leading indicators point to a lower dynamism of the construction activity dynamism

Leading indicators point to a lower dynamism in the construction activity, especially in the residential construction segment, considering the floorage approvals for new construction, according to construction new permits, which increased by 7.7% in the period between January and July, with a rate of 6.2% in the residential component, in comparison to the 13.4% recorded by the non-residential component. These rates are almost 20 and 16 points lower, respectively, to those of the same period of 2018.

G 2.7 GVA INDUSTRY
y-on-y growth rate in %



G 2.8 GVA SERVICES
y-on-year growth rate in %



Source: INE *(QNA-2019 Statiscal Review)*, seasonally and calendar adjusted data.

On the other hand, the Production Index in the Construction Industry (PICI), with deflated and calendar adjusted data, accelerated 1.8 points in July, up to 2.7% y-o-y. This greater dynamism was due to the acceleration of the building component, 4.8 points, up to 5.7%, partially offset by the fall in civil works, of 14.2%, after the stability seen in the previous month. Thus, in the first seven months of the year, the PICI recorded an average annual drop of 0.9%, compared to the 2.3% increase recorded in 2018 as a whole.

On the other hand, the confidence indicator in the sector shows less favourable signs in September, registering a fall of almost two points in September compared to the previous month, reaching a balance of -10.3 points, according to the data provided by the European Commission. Likewise, the growth rate of the number of Social Security covered workers in the construction sector moderated two tenths in September, to 4.1%.

Activity indicators in the services sector show mixed signals

Among the activity quantitative indicators in the services sector, the Services Sector Turnover Index, with calendar adjusted data, maintained the y-o-y growth rate in July at 4%, a 3.5% increase corresponding to the trade sector and 4.8% to other services (2.9% and 5.9%, respectively, in June).

Among the most recent qualitative indicators, retail trade confidence fell in September compared to the previous month (3.9 points, versus the 6.1 points recorded in August), while service confidence remains unchanged at 14.4 points. In the period between January and September, both activities lost momentum compared to the same period of the previous year. In the same vein, the services activity PMI reached 53.3 in September, one-point lower than the previous month, as a result of the smaller growth registered by new orders and sales in the sector. However, the third quarter of 2019 closed with an average services PMI level of 53.5, three tenths higher than the previous quarter. On the other hand, the growth rate of the number of Social Security covered workers in the services sector moderated one tenth in September, to 2.7%.

The tourist inflow and tourist spending in the period between January and August increased

More than 10.1 million tourists visited Spain in August, 0.5% less than in the same month of 2018. This figure represents a moderation of eight tenths in the rate of decline compared to the previous month, and total expenditure by tourists increased by 2.7% y-o-y, seven tenths more than in the previous month. In cumulative terms for the first eight months of the year, international tourist inflow grew by 1.5% compared to the same period of the previous year, the period between January and August closing with a y-o-y increase of 3.2%.

3.- PRICES

The Spanish economy prices, measured by the GDP deflator, accelerated six tenths in the second quarter of 2019, up to 1.8%, due to the greater increase in the domestic demand deflator and the lower fall in the terms of trade. From the income point of view, the higher growth of the GDP deflator is explained by the acceleration of both business margins and unit labour costs. With regard to consumer prices, the most recent data show a moderation in the rate of growth of the Consumer Price Index (CPI) in the third quarter, mainly due to the evolution of energy prices.

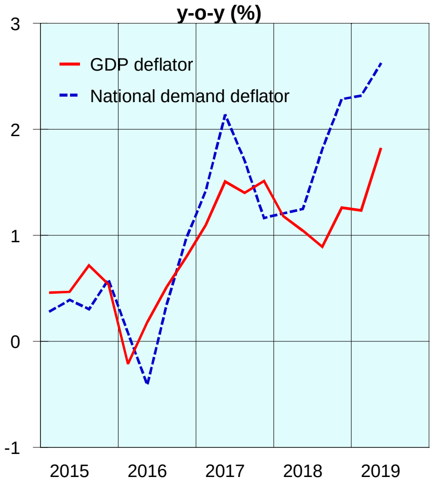
The GDP deflator grows by 1.8% in the second quarter of the year

The Spanish economy prices, measured by the GDP implicit deflator, rose by 1.8% y-o-y in the second quarter of 2019, a rate six tenths higher than in the previous quarter and the highest since late 2008, as a result of the higher domestic demand deflator growth and the smaller fall in the terms of trade.

The domestic demand deflator rose by 2.6% y-o-y in the second quarter of 2019, a rate three tenths higher than in the previous period, mainly due to the acceleration of the private consumption deflator, by half a point, up to 1.8%. For its part, the terms of trade moderated the fall rate in the second quarter of 2019 by almost one point, to -2.2% y-o-y, as a result of the increase in the export deflator (0.8%, after the stabilisation registered in the previous quarter).

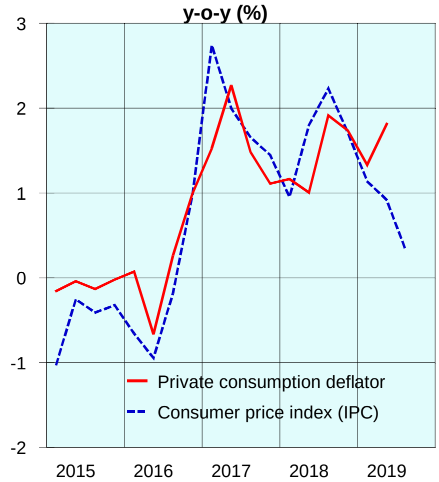
Business margins, measured by the gross operating surplus and mixed income per product unit, whose reduction in the previous four quarters contributed to contain price increases, rebounded by 1.2% in the third quarter (-0.6% in the previous quarter). The continued acceleration of unit labour costs (ULC) was added to this, as it rose by 2.8%, three tenths more than in the previous quarter.

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



Source: own elaboration from CNTR (INE).

G 3.2 CONSUMER PRICES
y-o-y (%)



Source: IPC and CNTR (INE).

Table 3.1. **Price indicators**

(% y-o-y change)

	Annual data			*Quarterly data*					
	2017	2018	2019 (1)	18-I	18-II	18-III	18-IV	19-I	19-II
Deflators (QNA-CNTR)									
GDP deflator	1.4	1.1	1.5	1.2	1.0	0.9	1.3	1.2	1.8
National demand deflator	1.6	1.6	2.5	1.2	1.2	1.8	2.3	2.3	2.6
Private consumption deflator	1.6	1.5	1.6	1.2	1.0	1.9	1.7	1.3	1.8
Public consumption deflator	0.9	1.6	2.8	0.9	1.4	1.9	2.1	2.6	2.9
GFCF deflator	2.3	2.3	4.8	1.9	1.7	1.4	4.2	4.8	4.9
Export deflator	2.6	1.1	0.4	0.4	0.5	2.0	1.4	0.0	0.8
Import deflator	3.4	2.7	3.1	0.4	1.1	4.9	4.6	3.1	3.1

	Annual data			*Monthly data*				
	2017	2018	2019 (1)	19-may	19-jun	19-jul	19-aug	19-sep
Consumer Price Index (IPC)								
General	2.0	1.7	0.8	0.8	0.4	0.5	0.3	0.1
Energy products	8.0	6.1	-0.1	1.3	-2.6	-2.4	-4.5	-6.6
Fuels and lubricants	7.3	7.8	1.6	3.4	-1.2	-0.2	-1.0	-1.9
Electricity	9.7	2.5	-4.5	-4.9	-7.8	-7.1	-12.7	-17.1
Unprocessed food	2.6	3.1	1.7	1.0	0.6	1.6	1.5	1.3
Fresh fruit	0.9	7.8	-2.8	-6.0	-7.4	-5.0	-7.3	-4.6
Fresh vegetables	7.4	-0.1	8.0	4.8	7.1	9.8	11.4	7.2
Core	1.1	0.9	0.8	0.7	0.9	0.9	0.9	1.0
Processed food	0.7	1.0	0.4	0.3	0.4	0.5	0.6	0.6
Non-energy industrial goods	0.2	0.0	0.2	0.2	0.2	0.3	0.4	0.4
Services	1.6	1.5	1.4	1.2	1.4	1.4	1.4	1.5
Package holidays	7.0	-0.2	-1.7	-4.4	-0.2	-0.8	0.7	1.8
Passenger transport by air	3.6	-1.6	-4.2	-10.1	-4.2	-4.1	-2.0	6.5
Restaurants	1.5	1.8	1.9	2.0	2.0	1.9	1.9	1.9
Rentals for housing	0.4	1.3	1.6	1.6	1.6	1.6	1.6	1.5
Dif. HICP Spain-euro area (2)								
Overall inflation differential	0.5	-0.1	-0.4	-0.3	-0.7	-0.4	-0.6	-0.7
Core inflation differential	0.0	-0.2	-0.1	0.0	-0.2	-0.1	0.0	-0.1

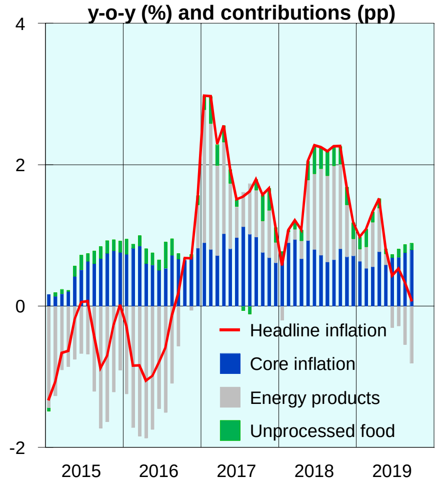
(1) Average of available period.
(2) HICP: Harmonised Index of Consumer Prices. Flash estimate for September Euro Area HIPC
Source: INE (CNTR and IPC) and Eurostat (HICP).

The CPI growth rate moderates by two tenths in September, to 0.1%, mainly due to the decrease in energy prices

Consumer prices, measured by the CPI annual rate, moderated the growth rate in September by two tenths, to 0.1%, mainly due to energy, particularly electricity prices, whose fall rate intensified more than four points, down to -17.1%, partly influenced by a base effect associated with the increase recorded in September 2018. The moderation of electricity generation cost during the same month of this year also contributed to this fall.

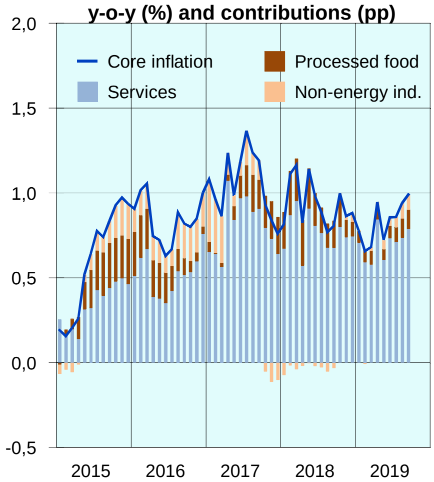
Core inflation, which excludes the most volatile elements from the CPI (non-processed food and energy products), rose one tenth in September, up to 1% y-o-y. By components, the growth rate of services prices rose one tenth, up to 1.5%, mainly driven by passenger air transport prices, while those for processed food and non-energy industrial goods remained at 0.6% and 0.4%, respectively.

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



Source: own elaboration from INE.

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



Source: own elaboration from INE.

The inflation differential favourable to Spain with respect to the Eurozone widens

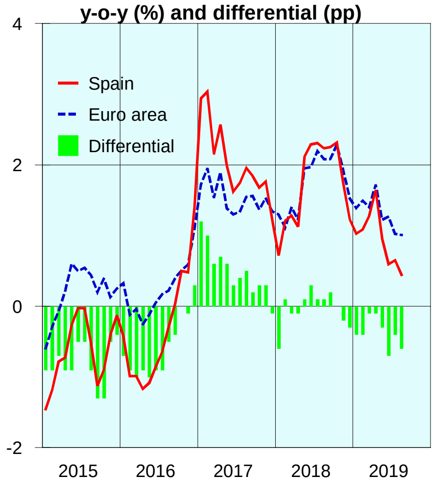
In harmonised terms, the y-o-y rate of the CPI in Spain also fell two tenths in September compared to the previous month, down to 0.2%, while inflation in the Eurozone, according to the flash estimate published by Eurostat, reached 0.9% in the same period, resulting in a favourable differential to Spain of 0.7 percentage points, one tenth higher than in the previous month.

Industrial prices intensify their fall rate in August due to the energy component

The Producer Price Index (PPI) increased the pace of y-o-y decline in August, 1.8 points, to -2.5%, mainly due to oil refining (-13%, compared to the 3.4% drop recorded in July) and production, transport and distribution of electricity prices items (-8.3%, a fall 4.3 points more intense than the one recorded in the previous month).

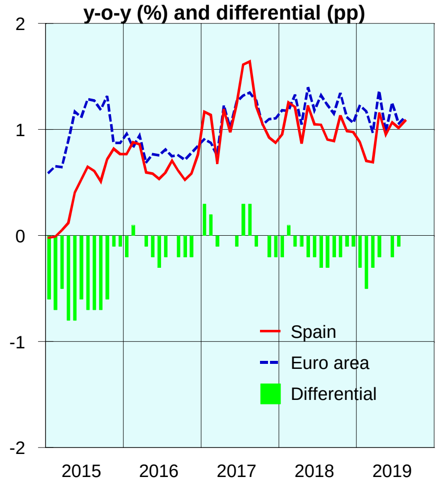
The non-energy PPI, which has been registering a mild slowdown trend since the beginning of 2017, stabilised in August after the slight rise registered in July (0.2%), due to the fall in intermediate goods prices (-0.8%, a drop two tenths higher than the previous month, mainly driven by the higher decline recorded by the chemical industry) and, to a lesser extent, the slowdown in consumer goods prices, one tenth to 0.4%. The y-o-y rate of equipment goods prices remained at 1.1%.

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



Source: INE and Eurostat.

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

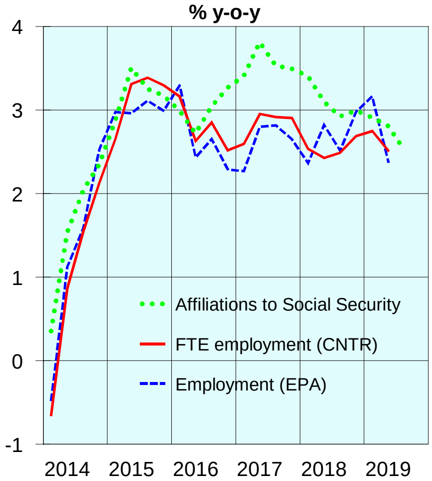


Source: own elaboration from INE and Eurostat.

4.- LABOUR MARKET

With regards to the labour market, the figures of the Labour Force Survey (LFS), the QNA and Social Security covered workers show that the process of significant job creation continued in the second quarter of 2019, although at more moderate rates than in previous quarters. With regard to wages, compensation per employee extended the trend of progressive acceleration in the second quarter of the year, slightly above the average increase agreed in collective bargaining for 2019 as a whole.

G 4.1 EMPLOYMENT INDICATORS
% y-o-y



Source: CNTR and EPA (INE), Social Security.

G 4.2 FTE EMPLOYMENT, BY SECTOR
% y-o-y

Source: CNTR (INE).

A remarkable job creation continues

According to QNA figures, employment rose by 2.5% y-o-y in the second quarter of 2019 in terms of full-time equivalent employment, with seasonally and calendar adjusted data, two tenths less than in the previous quarter. By branches, employment was created in the main non-agricultural branches, with rates of 2.7% in services, one tenth higher than in the first quarter, 1.4% in industry, compared to the 1% registered in the previous quarter, and 5% in construction, a rate more than five points lower compared to the figure recorded in the previous period.

In terms of employed people of the QNA, employment grew by 2.2% in the second quarter of 2019, a rate three tenths lower than in the previous quarter and similar to that of LFS employment (2.4%, eight tenths less than in the previous period), while Social Security covered workers, excluding non-professional caregivers, whose registrations accelerated after their contributions were financed again by the Social Security as of April 2019, grew at a significantly higher rate in the same period, 2.7% (2.9% in the previous quarter).

Table 4.1. **Labour market indicators**

	Annual data		*Quarterly data*				
	Change		Y-o-y change				Level
	(%)		(%)			(Thousands)	(Thousands)
	2018	2019 (1)	19-I	19-II	19-III	19-II	19-II
QNA-CNTR (2)							
Employment	2.2	2.4	2.5	2.2	-	437.6	20201.5
Hours actually worked	2.6	1.9	2.5	1.3	-	111120.0	8513905.7
Full-time equivalent employment	2.5	2.6	2.7	2.5	-	446.5	18325.3
Agriculture	0.0	-1.0	-0.4	-1.6	-	-11.7	715.8
Industry	1.9	1.2	1.0	1.4	-	29.5	2144.5
Construction	8.2	7.6	10.2	5.0	-	60.6	1260.8
Services	2.3	2.6	2.6	2.7	-	368.1	14204.2
Employees	2.7	2.7	2.9	2.4	-	414.2	17384.2
EPA							
Employment	2.7	2.8	3.2	2.4	-	460.8	19804.9
Full-time	3.1	2.8	3.2	2.5	-	409.1	16853.4
Part-time	0.4	2.4	3.1	1.8	-	51.8	2951.5
Part-time rate (3)	-0.3	-0.1	0.0	-0.1	-	-	14.9
Actual hours worked per worker	0.7	-1.1	0.0	-2.1	-	-0.8	36.6
Employees	3.3	3.1	3.6	2.7	-	431.0	16688.3
Permanent	3.1	3.6	3.9	3.3	-	388.2	12288.5
Temporary	3.8	1.8	2.7	1.0	-	42.8	4399.8
Temporary employment rate (3)	0.1	-0.3	-0.2	-0.4	-	-	26.4
Unemployment	-11.2	-9.6	-11.6	-7.4	-	-259.5	3230.6
Unemployment rate (3)	-2.0	-1.7	-2.0	-1.3	-	-	14.0
Active population	0.3	0.8	0.7	0.9	-	201.3	23035.5
Activity rate (3)	-0.2	-0.1	-0.1	-0.1	-	-	58.7
Social Security covered workers							
Total	3.1	2.7	2.9	2.8	2.5	529.7	19396.7
Excl. non-professional caregivers (4)	3.1	2.7	2.9	2.7	2.3	516.2	19375.3
Registered unemployment							
Total	-6.5	-4.7	-5.2	-5.0	-3.8	-163.8	3086.2

	Monthly data						
	Y-o-y change						Level
	(%)					(Thousands)	(Thousands)
	19-may	19-jun	19-jul	19-aug	19-sep	19-sep	19-sep
Social Security covered workers							
Total	2.8	2.7	2.6	2.5	2.4	460.7	19323.5
Excl. non-professional caregivers (4)	2.7	2.6	2.4	2.4	2.2	422.7	19277.6
Registered unemployment							
Total	-5.3	-4.6	-3.9	-3.7	-3.8	-122.8	3079.7

(1) Average of available period.

(2) Seasonally and calendar adjusted data.

(3) Y-o-y change in percentage points.

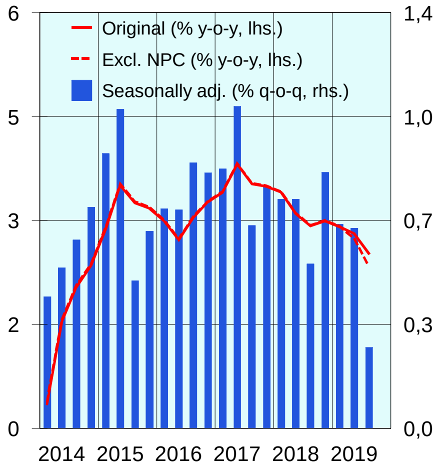
(4) Register of non-professional caregivers is picking up since April 2019, when their social contributions became eligible for public funding.

Sources: INE (CNTR and EPA) and MTMS (Social Security and SEPE).

Social Security covered workers grow by 2.5% y-o-y in the third quarter

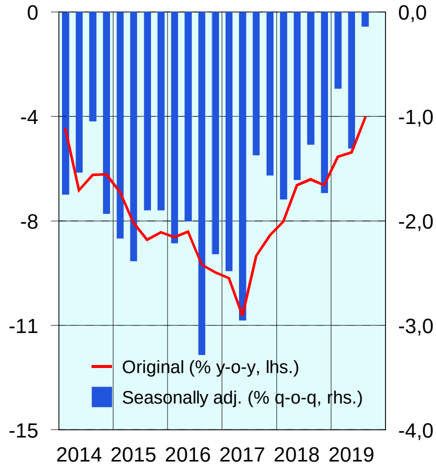
According to the latest labour market information, Social Security covered workers moderated the rate of job creation three tenths in the third quarter of 2019, to 2.5%, and four tenths excluding non-professional caregivers, to 2.3%, an evolution to which all branches of activity have contributed, where services should be noted (2.5%, excluding non-professional caregivers, four tenths less than in the second quarter). By sectors, Social Security covered workers slowed down four tenths in the third quarter both in the private (2.2%) and public (3.5%) sectors.

G 4.3 S.S. COVERED WORKERS
% change



Source: Social Security.

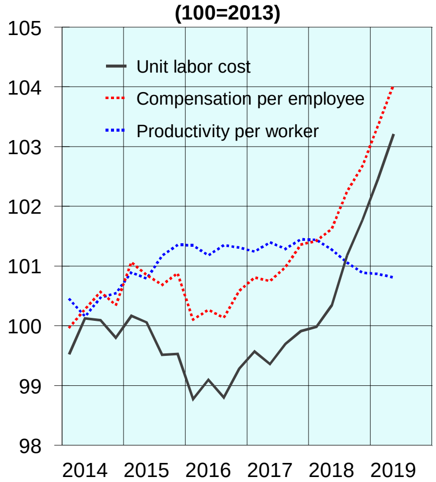
G 4.4 REGISTERED UNEMPLOYMENT
% change



Source: SEPE.

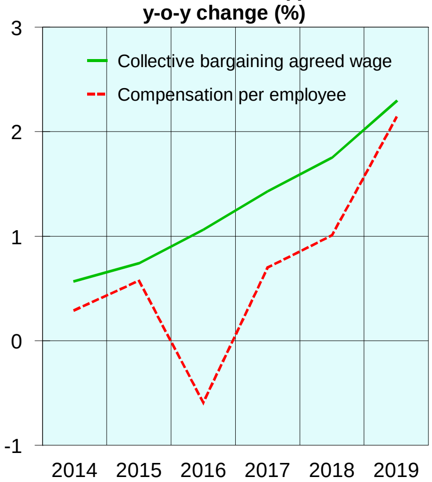
The dynamism of Social Security covered workers continued to be reflected in the registered unemployment reduction process, which recorded a decrease of 3.8% in the third quarter of 2019 (-5% in the second quarter), due to the moderation of the fall rate in all branches, partially offset by the intensification of the drop rate in the group without previous employment.

G 4.5 UNIT LABOR COSTS AND COMP.
(100=2013)



Source: own elaboration from CNTR.

G 4.6 WAGES (*)
y-o-y change (%)



Source: CNTR (INE) and MTMS.
(*) Available period

Compensation per employee rises by 2.4% in the second quarter of 2019

Compensation per employee, estimated by the QNA, rose in the second quarter of 2019 by 2.4% y-o-y, half a point more than in the previous quarter and the highest rate since mid-2010, after the figure recorded in the fourth quarter of 2013, the latter affected by the suspension of bonus pay to civil servants in the same period of the previous year. The increase observed in compensation per employee is thus above the agreed wage increase in collective bargaining for the year as a whole (2.3% with data up to September 2019, published by the Ministry of Employment, Migrations and Social Security).

For its part, apparent labour productivity fell by 0.5% y-o-y (-0.6% in the previous quarter), as a result of full-time equivalent employment growth (2.5%) higher than that of GDP (2%).

As a result of the higher growth of compensation per employee and the lower fall of productivity, the growth rate in unit labour costs (ULC) rebounded three tenths, up to 2.8% y-o-y.

Table 4.2 **Wage indicators**

	Y-o-y (%)							
	Annual data			*Quarterly data*				
	2017	2018	2019 (1)	18-III	18-IV	19-I	19-II	19-III
QNA-CNTR (2) (3)								
Compensation per employee	0.7	1.0	2.1	1.3	1.3	1.9	2.4	-
Sectors Agriculture	1.2	-0.6	-0.7	-0.3	-0.7	-0.2	-1.1	-
Industry	1.2	0.5	1.1	0.9	0.1	1.2	1.1	-
Construction	-1.2	1.0	0.9	1.7	0.9	-0.4	2.2	-
Services	0.8	1.2	2.4	1.4	1.7	2.3	2.6	-
Deflated by GDP	-0.7	-0.1	0.6	0.4	0.0	0.7	0.5	-
private consumption	-0.9	-0.4	0.6	-0.6	-0.4	0.6	0.5	-
Unit labour cost	0.7	1.2	2.7	1.5	1.9	2.5	2.8	-
Sectors Agriculture	7.3	-6.1	0.6	-3.9	-7.2	-0.6	2.0	-
Industry	1.2	2.8	2.6	2.6	2.0	3.0	2.2	-
Construction	0.0	3.4	2.6	3.3	5.2	3.1	2.1	-
Services	0.4	0.8	2.2	1.1	1.5	1.9	2.5	-
Compensation per employee hour	1.2	0.8	2.6	0.9	1.3	1.9	3.4	-
ETCL (2)								
Labour cost per worker	0.2	1.0	2.2	1.5	1.1	2.0	2.4	-
Labour cost per hour worked	0.0	1.4	2.7	2.4	1.5	2.4	3.1	-
Collective agreements								
Agreed wage rise (4)	1.4	1.7	2.3	1.7	1.7	2.2	2.2	2.3

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

The agreed wage increase in collective bargaining stands at 2.3% 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 2.3% for 2019, for workers covered by collective agreements registered up to September this year (8.6 million, equivalent to 52.1% of the total 16.5 million employees according to the LFS in the first half of 2019). This rise is six tenths higher than that of 2018 (1.7% in collective agreements registered up to December 2018).

Among the agreements signed in 2019 (the rest are agreements effective in 2019, but signed in previous years), which affect 16.4% of workers covered by collective agreements, the wage increase stands at 3.5% mainly due to agreements signed at levels higher than companies (3.6%, compared to the 2.7% increase agreed in new company agreements).

5.- PUBLIC SECTOR

The Ministry of Finance revised the non-financial operations of the General Government since 1995 in the framework of the regular extraordinary review, which was introduced in the National Accounts in September 2019. The revision of the deficit level is mainly due to the change in the way of recording taxes and social contributions. Until now, the recording was made based on the returns and settlements of each type of tax, registering a capital transfer for the amount of declared revenue that is expected not to be collected. With the new methodology, the recording of taxes and social contributions will be done using the revenue (cash) results provided by the State Tax Administration Agency, carrying out a correction in their temporary allocation to assign them at the time when the activity that generated the tax obligation took place. Likewise, the deficit ratios on GDP were affected by the downward revision of nominal GDP. The revision worsened the deficit ratios on GDP for the period between 2008 and 2012 by one to three tenths (higher deficit) and improved that of the period between 2014 and 2017 (lower deficit) by one to two tenths.

On 30th September, the Ministry of Finance published the data of non-financial transactions of the General Government, in terms of National Accounts of the second quarter of 2019, as well as the non-financial transactions of the Central Government, the Regional Governments and the Social Security Funds, with consolidated data and in terms of National Accounts, corresponding to July this year. The Ministry published as well the non-financial operations of the State, in terms of both National Accounts and Cash, corresponding to August. The Ministry of Finance revised the accounts of the non-financial operations of the General Government since 1995, in the framework of the regular extraordinary review that was introduced in the national accounts, following Eurostat’s recommendations.

Likewise, the Ministry of Employment, Migrations and Social Security published the budget outturn data of the Social Security, in terms of recognised rights and obligations, corresponding to August.

On the other hand, the Bank of Spain (BoS) published the General Government Debt data, following the Excessive Deficit Procedure (EDP) methodology, for the second quarter of 2019 as well as those corresponding to July 2019 and the Debt data for the State, corresponding to August.

The primary public deficit reaches 1.01% of GDP in the second quarter of 2019

In the second quarter of 2019, the General Government sector registered a deficit, in terms of National Accounts, of 2.14% of GDP (€ 26.7 billion), including the support provided to financial institutions. In the same period of the previous year, the deficit stood at 1.88% of GDP, 0.26 p.p. below. This deficit increase is explained by an increase in non-financial resources (4.0%) lower than in non-financial uses (5.3%). Among the resources, the growth of social contributions (8.0%, the highest rate in a first half since 2008) and current taxes on income, wealth, etc. (3.4%) stand out. Among the expenses, the progress of social benefits other than transfers in kind (7.7%), the compensation of employees (6.5%) and the higher contribution to the EU based on VAT and GNI resources (15.1%) should be noted. If the net balance of the support provided to financial institutions (€ 58 million) is excluded, the General Government deficit in the second quarter remains at 2.14% of GDP (€ 26.8 billion), compared to the 1.89% registered in the second quarter of 2018.

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

	Q2 2019	Q2 2018	Change (pp)
National Accounts			
TOTAL GG CONSOLIDATED	**-2.14**	**-1.88**	**-0.26**
Central Government	**-0.91**	**-0.75**	**-0.16**
Regional Government	**-0.65**	**-0.65**	**0.00**
Local Government	**-0.03**	**0.00**	**-0.03**
Social Security Funds	**-0.55**	**-0.49**	**-0.06**
	2019 July	2018 July	Change (pp)
National Accounts			
GG excluding Local Government (consolidated)	**-2.02**	**-1.93**	**-0.09**
Central Government	**-1.30**	**-1.61**	**0.31**
Regional Government	**-0.25**	**0.00**	**-0.25**
Social Security Funds	**-0.47**	**-0.32**	**-0.15**
	2019 August	2018 August	Change (pp)
STATE			
National Accounts	*-1.20*	*-1.55*	*0.35*
Cash (1)	*-0.66*	*-0.99*	*0.33*
SOCIAL SECURITY			
Budget Outturn (2)	*-0.56*	*-0.41*	*-0.15*

(*) Including the net balance of support provided to financial institutions. (1) Includes cash inflows and outflows 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.

Excluding the effect of interest expenditure accrued (€ 14.1 billion), a primary deficit of € 12.6 billion is obtained in the second quarter of the year for the total General Government, equal to 1.01% of GDP, 0.33 p.p. higher when compared to the figure recorded in the same period of the previous year.

All subsectors worsened their balance in GDP percentage compared to the first half of 2018, except for the Regional Governments, which maintained it. By subsectors, the y-o-y increase of 0.26 percentage points in the public deficit ratio on GDP in the second quarter is mainly explained by the greater deficit of the Central Government (it increases by 0.16 p.p.) and, to a lesser extent, by the growth in the deficit of the Social Security Funds (it grows by 0.6 p.p. of GDP) and the worsening of the balance of Local Corporations (which goes from 0.00% to -0.03% of GDP).

The General Government deficit excluding Local Governments reaches 2.02% of GDP up to July

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded up to July 2019 a deficit in terms of National Accounts of € 25.2 billion, equivalent to 2.02% of GDP, which implies an increase of 0.09 p.p. compared to the same period of the previous year (1.93% of GDP). In the first months of this year, some expenditure were recorded without equivalence in the same period of the previous year, in particular the higher increase in wages and the rise in pensions, whose revaluations last year were accounted for in subsequent months, after the approval of the Draft State Budget for 2018. This effect is expected to be mitigated in the second half of the year. Excluding the net balance of support to financial institutions, the deficit remains at 2.02% in 2019 up to July and it is one hundredth higher in 2018.

Table 5.2. **Total General Government**

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

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

	Second quarter		y-o-y growth	% of GDP	
	2018	**2019**		**2018**	**2019**
1. NON-FINANCIAL REVENUE	**219,971**	**228,746**	**4.0**	**18.30**	**18.32**
Taxes	126,243	129,103	2.3	10.50	10.34
* Taxes on production and imports	73,628	74,922	1.8	6.12	6.00
* Current taxes on income, wealth, etc.	49,822	51,533	3.4	4.14	4.13
* Capital taxes	2,793	2,648	-5.2	0.23	0.21
Social contributions	73,675	79,545	8.0	6.13	6.37
Transfers within general government	-	-	-	-	-
Other revenue	20,053	20,098	0.2	1.67	1.61
2. NON-FINANCIAL EXPENDITURE	**242,586**	**255,457**	**5.3**	**20.18**	**20.46**
Intermediate consumption	30,307	31,103	2.6	2.52	2.49
Compensation of employees	61,623	65,611	6.5	5.13	5.25
Interest	14,452	14,117	-2.3	1.20	1.13
Subsidies	5,165	5,212	0.9	0.43	0.42
Social benefits other than social transfers in kind	90,850	97,805	7.7	7.56	7.83
Social transfers in kind: market production purchased by general government	14,670	15,255	4.0	1.22	1.22
Gross fixed capital formation	12,813	12,639	-1.4	1.07	1.01
Transfers within general government	-	-	-	-	-
Other expenditure	12,706	13,715	7.9	1.06	1.10
3. NET LENDING (+) NET BORROWING (-) (1-2)	**-22,615**	**-26,711**	**18.1**	**-1.88**	**-2.14**

Source: IGAE. Ministerio de Hacienda.

The primary deficit of General Government without Local Corporations registered up to July was € 8.9 billion (0.71% of GDP), in comparison to the figure recorded a year earlier (€ 6.4 billion, 0.53% of GDP).

The slight growth in the General Government consolidated deficit, excluding Local Governments, is explained by an increase in resources (4.6% y-o-y) slightly lower than that registered by uses (4.9%).

On the revenue side, tax collection increased by 3.1% y-o-y up to July. Taxes on production and imports grew by 2.3%, largely due to VAT, whose revenues increased by 3.4% in the territory subject to the Common Fiscal Regime. On the other hand, the Tax on the Value of the Production of Electric Energy collected by the State went from contributing € 719 million up to July 2018 to registering a net amount of € 1 million in the same period of this year, due to the measures approved in RDL 15/2018.

Revenue derived from current taxes on income and wealth rose by 4.5%, due to the Personal Income Tax, whose collection grew by 11.1%, in the State, and by 3.3%, in the Regional Governments. On the other hand, the Corporate Income Tax collection fell by 3.4%. The rise in revenues from the first instalment payment (3.2%) was not enough to offset the effect due to a refund to a single company, for an amount slightly exceeding € 700 million, and the late presentation of a tax declaration for the financial year 2016, in January 2018, for an amount slightly exceeding € 300 million. Revenues from Non-Residents Income Tax decreased by 23.3%, mainly due to the rise in reimbursements of € 257 million and by a high value record registered the previous year.

Table 5.3. **General Government excluding Local Government sub-sector**
Non-financial transactions in terms of national accounts. Monthly data
Accumulated data in millions €, y-o-y growth and % of GDP

	July		**y-o-y growth**	**% of GDP**	
	2018	**2019**		**2018**	**2019**
1. NON-FINANCIAL REVENUE	**240,749**	**251,843**	**4.6**	**20.03**	**20.17**
Taxes	129,854	133,938	3.1	10.80	10.73
* Taxes on production and imports	68,006	69,588	2.3	5.66	5.57
* Current taxes on income, wealth, etc.	60,066	62,759	4.5	5.00	5.03
* Capital taxes	1,782	1,591	-10.7	0.15	0.13
Social contributions	86,032	92,465	7.5	7.16	7.40
Transfers within general government	6,579	6,849	4.1	0.55	0.55
Other revenue	18,284	18,591	1.7	1.52	1.49
2. NON-FINANCIAL EXPENDITURE	**263,984**	**277,033**	**4.9**	**21.96**	**22.18**
Intermediate consumption	22,979	23,628	2.8	1.91	1.89
Compensation of employees	58,291	61,869	6.1	4.85	4.95
Interest	16,881	16,306	-3.4	1.40	1.31
Subsidies	5,422	5,635	3.9	0.45	0.45
Social benefits other than social transfers in kind	105,064	111,991	6.6	8.74	8.97
Social transfers in kind: market production purchased by general government	16,838	17,630	4.7	1.40	1.41
Gross capital formation	10,922	10,552	-3.4	0.91	0.84
Transfers within general government	14,211	14,887	4.8	1.18	1.19
Other expenditure	13,376	14,535	8.7	1.11	1.16
3. NET LENDING (+) NET BORROWING (-) (1-2)	**-23,235**	**-25,190**	**8.4**	**-1.93**	**-2.02**

Source: IGAE. Ministerio de Hacienda.

On the other hand, the General Government social contributions excluding Local Governments rose by 7.5% y-o-y up to July (in particular, those collected by the Social Security Funds increased by 8.1%). This result has been influenced by the growth in Security covered workers (2.8% y-o-y), as well as by several measures approved by RDL 28/2018, among which the rise of the minimum and maximum contribution bases in the general regime (22.3% and 7.0%, respectively) stands out.

On the expenditure side, the increase in social benefits other than transfers in kind (6.6%, partly due to the increase in pensions applied since January 2019, following RDL 28/2018, which is added to the rise applied since July 2018); and the compensation of employees (6.1%, partly due to the general wage increase of 2.25% since January this year, which is added to the rise applied since the entry into force of the 2018 General State Budget, in July last year) should be noted. The equalisation of wages between the State Security Forces and Corps with the autonomous police bodies must be added to the above). Likewise, the higher contribution to the EU based on VAT and GNI resources, which increased by 15.1% y-o-y, the increase in transfers between General Government units (4.8%) and the tax return on maternity and paternity benefit (€ 885 million, up to July, without correspondence in the same period of 2018) should also be mentioned. On the other hand, gross fixed capital formation (-3.5%) and accrued interest (-3.4%) decrease in y-o-y terms.

With regard to the balance of non-financial operations by subsectors, the Central Government recorded up to July 2019 a deficit of 1.30% of GDP, 0.31 p.p. lower compared to the figure registered in the same period 2018. This decrease is largely explained by the moderation of the current transfers made to other subsectors, in particular the Regional Government and Social Security. The Regional Government recorded a deficit standing at 0.25% of GDP, above by 0.25 p.p., the figure accumulated up to July last year, and the Social Security Funds registered a deficit of 0.47% of GDP, a figure above by 0.15 p.p. in comparison to the same period of 2018. Within the Central Government, the State's deficit decreased by 18.8% y-o-y, while the deficit of the Other Central Government Bodies rose by 33%.

Regarding transfers between sub-sectors of the General Government, the increase of transfers from the Regional Governments to the State (17.7%, up to € 7.9 billion) and from the State to the Regional Governments (1.6%, up to € 49.3 billion), and the increase in advanced payments of the State to the Local Governments by the Financing System (3.3%) and transfers from the Regional Governments to the Local Governments (13.7%) and the decrease in current transfers from the State to the Social Security funds (-10%), down to € 10.5 billion, must be mentioned. Likewise, the increase of current transfers from the Social Security Funds to the Regional Governments (148.6%), up to € 1.9 billion, due to an advance in resources related to the financing of active employment policies should be noted.

The State's deficit falls by 19.6%, up to August, and reaches 1.20% of GDP

Up to August 2019, the State registered a deficit, in terms of National Accounts, equal to 1.20% of GDP, 0.35 p.p. lower compared to that of a year earlier (1.55%). This deficit decrease (-19.6%) is due to a rise in non-financial resources (4.4%) higher than that of non-financial uses (1.2%). In the first eight months of the year, the State has registered a primary surplus of € 2 billion (0.16% of GDP), compared to the primary deficit of € 1.1 billion recorded in the same period last year (-0.09% of GDP).

Within resources, taxes grew by 3.9% y-o-y. Current taxes on income and wealth grew by 5.4%: Personal Income Tax rose by 11.7% once the part corresponding to the Regional Governments was deducted, which rose by 8.6%, while revenues from Corporate Income Tax fell by 0.8%. On the other hand, taxes on production and imports rose by 3.0%, driven by VAT, which increased by 3.0%. Moreover, the transfers received from other general government units, which increased by 17.9%, mainly due to the 2017 liquidation of the Regional Governments

Financing System, in favour of the State, while the 2016 settlement was favourable to the Regional Governments, should be mentioned.

On the other hand, within uses, the increase in the contribution to the EU based on VAT and GNI resources (14.1%); social benefits other than social transfers in kind (11.0%, driven by pensions of the civil servants scheme, which rose by 6.6%); intermediate consumption (8.7%, driven by the expenditure made to cover electoral expenses) and the compensation of employees (6.2%) stand out. On the other hand, gross fixed capital formation and accrued interest decreased by 7.3% and 3.1%, respectively, and current transfers to other General Government units fell by 0.7%, where the decrease in transfers to the Social Security Funds (-9.6%) and the moderation of the growth rate of transfers to the Regional Governments (0.9%) is significant. The rest of current uses fell by 18.7%, mainly due to the decrease in subsidies to products due to the lower expenditure allocated to cover the costs of the electrical system (-24.5%).

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

	August		**y-o-y growth**	**% of GDP**	
	2018	**2019**		**2018**	**2019**
1. NON-FINANCIAL REVENUE	**123,520**	**128,916**	**4.4**	**10.27**	**10.32**
Taxes	103,203	107,191	3.9	8.58	8.58
* Taxes on production and imports	63,262	65,143	3.0	5.26	5.22
* Current taxes on income, wealth, etc.	39,830	41,970	5.4	3.31	3.36
* Capital taxes	111	78	-29.7	0.01	0.01
Social contributions	4,819	4,746	-1.5	0.40	0.38
Transfers within general government	8,238	9,714	17.9	0.69	0.78
Other revenue	7,260	7,265	0.1	0.60	0.58
2. NON-FINANCIAL EXPENDITURE	**142,108**	**143,853**	**1.2**	**11.82**	**11.52**
Intermediate consumption	3,149	3,424	8.7	0.26	0.27
Compensation of employees	11,499	12,215	6.2	0.96	0.98
Interest	17,456	16,920	-3.1	1.45	1.35
Subsidies	2,770	2,245	-19.0	0.23	0.18
Social benefits other than social transfers in kind	10,985	12,194	11.0	0.91	0.98
Social transfers in kind: market production purchased by general government	238	285	19.7	0.02	0.02
VAT and GNI-based EU own resources	6,737	7,688	14.1	0.56	0.62
Transfers within general government	81,768	81,217	-0.7	6.80	6.50
Gross fixed capital formation	3,381	3,133	-7.3	0.28	0.25
Capital transfers within general government	1,155	1,351	17.0	0.10	0.11
Other expenditure	2,970	3,181	7.1	0.25	0.25
3. NET LENDING (+) NET BORROWING (-) (1-2)	**-18,588**	**-14,937**	**-19.6**	**-1.55**	**-1.20**

Source: IGAE. Ministerio de Hacienda.

In terms of Cash, the State recorded a deficit of 0.66% of GDP up to August, below the figure recorded in the same period of 2018 (0.99% of GDP).

The borrowing requirement of the State up to August fell by 18.9% in comparison to the same period of the previous year (€ 4.7 billion less), reaching € 20.0 billion due to the lower cash deficit (€ 3.7 billion less), and, to a lesser extent, to the decrease in the net variation of financial assets (€ 989 million less).

The borrowing requirement of the State up to August was higher that the cash deficit, due to the net variation of financial assets by the State, which was positive (€ 11.8 billion). It is worth noting the positive variation of loans (€ 8.3 billion), mainly due to the loan granted to the Social Security, and the current account at the Bank of Spain (€ 7.7 billion), partially offset by the negative variation of other net assets (€ -5.4 billion).

The Social Security deficit reaches 0.56% of GDP up to August

The budget outturn of the Social Security, recorded a deficit up to August 2019 of 0.56% of GDP. This percentage is 0.15 p.p. above the figure recorded in the same period of 2018 (0.41% of GDP). Revenues grew by 5.6% in y-o-y terms, driven by social contributions, which also rose by 7.9%. On the other hand, expenses increased by 7.5%, where the pensions evolution should be noted as they rose by 5.6% y-o-y. The rise in benefits for temporary disability (36.7%), from € 4.3 billion up to August 2018 to € 5.9 billion up to August 2019 should also be mentioned. This growth is affected by the allocation in the first quarter of this year of the delegated payment of the temporary disability of November and December 2018 (€ 978.6 billion), as result of a change in budget allocation criteria.

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

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

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

	2018 December	2019 Budget	% Change	2018 August	2019 August	% Change
1. REVENUE	**135,026**	**135,253**	**0.2**	**91,808**	**96,936**	**5.6**
Social Security contributions	114,999	114,916	-0.1	76,211	82,237	7.9
Current transfers	18,081	18,441	2.0	14,123	13,456	-4.7
of which: from the State	14,650	14,876	1.5	11,831	10,813	-8.6
Property income	273	228	-16.4	189	55	-70.9
Other revenue (1)	1,673	1,667	-0.3	1,286	1,188	-7.6
2. EXPENDITURE	**151,988**	**152,565**	**0.4**	**96,703**	**103,964**	**7.5**
Pensions	130,783	129,495	-1.0	83,602	88,247	5.6
Contributory	121,297	119,791	-1.2	77,449	82,074	6.0
Non-contributory	9,486	9,704	2.3	6,153	6,173	0.3
Sickness benefits	7,491	7,980	6.5	4,337	5,928	36.7
Maternity benefits	2,388	2,559	7.2	1,543	1,689	9.5
Other benefits	2,058	2,197	6.7	1,515	1,598	5.5
Wages and salaries	2,254	2,394	6.2	1,408	1,452	3.1
Purchase of goods and services	1,393	1,542	10.7	855	870	1.8
Other revenue (2)	5,620	6,398	13.8	3,444	4,179	21.4
3. BALANCE OF NON-FINANCIAL TRANSACTIONS (1-2)	**-16,962**	**-17,312**	**2.1**	**-4,894**	**-7,028**	**43.6**
As % of GDP	-1.4	-1.4		-0.41	-0.56	

(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 € 1,210.9 billion in the second quarter of the year

According to the BoS, the General Government EDP Debt, reached a balance of € 1,210.9 billion at the end of the second quarter of 2019, a figure € 45 billion higher compared to the one recorded a year earlier. Using the cumulative nominal GDP of the last four quarters up to the second quarter of 2019, the General Government debt-to-GDP ratio up to June this year stood at 98.9%, a figure three tenths higher compared to the one recorded in the same period of 2018.

By subsectors, the Central Government EDP Debt reached € 1,075.5 billion in June 2019, 87.8% of GDP, a figure three tenths higher in comparison to that registered a year earlier. The Social Security Administrations debt stood at € 48.7 billion, 4% of GDP, one point more than in the same period of the previous year. This increase is due to the loans granted by the State to the General Treasury of the Social Security. The Regional Government debt stood at € 300.6 billion in June, 24.6% of GDP, two tenths lower than in the second quarter of 2018. Local Government registered a debt of € 26.2 billion up to June, representing 2.1% of GDP, four tenths less in comparison to a year earlier. The debt owned by General Government units, which is deducted to obtain the General Government consolidated debt, amounted to € 240.1 billion, 19.6% of GDP, a ratio four tenths higher than the figure registered in the second quarter of 2018. This item includes, among others, the loans granted by the State to other subsectors and the assets held by the Social Security Reserve Fund. By instrument, long-term debt securities increased by € 52.2 billion in y-o-y terms, while short-term debt securities decreased by € 1.2 billion. The € 6.2 billion fall recorded by loans should also be pointed out, partly due to the early repayment of part of the ESM loans.

Table 5.6 **General Government EDP Debt as % of GDP**

	Q2 2019	Q2 2018	Change (pp)
TOTAL General Government consolidated	98.9	98.6	0.3
Central Government	87.8	87.5	0.3
Regional Government	24.6	24.8	-0.2
Local Government	2.1	2.5	-0.4
Social Security Funds	4.0	3.0	1.0
Assets held by Government (consolidation)	19.6	19.2	0.4

Source: Banco de España.

The General Government EDP Debt published by the BoS reflects the regular extraordinary review, which was introduced in September 2019 in the national accounts. The changes affecting the debt level are mainly due to the reallocation of indebtedness of the Sociedad Estatal de Participaciones Industriales (Society of State Participations) (SEPI, as per its Spanish abbreviation) for the 2015-2017 period and the reclassification of ENRESA in the General Government sector for the years prior to 2017. On the other hand, the downward revision of the nominal GDP undertaken by the INE led to an increase in the EDP debt ratio in recent years. In particular, in 2017 and 2018, the Debt to GDP ratio has been revised upwards by half a point.

Taking into account the total deficit of the general government in the first half of the year (€ 26.7 billion) and the increase in the EDP Debt in the same period (€ 37.6 billion), a positive flow stock adjustment results, reaching € 10.9 billion.

According to the BoS, the General Government EDP Debt, reached € 1,197.8 billion at the end of July, a figure € 13.1 billion lower compared to June and € 35.1 billion higher compared to a year earlier. It should be noted that the monthly balance has a volatile evolution and is conditioned by the concentration of issuances in the first months of the year (the debt rises) and redemptions in January, April, July, October and November (the debt falls). A reduction in debt securities and loans took place in July compared to June, amounting to € 11.7 and € 1.4 billion, respectively.

By subsectors, the State and the Regional Governments debt rose compared to the same month of the previous year, reaching € 1,052.3 billion and € 299.5 billion, respectively, as well as the Social Security Administration, which set their debt at € 49.9 billion. On the other hand, the Local Corporations and the Other Central Government Bodies continued reducing their debt in y-o-y terms, down to € 26.5 and € 29.2 billion, respectively.

The debt held by the General Government units, which is deducted to obtain the General Government consolidated debt, amounted to € 259.6 billion, which represents an increase of € 16.5 billion in comparison to a year earlier. This item includes the loans granted by the State to other subsectors and the assets of the Social Security Reserve Fund. Up to July this year, the State had granted loans amounting to € 8.8 billion to the General Treasury of the Social Security.

By instrument, the long-term debt securities have increased by € 41.1 billion compared to a year earlier, while short-term debt securities have decreased by € 1.7 billion. Likewise, the fall of loans by € 4.5 billion should be noted, due to the early amortisation of part of the ESM loan.

By the end of August, the State's EDP Debt reached € 1,055.3 billion, which represents an increase of € 3.0 billion in comparison to a year earlier. One year earlier, the balance stood at € 1,022.5 billion.

In August, the balance of short-term debt securities fell, amounting to € 1.9 billion in comparison to the previous month, while the balance of long-term debt securities rose by € 4.9 billion. As counterpart, there was an increase in deposits of the Central Government in the BoS reaching € 4.9 billion.

By instruments, € 923.3 billion of the balance at the end of August correspond to long-term debt securities (€ 40.0 billion more than a year ago); € 64.6 billion with short-term debt securities (€ 4.7 billion less); and the rest, € 67.5 billion, with loans and deposits (€ 2.5 billion less than in the same period of the previous year, due to the early repayment of part of the ESM loans). Out of the balance at the end of August 2019, € 221 million correspond to debt in currencies other than the euro.

By counterpart sectors, € 538 billion are assets held by resident sectors (€ 7 billion less than in the same month of 2018) and € 517.3 billion correspond to the rest of the world (€ 39.7 billion more than in August 2018). Out of the assets held by residents, € 10.2 billion are held by other General Government units (€ 4.3 billion less than a year ago).

6.- BALANCE OF PAYMENTS

The Bank of Spain revises the net lending of the Spanish economy upward, approximately by one point of GDP in 2018

The Bank of Spain revised the series of the Balance of Payments and the Net International Investment Position. This is a harmonised statistical review, not only between the countries of the European Union, Eurostat and the European Central Bank, but also between several statistical domains of both the Bank of Spain and INE. The net lending was revised upwards in recent years, by 0.6% of GDP on average in the period between 2010 and 2018 (approximately 1% of GDP in 2018), mainly due to the higher tourist balance.

The Spanish economy generated net lending to the rest of the world up to July

According to the Balance of Payments data, in the period between January and July 2019 the Spanish economy generated net lending to the rest of the world amounting to € 13.4 billion, below the figure registered in the same period of the previous year (€ 14.6 billion). This decrease is explained by the current account balance, whose surplus went from registering € 13.2 billion in cumulative terms between January and July 2018 to € 11.8 billion in the same period of 2019, partially offset by the capital account, whose surplus rose slightly. In turn, the current surplus decrease is explained by the greater deficit of the primary and secondary income and, to a lesser extent, the decrease of the surplus of goods and services.

Trade of goods and services with the rest of the world generated a surplus of € 20.3 billion up to July 2019, 1.1% lower compared to the figure recorded in the same period of 2018 as a result of an increase in exports (2%) lower than that of imports (2.3%).

The deficit of goods, according to Customs data, decreased in the first seven months of the year by 3.6% y-o-y, due to the energy component, whose deficit fell by 6.8%, partially offset by the non-energy component, which increased its deficit by € 564 million. Using the unit value indices of the Ministry of Economy and Business, a worsening of 0.1% is observed in the terms of trade in that period.

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

Million euro

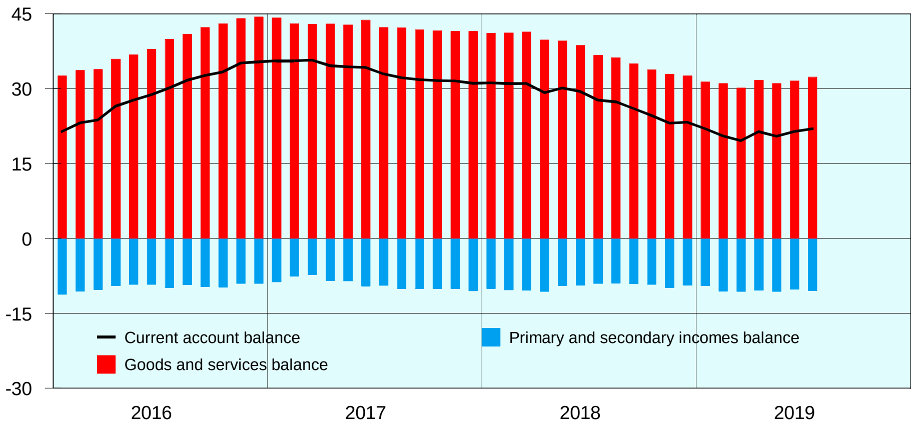
	January-July 2018			January-July 2019		
	Credit	Debit	Net	Credit	Debit	Net
Current and capital accounts	**292,277**	**277,690**	**14,585**	**297,615**	**284,221**	**13,397**
Current account	**290,148**	**276,996**	**13,151**	**295,400**	**283,590**	**11,811**
Goods and services	247,277	226,704	20,570	252,182	231,841	20,341
Tourism	*38,742*	*11,310*	*27,432*	*40,134*	*12,597*	*27,537*
Primary and secondary income	42,871	50,292	-7,421	43,218	51,749	-8,530
Capital account	**2,129**	**694**	**1,435**	**2,215**	**631**	**1,584**

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

The balance of tourism remains virtually stabilised

The balance of tourism services accumulated a surplus of € 27.5 billion up to July 2019, similar to the figure recorded in the same period of 2018 (€ 27.4 billion). Tourism revenues grew by 3.6% y-o-y in the first seven months of the year, and payments by 11.4%. Foreign tourists´ expenditure, according to the Tourist Expenditure Survey (EGATUR), increased by 3.2% y-o-y up to August (2.6% in the same months of 2018) and tourist arrivals grew by 1.5%, in comparison to the stability registered in the first eight months of the previous year.

G 6.1 CURRENT ACCOUNT BALANCE
12-month cumulated. Billion euros



Sources: Banco de España and SGCPE.

The deficit of primary and secondary income rises

The balance of primary and secondary income accumulated a deficit of € 8.5 billion in the first seven months of the year, 14.9% higher than that recorded in the same months of 2018, as a result of an increase in revenues lower than that of payments (0.8% and 2.9%, respectively).

The disaggregated data of the financial flows with the European Union (EU), included in the secondary income, show a balance of the net current transfers received of € -1.1 billion (-731 million registered a year earlier) in the period between January and August 2019, with an increase in revenues (17.0%) lower than that of payments (20.5%). With regards to revenues, public transfers received from the European Social Fund, aimed at promoting employment, rose by 90.2%, while in the transfers for the private sector, the subsidies received by farmers as refunds of the Common Agricultural Policy rose by 6.3%. On the payments side, within public payments for the EU, those related to the GNI Resource (30.5%), with the Traditional Own Resources (2.5%) and with the VAT Resource (0.6%) grew, although it should be noted that these payments are not divided in the same way through all financial years.

The capital balance surplus increases slightly

Up to July 2019, the capital balance generated a surplus of € 1.6 billion, slightly higher in comparison to the previous year, due to a rise in revenues (€ 86 million more) and a decrease in payments (€ 63 million less). Capital transfers from the European Union fell by 11.2% in the period between January and August compared to the same period of the previous year, down to € 1.6 billion. Within revenues, quantitatively speaking, the most important items were public transfers from the structural funds of the EU Budget, aimed at infrastructure, rural development and environment. It should be noted that transfers from the Cohesion Fund were not received in this period (€ 173 million in the previous year), and the revenues corresponding to the ERDF were similar to those of the previous period (€ 1.5 billion). However, it is important to note that these revenues are very erratic, due to the multiannual nature of many of the actions they finance.

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

	Million euro					% y-o-y change		Accumulated amounts		
								Million euro		% y-o-y change
	2018			2019		2019		2018	2019	2019
	II	III	IV	I	II	I	II	Jan-Aug	Jan-Aug	Jan-Aug
Net current transfers	**-1,422**	**-2,238**	**-2,286**	**1,104**	**-950**	**-45.8**	**-33.2**	**-731**	**-1,121**	**53.3**
- Revenue	**970**	**698**	**946**	**5,777**	**1,242**	**11.9**	**28.0**	**6,744**	**7,889**	**17.0**
Refunds CAP	772	629	504	4,676	855	4.9	10.8	5,805	6,169	6.3
ESF	163	20	301	1,049	350	59.0	115.2	824	1,567	90.2
Other subsidies	35	49	140	51	36	20.8	2.9	115	152	33.0
- Payments	**2,392**	**2,936**	**3,232**	**4,673**	**2,192**	**49.6**	**-8.3**	**7,475**	**9,009**	**20.5**
VAT	385	384	370	630	299	14.0	-22.5	1,189	1,197	0.6
GNI	1,633	2,045	2,364	3,500	1,503	74.2	-8.0	4,975	6,491	30.5
Traditional Own	373	370	406	384	381	-0.8	1.9	999	1,024	2.5
Other	0	138	91	159	10	-8.9	-	312	297	-4.6
Capital transfers	**194**	**1,222**	**702**	**1,005**	**478**	**-26.0**	**146.4**	**1,745**	**1,550**	**-11.2**
ERDF	191	1,196	672	924	475	-21.8	148.9	1,543	1,458	-5.5
Cohesion Fund	0	0	0	0	0	-100.0	-	173	0	-100.0
Other	3	26	30	81	3	2,661.5	-2.9	29	91	217.4

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

The financial account records a positive net balance

In the first seven months of 2019, the financial account recorded a positive net balance (net variation in assets minus net variation in liabilities) amounting to € 16.7 billion, higher than a year earlier (€ 11.9 billion). Excluding the Bank of Spain, a net balance of € 18.2 billion was recorded up to July, below the net variation registered a year earlier (€ 31.1 billion). This result includes positive balances (investments) in asset and liability transactions.

Investment in Spain from abroad decreases slightly,…

Up to July 2019, the net variation in liabilities generated a balance of € 40.5 billion, 11.3% less than in the same period of the previous year. The direct investment balance fell by € 43.8 billion, down to € 1.4 billion, which were mainly channelled toward the financial residential sector. On the other hand, portfolio investment recorded a balance of € 56.1 billion euros, € 42.8 billion higher than in the same period of 2018, led by Public Administrations (€ 37.6 billion), the private financial sector (€ 8.5 billion) and the non-financial resident sector (€ 10.1 billion up to July 2019). Finally, other investments (loans, deposits and repos) recorded a negative net balance of € -17.0 billion, compared to the € -12.9 billion registered in the same period of 2018, driven by the private financial sector and by the non-financial residential sector.

…as well as Spain's investment abroad

The assets net variation with the rest of the world, excluding the Bank of Spain, accumulated in the first seven months of the year a balance of € 58.7 billion, 23.5% lower in comparison to the figures recorded a year earlier. Direct investment accumulated a positive balance amounting to € 13.1 billion, 29% lower than a year earlier, coming from the financial private sector and other resident sectors, although in the latter case it was reduced by half. The positive balance in the form of portfolio investment fell by 55.4%, to € 16.6 billion, particularly in financial institutions and in the non-financial private sector. On the other hand, other investment registered a balance of € 33.6 billion (€ 19.8 billion a year earlier), where mainly the Monetary Financial Institutions should be highlighted. Finally, financial derivatives registered a negative net balance amounting to € 4.7 billion.

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

	January-July 2018			January-July 2019		
	Assets change	Liabilities change	Balance	Assets change	Liabilities change	Balance
Financial account	**57,580**	**45,634**	**11,947**	**57,170**	**40,476**	**16,690**
- Excluding Bank of Spain	**76,710**	**45,634**	**31,079**	**58,702**	**40,476**	**18,222**
Direct investment	***18,420***	***45,185***	***-26,765***	***13,082***	***1,410***	***11,672***
Monetary financial institutions	5,462	3,290	2,172	6,552	1,385	5,167
Other resident sectors	12,959	41,895	-28,936	6,530	25	6,505
Portfolio investment	***37,364***	***13,321***	***24,044***	***16,649***	***56,112***	***-39,466***
General Government	297	23,892	-23,595	218	37,565	-37,347
Monetary financial institutions	7,446	1,296	6,150	7,530	8,468	-938
Other resident sectors	29,261	-11,869	41,130	8,901	10,078	-1,177
Other investment	***19,823***	***-12,872***	***32,697***	***33,638***	***-17,046***	***50,683***
General Government	-1,575	-6,857	5,282	-2,191	132	-2,323
Monetary financial institutions	17,670	-18,161	35,831	34,111	-14,206	48,317
Other resident sectors	3,728	12,146	-8,418	1,718	-2,972	4,690
Financial derivatives	***1,103***	-	***1,103***	***-4,667***	-	***-4,667***
- Bank of Spain	**-19,130**	-	**-19,130**	**-1,532**	-	**-1,532**
Reserves	915	-	915	552	-	552
Claims on the Eurosystem	-19,037	-	-19,037	-1,050	-	-1,050
Other net assets	-1,010	-	-1,010	-1,034	-	-1,034
- Net errors and omissions	**-2,639**	**-**	**-2,639**	**3,294**	**-**	**3,294**

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

Current, capital and financial transactions generated a decrease of net assets of the Bank of Spain (increase of the net debtor position) amounting to € 1.5 billion, due to the drop recorded by other net assets € 1.0 billion and assets vis-à-vis the Eurosystem, € 1.1 billion, while reserves rose € 552 million.

The debtor balance of the Net International Investment Position continues to decrease

The Net International Investment Position (NIIP) decreased its debtor balance in the second quarter of 2019, by 2.8% y-o-y, reaching € 978 billion, equal to 79.9% of GDP, a percentage 5.2 points lower in comparison to the figure registered in the second quarter of 2018. Assets amounted to € 2.1 trillion, 8.2% more compared to a year earlier, and liabilities to € 3.1 trillion, 4.4% more in comparison to the second quarter of the previous year. On the other hand, the gross external debt rose to € 2.1 trillion in the second quarter of 2019 (171.6% of GDP), compared to the € 2 trillion registered in the same period of 2018 (168.6% of GDP).

The NIIP debtor balance, excluding the Bank of Spain, reached an amount of € 770 billion in the second quarter of 2019, 2.7% less than a year earlier. Increases were registered in the debtor balance of portfolio investment (9.9% to up to € 586 billion) and financial derivatives (51.3% up to € 11.7 billion), while direct investment (-5.6% down to € 123 billion), and other investment (-59.1%, down to € 49.2 billion) reduced their debtor balance.

The Bank of Spain decreased its debtor balance by € 6.3 billion in the second quarter of 2019 compared to a year earlier, down to € 208.1 billion, equal to 17% of GDP. This decrease is mainly explained by the rise of € 5.4 billion of the reserves and the € 2 billion decrease of the Bank of Spain debtor balance vis-à-vis the Eurosystem, while, on the other hand, the debtor balance of other net assets rises by € 1.1 billion.

October 2019