November 2019

SPANISH ECONOMY REPORT

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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

Financial markets

The financial markets evolution in November was conditioned by the uncertainty regarding the trade negotiations between the United States and China, the publication of the minutes of the last meetings held by the Federal Reserve (in which it was confirmed that, for the time being, there will be no further rate cuts) and by the European Central Bank (reference is made to the need for tax policy to help boost the potential growth and stabilise the cycle); and the publication of macroeconomic indicators on both sides of the Atlantic. In this context, despite the volatility derived from the uncertainty regarding the trade negotiations, risk aversion has decreased, resulting in the public debt yields growing, while stock indices have recorded mixed results. In the currency markets, the euro has depreciated against the dollar.

The BoE maintains its monetary policy but foresees future interest rate cuts if downward risks continue to increase

The Monetary Policy Committee of the Bank of England (BoE), in its meeting held on 6th November decided, with seven votes in favour and two against, 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. Two members voted in favour of cutting the interest rates.

As in previous statements, the BoE highlighted that the downward risks and uncertainty continue to increase, as a result of the trade tensions, the slowdown of the world economy and the uncertainty regarding Brexit, that the monetary policy stance will depend on the effects on supply, demand and the exchange rate and that rate cuts will be adopted if downward risks continue to increase.

The 12-month Euribor increases slightly

In the interbank market of the Eurozone, interest rates rose in the longer terms (six and twelve-month Euribor) and fell in the shortest terms (one and three-month Euribor) during November and the first days of December. Thus, on 3rd December, the one, six and twelve-month Euribor stood at -0.448%, -0.333% and -0.263%, respectively, versus the -0.437%, -0.337% and -0.273% recorded at the end of October. The slight rise of the twelve-month Euribor in this period (1 b.p.) is mainly due to the expectations of increases in interest rates (the OIS -Overnight index swap- rose 2 b.p.), partially offset by the decrease of the risk premiums required in the market (the Euribor-OIS differential fell 1 b.p.).

Generalised increase in public debt yields

In the secondary public debt market, the moderation in trade tensions between the United States and China has reduced the risk aversion, driving public debt yields upwards. The 10-year Spanish bond yield stood at 0.44% on 3rd December, 19 b.p. higher than the figure recorded on 31st October. On the other hand, the German bond yield rose 6 b.p. in that period, and continued registering negative values (-0.35%), with the Spain-Germany differential standing at 79 b.p., 13 b.p. higher than at the end of October. In the rest of Europe, in a context of generalised increases, the drop in the Irish yield in this period should be noted (2 b.p.). In the United States, the 10-year bond yield stood at 1.71% on 3rd December, 2 b.p. above the level reached at the end of October. On the other hand, the yield of the three-month bills stood at 1.57%, 3 b.p. above the figure recorded at the end of October, and below that of the 10-year US bond. The differential between both stands at 15 b.p., a figure identical to the one recorded at the end of October.

T 1. Ten-year government bond yields
% and basis points

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-31-18	Oct-31-19	Dec-03-19	Variation in bp		Dec-31-18	Oct-31-19	Dec-03-19	Variation in bp	
				Period	Annual				Period	Annual
	(1)	(2)	(3)	(3)-(2)	(3)-(1)	(4)	(5)	(6)	(6)-(5)	(6)-(4)
Germany	0.25	-0.41	-0.35	6	-60					
Holland	0.39	-0.28	-0.21	7	-60	14	13	14	1	0
Austria	0.50	-0.17	-0.12	5	-62	25	24	23	-1	-2
Finland	0.55	-0.16	-0.10	6	-65	30	25	25	0	-5
Belgium	0.77	-0.10	-0.06	4	-83	52	31	29	-2	-23
France	0.71	-0.10	-0.04	6	-75	46	31	31	0	-15
Ireland	0.91	0.01	-0.01	-2	-92	66	42	34	-8	-32
Portugal	1.72	0.17	0.37	20	-135	147	58	72	14	-75
Spain	1.42	0.25	0.44	19	-98	117	66	79	13	-38
Italy	2.77	1.04	1.40	36	-137	252	145	175	30	-77
Greece	4.38	1.16	1.60	44	-278	413	157	195	38	-218

Source: Financial Times.

The rating agency Moody´s maintains the credit rating and outlook for the Spanish debt

Moody´s published its credit rating of the Spanish debt on 15th November, keeping the “Baa1” rating unchanged with a stable outlook, as set in the revision made on 13th April 2018.

T 2. International stock exchanges

Countries	Indexes	Level Dec-03-19	% Variation Oct-31-19	% Variation Dec-31-18
Germany	DAX	12,989.29	1.0	23.0
France	CAC 40	5,727.22	0.0	21.1
Italy	FTSE MIB	22,736.52	0.2	24.1
Spain	IBEX 35	9,135.70	-1.3	7.0
Eurozone	EUROSTOXX 50	3,610.99	0.2	20.3
United Kingdom	FTSE 100	7,158.76	-1.2	6.4
United States	S&P 500	3,093.20	1.8	23.4
Japan	NIKKEI 225	23,379.81	2.0	16.8
China	SHANGHAI COMP	2,884.70	-1.5	15.7
Mexico	IPC	42,294.52	-2.4	1.6
Brazil	BOVESPA	108,956.02	1.6	24.0
Argentina	MERVAL	32,756.73	-6.4	8.1

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

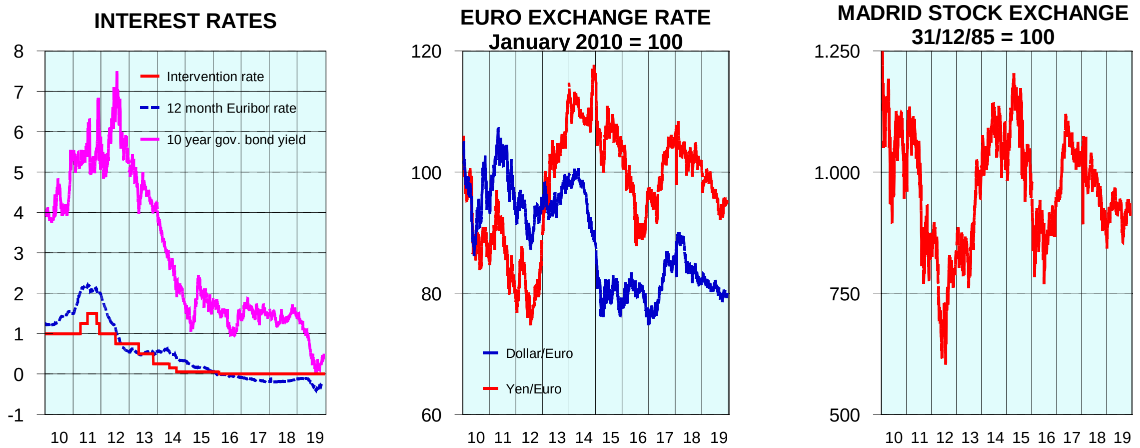
Stock indices registered mixed results

Stock markets registered mixed results, in a context of lower trade uncertainty and macroeconomic results of different sign. In Europe, the Eurostoxx 50 index rose by 0.2% in the period between 31st October and 3rd December. In Spain, the IBEX 35 fell by 1.3%, standing at 9,135.70 points on 3rd December. In the rest of European markets, a mixed behaviour predominated in this period: the German DAX Xetra (1.0%) and the Italian FTSE MIB (0.2%) recorded increases, the FTSE 100 in the United Kingdom (-1.2%) decreased, and the CAC 40 in Paris recorded a null variation. In the US market, the S&P 500 index increased by 1.8% in the same period.

The euro depreciates against the dollar

With respect to the currency market, in the period between the end of October and the beginning of December, the euro depreciated by 0.7% against the dollar, 0.3% against the yen and 1.1% against the pound, trading at 1,1071 dollars, 120.39 yen and 0.85200 pounds by the end of the 3rd December session. In the same period, the euro depreciated by 0.4% in nominal effective terms vis-à-vis the group of industrialised countries.

G1. MONETARY AND FINANCIAL INDICATORS (1)



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

The M3 broad monetary aggregate maintains the growth at 5.6% in October,...

In relation to the analysis of the monetary sector, the ECB published the evolution of the monetary and credit aggregates in the Eurozone for October. The M3 broad aggregate rose by 5.6% y-o-y, as in September, because the acceleration of cash and deposits (0.1 and 0.5 points, respectively, up to 4.8% and 9.0%) has offset the lower growth of other short-term deposits (0.6 %, compared to the 1.2% recorded in the previous month) and the largest drop in marketable instruments (-2.4%, in comparison to the -1.1% registered in the previous month).

T 3. Eurozone monetary aggregates

	October 2019 Balance (Billion €)	% Year-on-year variation		
		August 2019	September 2019	October 2019
1. Currency in circulation	1,209	4.8	4.7	4.8
2. Overnight deposits	7,674	9.0	8.5	9.0
M1 (= 1+2)	**8,883**	**8.4**	**7.9**	**8.4**
3. Other short-term deposits (= 3.1.+3.2.)	3,451	0.9	1.2	0.6
3.1. Term deposits up to two years	1,094	-3.1	-2.6	-4.3
3.2. Deposits redeemable at notice up to three months	2,357	2.9	3.1	3.0
M2 (= M1+3)	**12,335**	**6.2**	**5.9**	**6.1**
4. Marketable instruments (= 4.1.+4.2.+4.3.)	625	-2.4	-1.1	-2.4
4.1. Repurchase agreements	80	-1.1	3.0	10.1
4.2. Money market funds shares units	518	4.9	6.1	1.4
4.3. Securities other than shares up to two years	28	-59.7	-65.2	-48.0
M3 (= M2+4)	**12,960**	**5.7**	**5.6**	**5.6**

Source: European Central Bank.

…and financing to the private sector in the Eurozone at 3.2%

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, also maintained in October the same y-o-y rate as the one registered the previous month, 3.2%, due to the fact that the greater growth of loans (3.3%, compared to the 3.2% registered in September) and shares and other equity (eight tenths, up to 3.3%), offset the slowdown in securities other than shares (2.2%, versus the 3.3% recorded in September). Within loans, those granted to non-financial corporations (two tenths, up to 3.1%), households (one tenth, up to 3.3%) and other financial intermediaries (from 3.6% up to 3.7%) accelerated slightly, while those granted to insurance companies and pension funds slowed down 3.4 points, although they continue to grow at high rates (11%).

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

	October 2019 Balance (Billion €)	%Year-on-year variation		
		August 2019	September 2019	October 2019
Financing to the private sector	**13,802**	**3.1**	**3.2**	**3.2**
Loans	**11,423**	**3.5**	**3.2**	**3.3**
Households	**5,895**	**3.3**	**3.2**	**3.3**
House purchases	*4,488*	*3.5*	*3.5*	*3.7*
Consumer credit	*715*	*6.1*	*6.0*	*5.8*
Other lending	*691*	*-1.2*	*-1.4*	*-1.7*
Non-financial corporations	**4,503**	**3.5**	**2.9**	**3.1**
Insurance companies & pension funds	**139**	**12.9**	**14.4**	**11.0**
Other financial intermediaries	**886**	**3.2**	**3.6**	**3.7**
Securities other than shares	**1,563**	**1.2**	**3.3**	**2.2**
Shares and other equities	**816**	**2.1**	**2.5**	**3.3**

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

Financing received by households and non-financial corporations in Spain decreased in October

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 decreased by 0.4% y-o-y in October, following the 0.7% growth recorded 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). This fall was due to the slight decline both in financing received by non-financial corporations (-0.6%, following the 1.2% increase recorded in September) and households (-0.1%, in comparison to the 0% registered in the previous month). Within non-financial corporations, this evolution is explained by the greater decrease in foreign loans (-4.3%, compared to the -1.0% registered in September) and bank loans (-1.5%, in comparison to the -0.7% recorded in the previous month), as well as the lower growth of debt securities (14.4%, compared to the 16.5% recorded in the previous month). On the other hand, the virtual stabilisation of the financing received by households is due to a slowdown of bank loans for purposes other than housing (half a point, to 3%) offset by the smaller decrease in loans for housing (-1.1%, compared to the -1.2% registered in September).

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

	October 2019 Balance (Billion €)	% Year-on-year variation		
		August 2019	September 2019	October 2019
Non-financial corporations and households	**1,601**	**1.0**	**0.7**	**-0.4**
Non-financial corporations	**899**	**1.5**	**1.2**	**-0.6**
Bank loans	*476*	*-0.1*	*-0.7*	*-1.5*
Securities other than shares	*118*	*18.1*	*16.5*	*14.4*
External loans	*305*	*-1.6*	*-1.0*	*-4.3*
Households and NPISH	**702**	**0.4**	**0.0**	**-0.1**
Bank loans. Housing	*515*	*-1.0*	*-1.2*	*-1.1*
Bank loans. Other	*187*	*4.4*	*3.5*	*3.0*
General Government	**-**	**3.0**	**2.5**	**-**
Total financing	**-**	**1.8**	**1.4**	**-**

Source: Banco de España.

New loan and credit operations to non-financial corporations fall and those to households increase

The total amount of new loan and credit operations to households and non-financial corporations in Spain, according to figures published by the Bank of Spain, decreased by 1.7% y-o-y in October (-1.4% in September). This decrease is explained by the drop in loans granted to non-financial corporations (-3.9% y-o-y, a fall almost two points higher in comparison to the figure registered in September), partially offset by the increase in loans granted to households (6.5%, a rate 5.8 points higher compared to the previous month). Loans granted to SMEs (using as a proxy for these credits those under one million euros) fell by 0.3% in October (-2.5% in September), and those exceeding one million euros fell by 8.4% (-1.4% in the previous month).

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 twelve months, decreased by 0.4% y-o-y in October, five tenths less than in September (-0.9%). This evolution is explained by the lower decline recorded by loans for other purposes (-9.9%, compared to the -13.1% recorded in September), while loans for consumption slightly moderated the pace of progress (two tenths, to 4.8%) and loans for housing fell by 0.3% after increasing by 0.2% in the previous period. The amount of new loan and credit operations to SMEs (up to one million euros) decreased by 3.1% y-o-y in October, two tenths more than in September, and the amount of new operations exceeding one million euros fell by 1.9%, compared to the 0.9% growth of the previous month.

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

	Balance October 2019 (Million €)	% Year-on-year variation		
		August 2019	September 2019	October 2019
TOTAL	**436,115**	**-0.8**	**-1.0**	**-2.0**
Loan and credit operations to households and NPISH	**95,973**	**-0.2**	**-0.9**	**-0.4**
House purchase	*42,745*	*0.7*	*0.2*	*-0.3*
Consumer credit	*35,641*	*5.3*	*5.0*	*4.8*
Other lending	*17,587*	*-11.4*	*-13.1*	*-9.9*
Loan and credit operations to non-financial corporations	**340,142**	**-0.9**	**-1.0**	**-2.5**
Up to 1 million euros	*173,039*	*-3.2*	*-2.9*	*-3.1*
Above 1 million euros	*167,103*	*1.5*	*0.9*	*-1.9*

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

The ratio of doubtful loans remains at record lows since December 2009

Finally, according to the data published by the Bank of Spain, the ratio of doubtful loans to the total loans granted to households and non-financial companies by financial institutions operating in Spain decreased one point in September in comparison to the figure recorded a year earlier, standing at 5.14%, compared to the 5.24% registered in August. These rates are the lowest since December 2009, when 5.08% was reached.

Spanish Economy

Demand and production

The OECD and the Funcas Panel revise downwards the growth forecast for the Spanish economy, to 2% in 2019 and 1.6% in 2020

The OECD, in its November update of the Economic Outlook report, and the Forecast Panel for the Spanish economy prepared by the Consenso de la Fundación de las Cajas de Ahorro (Funcas) for November, revised downwards the growth forecast for the real GDP of the Spanish economy in 2019 and 2020 with respect to its previous forecasts, by two and three tenths each, respectively, to 2.0% and 1.6%. It is important to take into account that both forecasts include for the first time the Statistical Review of the National Accounts carried out by the INE in September, which could partly explain the downward revision. Additionally, the OECD published the growth forecasts for 2021 for the first time, with a rate of 1.6%, the same as that of 2020.

By demand components, the lower real GDP growth in 2019 compared to what was previously foreseen by both agencies is explained by a downward revision of the domestic demand growth (four tenths by the OECD and six by the Panel, to 1.8 % and 1.5%, respectively) higher than the upward revision of the net external demand contribution (two and four tenths, to 0.3 and 0.5 points). However, in 2020, the real GDP growth forecast by the OECD being lower than expected in May is a consequence of the more negative contribution of net external demand (subtracts 0.5 points, four tenths more than in the previous estimate), while domestic demand is slightly revised upwards (it grows by 2.2%, compared to the previous 2.1%). On the other hand, according to the Funcas Consensus, the GDP downward revision in 2020 is explained by the moderation of domestic demand growth rate, four tenths to 1.5%, while the net external demand contribution improves one tenth, up to 0.1 points.

The qualitative indicators of global activity improve in November

The most recent qualitative indicators of global activity in Spain point to a more expansionary trend of activity in November. The Economic Sentiment Index of the European Commission rose seven tenths in that month, up to 101.9 (1990-2018 average = 100), after two consecutive months of falls, and the global activity composite PMI stood at 51.9, seven tenths higher compared to the previous month, due to the lower contraction of activity in the industry and the acceleration in the services sector. On the other hand, 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 October, down to 98.6, thus extending the downward path initiated at the beginning of 2018, although it remains close to its long-term average (100).

Private consumption indicators point to sustained growth in the fourth quarter, although more moderate than in the third one

The most recent short-term information regarding private consumption shows, in general, favourable signs in the fourth quarter of 2019, in a context of sustained progress based on a good pace of job creation, as shown by November's figures relating to Social Security covered workers, favourable financial conditions, considering the rebound in October of the new consumer credit operations and the improvement of the financial position of households, whose net financial wealth has increased in the last quarters as a result of a rise of the financial assets higher than those of liabilities, in a context of extension of the households deleveraging process.

The most recent quantitative indicators related to private consumption extend the dynamism, although they register more moderate rates than in previous months. Retail trade sales, with deflated and calendar adjusted data, rose by 2.4% y-o-y in October, compared to the 3.6% growth registered in September, and car registrations, according to the Spanish Association of Vehicles Manufacturers (ANFAC, as per its Spanish abbreviation), increased by 2.3% y-o-y in November, four points less than in October, although they link three months of uninterrupted increases. These rates are affected by the strong rebound in August 2018 and the subsequent fall in the following months, due to the fact that purchases were brought forward before the entry into force of the WLTP and RDE particle emission measurement regulation on 1st September, more restrictive than the one previously in force.

Among the qualitative indicators related to private consumption, the consumer confidence indicator, published by the European Commission, fell in November for the second consecutive month, 1.2 points, down to -10.3, while that of the Sociological Research Centre rose 4.1, reaching 77.4, although it remains far from the 100 threshold. This evolution is explained by the rebound in the expectations component (it increased 8.6 points, up to 85.2), partially offset by the slight decrease recorded by the current situation component (-0.5 points, to 69.5).

The information related to equipment investment points to a lower dynamism in recent months

The available short-term indicators related to investment in equipment point to a lower dynamism in the fourth quarter of the year, after the rebound recorded in the third quarter, in a context of persistent high international uncertainty due to trade tensions, which continue to affect the manufacturing sector.

Among the quantitative indicators of equipment investment, truck registrations, according to figures provided by ANFAC, recorded a 2.4% fall in November, after increasing by 1% in the previous month. Among qualitative indicators, according to the Business Tendency Survey, the Industry Climate Indicator for investment goods, with data adjusted for seasonal variations, improved two points in November, but maintained a negative balance for the third consecutive month (-3.1 points).

According to the Central Balance Sheet, the profitability ratios of non-financial companies improved in the third quarter

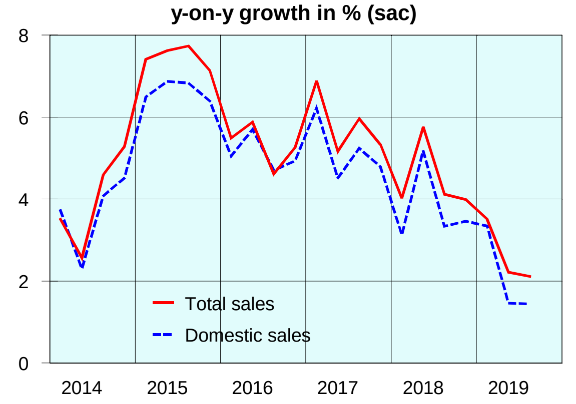
According to the Quarterly Central Balance Sheet data published by the Bank of Spain, the nominal gross added value at factor cost of non-financial companies in the sample increased by 0.9% in the third quarter of 2019, after falling by 3.2% in the second quarter. This improvement of productive activity, together with the lower growth of personnel expenses (2.6%, compared to the 3% registered in the previous quarter), resulted in a decrease of the gross economic result (GER) of 0.5%, much lower than the figure recorded in the previous quarter (-8.7%). On the other hand, the net ordinary result fell with greater intensity in the third quarter to 5.4%, 2.1 points more than in the second quarter, due to the evolution of financial income.

The ordinary return on net assets for all the companies in the sample stood at 4.9%, eight tenths higher compared to the figure recorded in the previous quarter. On the other hand, the ratio that measures the financial cost (financial expenses over liabilities) reached 1.9%, two tenths less compared to a year earlier, so the differential between them rose eight tenths, up to 2.9 percentage points.

Housing investment indicators continue to show a slowing down profile

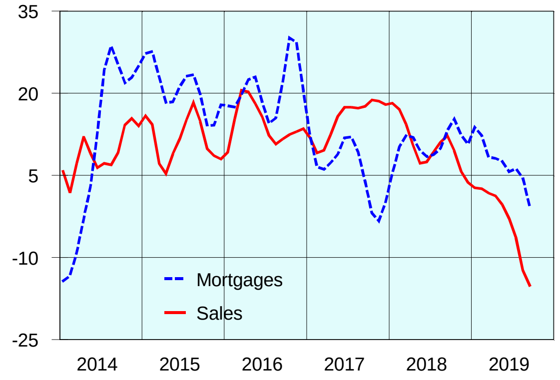
The evolution of housing investment, which has been showing a slowdown profile since mid-2018, is in general in line with that of the main indicators related to the residential investment, such as the housing purchases and the number of mortgages on housing recorded in the Property Registries, which recorded double-digit y-o-y falls in August and September, ending the third quarter with declines of 9.6% and 16.6%, respectively. This evolution could be affected by the entry into force in June this year of the new Real Estate Credit Law, since these are mortgages registered in the Property Registries during August and September from public deeds made in the previous months.

G 2. SALES IN LARGE FIRMS AND SMEs
y-on-y growth in % (sac)



Source: AEAT.

G 3. HOUSING: MORTGAGES AND SALES
year-on-year rate in % (Trend-cycle)



Source: INE.

Likewise, the housing price index, published by the INE, increased by 4.7% y-o-y in the third quarter of 2019, six tenths less than in the previous quarter, an evolution that is explained by the growth moderation of both new and used housing. In real terms, the price of private housing accelerated slightly in the period between July and September, one tenth up to 4.4%, due to the higher growth progress of new housing, while that of used housing grew at the same rate as in the previous quarter.

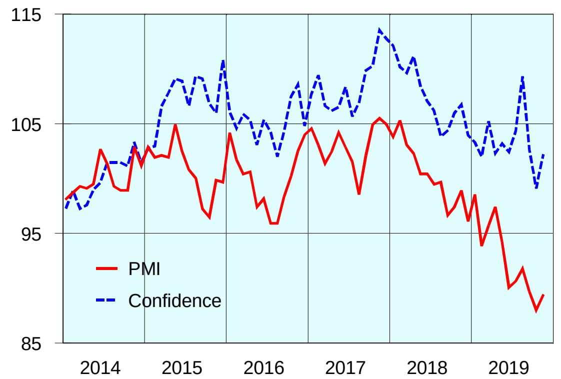
Industrial production rose by 0.6% on annual average in the first ten months of the year

From the supply point of view, among the most recent activity indicators in the industry sector, the Industrial Production Index (IPI), with calendar and seasonally adjusted data, fell by 1.3% y-o-y in October, after registering positive y-o-y rates in the previous six months (0.6% in September), ending the first ten months of the year with an average annual growth of 0.6%, compared to the 0.3% registered in 2018. By destination groups, the IPI fall in October is explained by the less favourable evolution of all its components, where the decline in energy should be noted, as it went from registering a 2.5% growth to a 4.4% fall in October, and that of consumer goods, which edged downwards and registered a 0.7% fall (it rose by 0.5% in September). On the other hand, equipment goods slowed down by 1.6 points, to 0.8%, and intermediate goods fell by 2%, six tenths more than in September. As for the car industry, with special relevance in the Spanish economy, according to the IPI, motor vehicles, trailers and semi-trailers manufacturing slowed down by 7.6 points in October, to 1.7% y-o-y, extending the growth path started in July.

Among the industrial sector's leading indicators, the Industry New Orders Index (INOI), with calendar adjusted data, moderated in September the y-o-y fall rate, six tenths to 1.4%, ending the third quarter with an average variation of -0.8% (4% in the second quarter). The INOI evolution in September is due to the rebound in equipment goods (they went from falling by 3.7% in August to rise by 2.9% in September), while the other components showed a less favourable evolution. On the other hand, the Turnover Index in Industry (ICNI) intensified the rate of decline in September, 1.2 points, down to 1.9% y-o-y, registering an average annual rate of -0.7% in the third quarter as a whole (0.6% in the previous quarter). The ICNI result in September is explained by the fall in the equipment goods component (-0.5%, compared to the 4.3% increase registered in August) and, to a lesser extent, by the greater decline in intermediate goods and energy (-3.3% and -15%, respectively, compared with the rates of -1.6% and -14.4% recorded in the previous month). On the other hand, consumer goods accelerated one point, up to 3.3%.

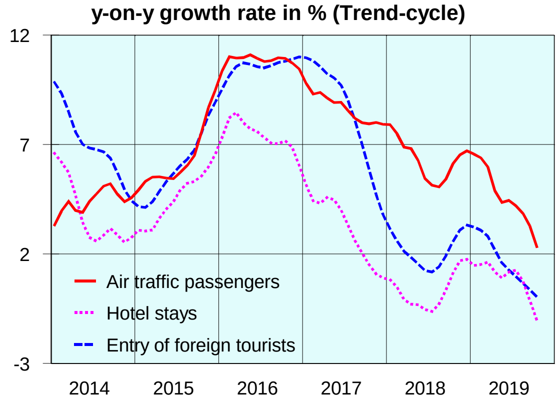
The most recent qualitative indicators of the industry activity have shown a more favourable evolution. The confidence indicator in the sector published by the EC increased 2.8 points in November, registering a balance of -5.1, due to the improvement of all its components, and the manufacturing PMI, according to Markit, increased seven tenths in November, reaching 47.5, above the Eurozone average, although it continues below the threshold of 50, indicating contraction of activity in the sector.

G 4. INDUSTRY: CONFIDENCE INDICATOR AND PMI
Index 2014=100



Sources: European Commission and Markit Group.

G 5. TOURIST SECTOR INDICATORS
y-on-y growth rate in % (Trend-cycle)



Source: INE and AENA.

Construction activity indicators worsen…

In the construction sector, the Production Index in the Construction Industry (PICI), fell in September, and leading and qualitative indicators continue to show signs of weakness. In fact, the PICI, published by Eurostat, deflated and with calendar adjusted data, registered a y-o-y 10% fall in September, after growing by 2.3% in the previous month, ending the third quarter of the year with an average annual of -1.6%, compared to the 1% increase registered in the second quarter.

The PICI evolution in September is explained by the sharp decrease in the building component (-12.4%, compared to the 3.3% increase recorded in August), partially offset by the growth in civil works (2.5%, after the -4.2% recorded in the previous month).

With regard to construction activity leading indicators, according to new construction permits, buildable floorage in new construction decreased at a slower pace in September (-2.8%) than it did in the previous month (-14.4%), ending the third quarter with an average annual fall of 1.8% due to the residential component (-3.4%), while the non-residential component grew by 4.1%.

Likewise, confidence in the sector, according to the European Commission indicator, registered a negative balance of -15.3 points in November, 7.4 points lower than in the previous month, due to the worsening of its partial components: order portfolio (it recorded a balance of -15.4 in November, compared to the -9 registered in October) and employment expectations (-15.2, more than double that of October).

…while the services sector indicators maintain a strong growth

Activity in the services sector continued to grow strongly. Among the quantitative indicators, the Services Sector Turnover Index (SSTI) stood out, as it increased by 2.4% y-o-y in September, a rate similar to that of the previous month (2.5%), although more moderate than those of earlier months. The third quarter as a whole resulted in an average advance of the SSTI of 3%, 2.1 points below the figure recorded in the previous quarter.

Among the recently published qualitative indicators, the activity PMI in services, according to Markit, continues to show an expansion of the activity of the sector in November, reaching 53.2, half a point higher in comparison to October, due to the greater momentum in domestic demand. Likewise, the sector confidence, published by the EC, rose six tenths in November and reached a balance of 11.2 points, due to the improvement of most of its components (business situation and current demand evolution). On the other hand, the EC retail trade confidence indicator remained virtually stable in that month (-0.1).

The tourism sector extends the expansionary trend

The indicators related to the tourism sector also show, in general, a positive evolution. In the period between January and October 2019, the number of tourists who visited Spain amounted to almost 75 million, a figure 1.1% higher than in the same period of the previous year, and their total expenditure grew by 2.9%. Similarly, overnight stays in hotel rose by 0.9% in that period and passenger air traffic by 4.5%, compared with the rates of -0.6% and 5.6% registered in the same period of a year earlier.

Prices

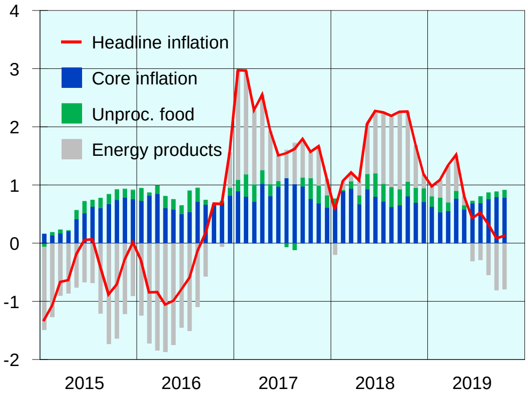
General inflation remains at 0.1% in October,…

Inflation, measured by the y-o-y variation rate of the general Consumer Price Index (CPI), remained at 0.1% in October 2019. This rate is, together with the figure registered in the previous month, the lowest in more than three years, mainly due to the fall in energy prices, while the rest of the components continued increasing.

Energy prices maintained the fall rate virtually unchanged in October (-6.5%, after the -6.6% registered in September), due to the lower decrease in electricity prices (-11.1% compared to the -17.1% recorded in the previous month, influenced by a base effect associated with the m-o-m fall recorded in October 2018, and by the increase in the cost of electricity generation during the same month of this year). It offset the greater decrease in the prices of fuel and lubricant (almost two points, to -3.7%, in line with the price of Brent oil) and gas (more than six points, to -11.3%, as a result of the rebound registered in October last year).

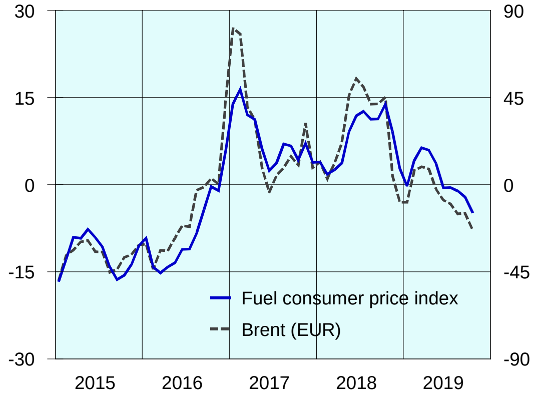
Non-processed food prices accelerated half a point in October, up to 1.8% y-o-y, mainly due to the fresh fruits item, whose prices grew by 1.8%, after falling by 4.6% in September.

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



Source: own elaboration from INE.

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



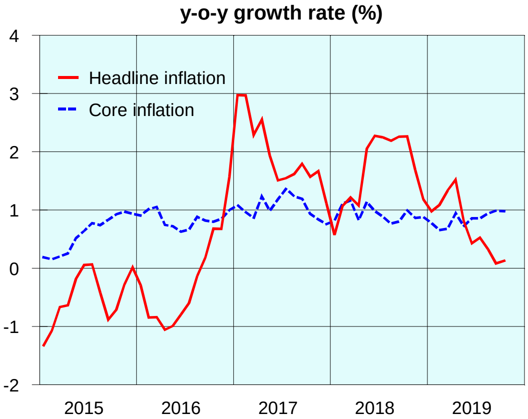
Source: own elaboration from INE and Reuters.

…and core inflation at 1%

Core inflation, which excludes the most volatile elements from the CPI (non-processed food and energy products), remained at 1% y-o-y in October, in line with the rates recorded in recent years (0.9% on average since mid-2016).

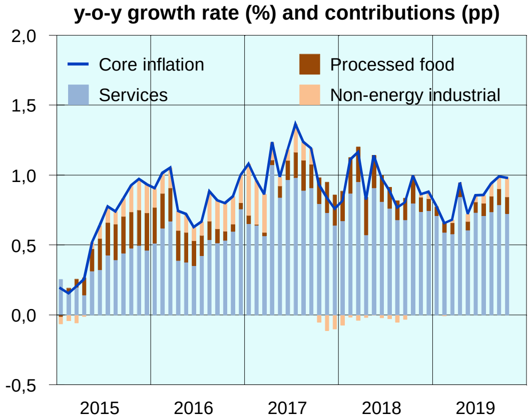
According to components, the evolution of core inflation in October was the result of the virtual stabilisation of the y-o-y rates of its components: processed food (0.7%, a rate one tenth higher than in September), non-energy industrial goods (BINE, 0.5%, compared to the 0.4% recorded in the previous month) and services (1.4%, one tenth less than the previous month).

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



Source: own elaboration from INE.

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



Source: own elaboration from INE.

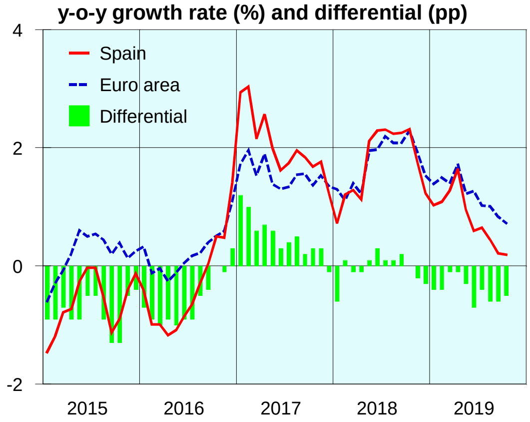
For its part, BINE prices, after remaining virtually stable during 2018 they have accelerated throughout 2019 driven by the greater contribution of most of its components, especially the motor cars item.

With regard to services prices, excluding those related to travel (tourism packages and, to a lesser extent, passenger air transport and accommodation), the main items have been characterised in recent months for registering relatively stable rates. In particular, services prices excluding tourism packages maintained in October a 1.5% y-o-y growth rate, for the fifth consecutive month.

The inflation differential continues to be favourable to Spain with respect to the Eurozone

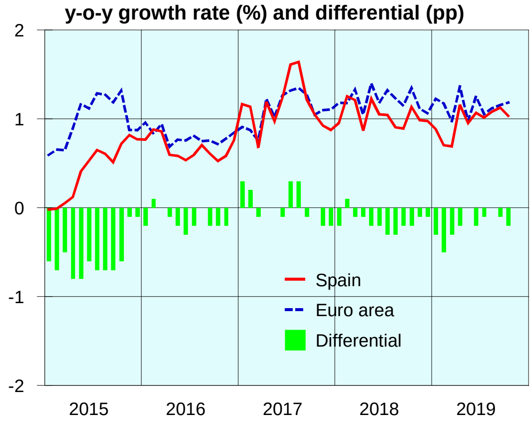
The y-o-y rate of the Spanish harmonised CPI remained at 0.2% in October, resulting in an inflation differential with respect to the Eurozone of -0.5 percentage points (-0.6 p.p. in September). For its part, the Spanish harmonised core inflation fell one tenth, down to 1% y-o-y, resulting in a favourable differential for Spain of 0.2 p.p.

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



Sources: own elaboration from INE and Eurostat.

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



Source: own elaboration from INE and Eurostat.

According to the CPI flash estimate, inflation grows three tenths in November, up to 0.4%

According to the flash estimate published by the INE, the y-o-y rate of the CPI stood at 0.4% in November, three tenths above the figure registered in October. In this behaviour the INE highlights the stability in fuel and food prices, compared to the declines registered in the same period of 2018.

In harmonised terms, if November final data confirm the figures of the flash estimate published by the INE for Spain (0.5%) and by Eurostat for the Eurozone (1%), the inflation differential favourable to Spain with respect to the Eurozone would stand at 0.5 percentage points, like in October.

Industrial prices continue to fall due to the energy component

The Producer Price Index (PPI) continued to fall in October at rates close to 3% (-2.8%, after the -3.3% in September), mainly due to the energy component. For its part, the non-energy PPI, fell for the first time in more than three years (-0.2%, after the stabilisation of September), mainly due to the prices of production of olive oil, metallurgy and basic chemical products. Among the components whose prices rose, meat processing and preservation stand out.

Labour Market

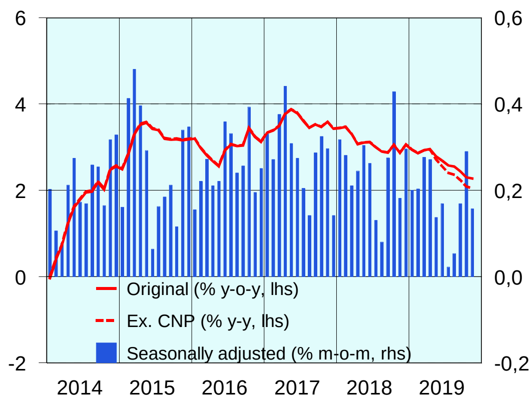
The number of Social Security covered workers grows by 2.3% y-o-y in November

Social Security covered workers maintained the y-o-y growth rate stable in November 2019, at 2.3%, reaching a total of 19,376,878 registrations, 431,254 more than in the same month of the previous year. Social Security covered workers excluding non-professional caregivers grew by 2%, one tenth less than in the previous month.

By branches of activity, employment was created in all of them, except in agriculture (-1.3% y-o-y, a fall four tenths less intense than in the previous month), although at slightly more moderate rates in services and construction (2.6% and 3.4%, respectively, one and three tenths lower in the previous month), while in industry it remained at 1.2%. Non-agricultural Social Security covered workers moderated the growth rate one tenth, to 2.5%.

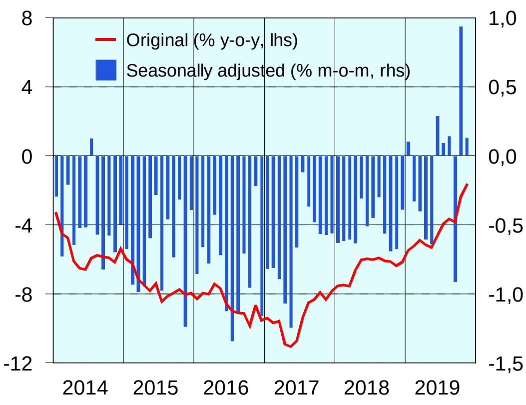
By sectors, Social Security covered workers grew by 2.1% in the private sector and by 3.3% in the public sector, as in October in both cases, although the growth rate in the private sector fell one tenth excluding non-professional caregivers (1.8%). By territorial scope, the highest growth rate of public Social Security covered workers took place at state level (6.2%, a rate two tenths higher than in the previous month and the highest in the time series, which starts in October 2013), followed by regional level (4.2%, one tenth more), while at local level it remained at more moderate rates (0.3%, two tenths lower than in the previous period).

G 12. SOCIAL SECURITY-COVERED WORKERS
% change



Source: Social Security.

G 13. REGISTERED UNEMPLOYMENT
% change



Source: SEPE.

According to the professional situation, employees maintained a y-o-y rate of 2.7% in November, while that of self-employed increased by one tenth, up to 0.5%. Among employees, the growth of permanent workers in the General Scheme stood out (3.6%, two tenths less than the previous month) compared to the more moderate increase in temporary Social Security covered workers (0.9% y-o-y, one tenth less than in October).

With regard to permanent contracts, the higher decline of the registered open-ended contracts in public employment offices should be noted (-13.1% y-o-y at the end of November, after the -1.8% recorded in the previous month), an evolution determined by the significant decrease in both conversions (-8.1%, after growing by 13.6% in October) and initial open-ended contracts (-16.1%, the largest decrease since September 2013, compared to the -9.7% recorded in the previous month).

Registered unemployment moderates the y-o-y fall rate

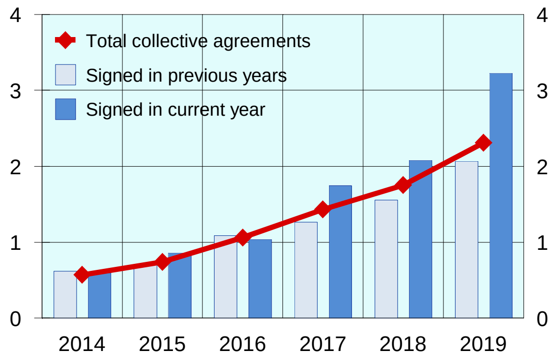
At the end of November 2019 the number of registered unemployed stood at 3,198,184 people, a figure 54,683 below that registered a year earlier, -1.7% y-o-y, a fall rate seven tenths lower than in October (-2.4%) and the lowest since the end of 2013. The main non-agricultural branches contributed to this moderation in the drop, in particular services (-0.8%, compared to the -1.5% recorded in the previous period).

By sex, unemployment fell by 1.9% y-o-y in November among men and by 1.5% among women, with women accounting for almost 60% of total unemployment. Youth unemployment (people below 25 years old) rose for the first time since the end of 2012, 0.4% y-o-y.

The agreed wage increase in collective bargaining remains at 2.3% for 2019

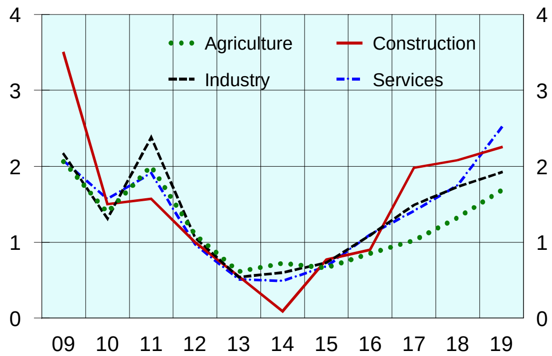
According to the Collective Agreements Statistics, published by the Ministry of Employment, Migrations and Social Security, the average agreed wage increase remained at 2.3% for 2019 for workers covered by collective agreements with effects in 2019 registered up to November. This wage increase is six tenths higher than that of 2018 (1.7% in agreements registered up to December of that year).

G 14. AGREED WAGES
% change



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

G 15. AGREED WAGES, BY SECTOR
% change



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

Among the agreements signed in 2019 (the rest are agreements with effects on this year, but signed in previous years), which affect 20.2% of workers covered by collective agreements, the wage increase stands at 3.2%.

The number of workers affected by opt-outs of the agreement stood at 20,903 with data up to November this year, 9.1% more than in the same period of the previous year. In terms of workers affected, 99.1% of opt-outs were reached by agreement, and 87.3% took place in SMEs.

External Sector

The current account surplus decreases in September,...

According to the Balance of Payments data, in September 2019, the Spanish economy generated net lending to the rest of the world amounting to € 975 million, a figure € 649 million lower compared to the net lending of € 1.6 billion recorded a year earlier.

This lower external balance is mainly explained by the fall in the current account balance, by € 545 million, reaching € 741 million, and, to a lesser extent, by the moderation of the capital account surplus (it decreased € 103 million, down to € 235 million). In turn, the lower current account surplus is explained by the reduction in the goods and services surplus, which went from registering € 2.2 billion in September 2018 to € 1.6 billion in September 2019, partially offset by the lower deficit of primary and secondary incomes (it fell € 72 million, down to 860 million).

In cumulative terms for twelve months, the net lending to the rest of the world fell from 2.5% of GDP in September 2018, to 2.2% of GDP in the same month of 2019. This decrease is due to the lower current account surplus, half a point less to 1.7% of GDP, partially offset by the increase in the capital account surplus, two tenths, up to 0.5% of GDP. The current account balance reduction is explained in turn by the lower goods and services surplus (from 2.9% of GDP in September 2018, to 2.5% in September 2019), while the deficit in the balance of primary and secondary incomes remains unchanged at 0.8% of GDP.

...due to the greater trade deficit

Goods contributed to the goods and services lower balance in September, considering the figures of foreign trade published by Customs. Indeed, according to Customs data, the trade balance recorded a deficit of € 4.3 billion in September 2019, € 966 million above the deficit registered in the same month of 2018. This trade deficit increase is almost fully due to the non-energy component, whose deficit rose by € 953 million, up to € 2.1 billion, while the energy deficit increased by € 12 million, up to € 2.1 billion.

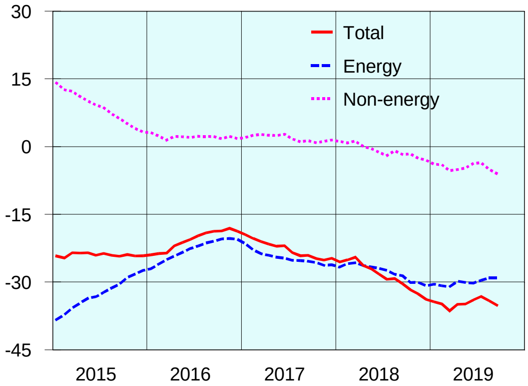
Thus, in the first nine months of 2019, the trade balance accumulates a deficit of € 25.4 billion, higher than the figure registered in the same period last year (€ 24.2 billion), due to the non-energy component, whose deficit increased from € 1.7 billion to € 4.7 billion, while the energy component fell by € 1.7 billion, down to € 20.7 billion.

Real exports of goods rebound, in y-o-y terms,...

According to Customs figures, nominal exports of goods rebounded in September registering a 5.8% y-o-y rate, after the 6.2% fall recorded in August, resuming the expansionary path started in the second quarter. Their prices, approximated by unit value indices, fell by 0.9%, as in the previous month, leading to a 6.8% increase in real terms, the highest since May 2018, compared to the 5.4% fall recorded in August.

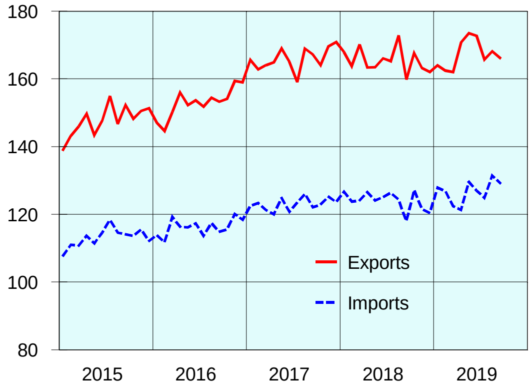
The analysis by product groups in real terms and in y-o-y rates, registered generalised growths in all categories in September. Exports of capital goods accelerated 8.3 points, up to 8.7% y-o-y, while intermediate goods and consumer goods exports went from registering negative rates in August to growing by 1.5% and 14.8%, respectively, in September, where the high growth rates of intermediate energy goods and non-food consumer goods should be noted.

G 16. TRADE BALANCE
accumulated 12 months, billion euros



Sources: DA and SGCPE.

G 17. FOREIGN TRADE, VOLUME
index 2005=100, s.a.



Sources: DA and SGCPE.

By geographical areas, both exports in volume to the European Union that grow by 7.5% after the 5.5% fall registered in August, and those outside the Union, which increase by 5.3% compared to the 5.1% decrease of the previous month recover in September.

The "momentum" (change during the last three months in comparison to the previous three months) of exports, in real terms, registered a negative rate in September (-3.3%), after linking five consecutive months recording positive values, due to the negative contribution of exports to EU countries and non-OECD countries. By products, the negative contribution of non-energy intermediate goods and, to a lesser extent, non-food consumer goods and capital goods exports stands out.

This evolution of Spanish exports occurs in a context of weak growth in the activity of Spain's main trading partners; persistent uncertainty arising from trade tensions and a possible disorderly exit of the United Kingdom from the EU; and lower growth in some emerging economies. In addition, in cumulative terms and up to the third quarter of the year, price competitiveness gains have taken place, according to the competitiveness trend index based on consumer prices, prepared by the Secretary of State for Trade, and an improvement in the market share of real exports of goods in world trade.

…but to a lesser extent than that of imports

Goods imports increased by 8.9% y-o-y in nominal terms in September, after the 1.5% fall registered in August, and their prices, approximated by the unit value indices, fell by 3.2%, compared to the 4.1% decrease recorded in the previous month. This price evolution is due to a fall of prices in energy goods (-13.7%, 2.1 points lower than in August) while, those of other products fell by -1.8%. As a result, imports, in real terms, grew by 12.5%, the highest figure since May 2018 and much higher compared to the figure registered in the previous month (2.8%).

The analysis by products in real terms and in y-o-y rates shows widespread growths in all categories. Food consumer goods, capital goods and energy intermediates imports, went from registering negative rates in August to positive rates of 12.4%, 12.7% and 14.5%, respectively, and non-food consumer goods and non-energy intermediate goods imports, intensified their growth 7.6 and 4.4 points, respectively, up to 11.5% and 12.4%.

By geographical areas and in real terms, imports from the European Union rose by 10.3% y-o-y in September, seven points more compared to August, and those from the rest of the world rose by 15.4%, following the 2.2% growth of the previous month.

The "momentum" (change during the last three months in comparison to the previous three months) of real imports was positive again in September (2%), for the fourth consecutive month, where the positive contribution of EU countries should be noted and, by products, that of non-energy intermediate goods and, to a lesser extent, of energy goods.

The financial balance excluding the Bank of Spain assets recorded a net negative balance in September

According to the Balance of Payments, the financial balance, excluding the Bank of Spain assets, recorded in September a negative net balance of € -18.7 billion, compared to the positive net balance of € 7.9 billion registered in September 2018. By instruments, this result is mainly due to portfolio investment (with a contribution of € -11.6 billion) and, to a lesser extent, other investment (€ -4.8 million), financial derivatives (-€ 1.7 billion) and direct investment (€ -658 million).

The assets net variation registered a positive balance of € 3 billion in September, compared to the positive balance of € 30.5 billion registered in the same month of 2018. On the other hand, the liabilities net variation recorded a positive balance of € 21.7 billion, in comparison to the € 22.6 billion recorded a year earlier.

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

The net debtor position of the Bank of Spain vis-à- vis the rest of the world fell by € 16.8 billion in September, as a result of the decrease of the net debtor position vis-à- vis the Eurosystem (€ 19.5 billion) and the increase in reserves (€ 154 million), while, on the other hand, other assets fell € 2.8 billion

Public Sector

The General Government deficit excluding Local Governments stands at 1.68% of GDP up to September

According to the Ministry of Finance and on a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds (total General Government excluding Local Governments) recorded up to September 2019 a deficit in terms of National Accounts of € 20.9 billion, equivalent to 1.68% of GDP, representing an increase of 0.16 p.p. compared to the same period of the previous year (1.52% of GDP).

The primary deficit registered up to September 2019 was € 367 million (0.03% of GDP), compared to the surplus of € 3.2 billion recorded a year earlier, which represents a balance of 0.29 percentage points below the figure registered in the same period of 2018.

The worsening of the General Government consolidated balance excluding Local Governments is explained by an increase in resources (4.3% compared to the same period of the previous year) lower than that of uses (4.8%).

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

	2019 September	2018 September	Change (pp)
National Accounts **GG excluding Local Government (consolidated)**	**-1.68**	**-1.52**	**-0.16**
Central Government	**-0.85**	**-1.16**	**0.31**
Regional Government	**-0.29**	**0.13**	**-0.42**
Social Security Funds	**-0.54**	**-0.49**	**-0.05**
	2019 October	2018 October	Change (pp)
STATE			
National Accounts	*-0.50*	*-0.66*	*0.16*
Cash (1)	*0.10*	*-0.35*	*0.45*
SOCIAL SECURITY			
Budget Outturn (2)	*-0.50*	*-0.44*	*-0.06*

(*) 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

On the non-financial resources side, tax collection increased by 2.8% y-o-y up to September. Taxes on production and imports grew by 1.8%, largely due to VAT, whose revenues increased by 2.7% 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 € 1.0 billion up to September 2018 to registering an amount of € 317 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 4.2%, due to the Personal Income Tax, whose collection grew by 10.2%, in the State, and by 3.1%, in the Regional Governments. On the other hand, the Corporate Income Tax collection fell by 1.3%. This result was negatively influenced by a refund to a single company, in 2019, for an amount exceeding € 700 million, and positively, by the increase in the revenues from the annual return of the financial year 2018. Revenues from Non-Residents Income Tax decreased by 21.7%, mainly due to the rise in reimbursements and the lower amount of revenues derived from inspections.

On the other hand, the General Government social contributions excluding Local Governments rose by 7.4% up to September 2019 (in particular, those collected by the Social Security Funds increased by 8.0%). This result has been influenced by the growth in Security covered workers (2.4% y-o-y), as well as by several measures approved by RDL 28/2018, among which are the rise of the minimum and maximum contribution bases in the general regime (22.3% and 7.0%, respectively).

With regards to non-financial uses, the increase in social benefits other than transfers in kind (6.5%, partly due to the growth 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 (5.7%, partly due to the general wage increase of 2.25% since January of 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).

T 8. 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

	September		y-o-y growth	% of GDP	
	2018	2019		2018	2019
1. NON-FINANCIAL REVENUE	**315,178**	**328,633**	**4.3**	**26.22**	**26.32**
Taxes	172,529	177,410	2.8	14.35	14.21
* Taxes on production and imports	89,443	91,077	1.8	7.44	7.29
* Current taxes on income, wealth, etc.	80,920	84,328	4.2	6.73	6.75
* Capital taxes	2,166	2,005	-7.4	0.18	0.16
Social contributions	110,873	119,060	7.4	9.22	9.53
Transfers within general government	8,701	9,003	3.5	0.72	0.72
Other revenue	23,075	23,160	0.4	1.92	1.85
2. NON-FINANCIAL EXPENDITURE	**333,433**	**349,560**	**4.8**	**27.74**	**27.99**
Intermediate consumption	28,943	30,047	3.8	2.41	2.41
Compensation of employees	74,267	78,535	5.7	6.18	6.29
Interest	21,427	20,560	-4.0	1.78	1.65
Subsidies	6,904	7,192	4.2	0.57	0.58
Social benefits other than social transfers in kind	132,303	140,929	6.5	11.01	11.28
Social transfers in kind: market production purchased	21,358	22,190	3.9	1.78	1.78
Gross capital formation	13,726	13,622	-0.8	1.14	1.09
Transfers within general government	18,560	18,940	2.0	1.54	1.52
Other expenditure	15,945	17,545	10.0	1.33	1.40
3. NET LENDING (+) NET BORROWING (-) (1-2)	**-18,255**	**-20,927**	**14.6**	**-1.52**	**-1.68**

Source: IGAE (Ministerio de Hacienda)

Likewise, the higher contribution to the EU based on VAT and GNI resources should also be mentioned, which increased by 13.0% y-o-y and the tax return on maternity and paternity benefit (€ 885 million up to September, without correspondence in the same period of 2018). On the other hand, accrued interest (-4.0%) and gross fixed capital formation (-0.8%) decrease.

With regard to the balance of non-financial operations by subsectors, the largest deficit of all General Government excluding Local Governments is mainly due to the Regional Administration, whose deficit reached 0.29% of GDP, compared to the 0.13% surplus observed in the same period last year. On the other hand, the Social Security Funds registered a deficit of 0.54% of GDP, a figure slightly above, by 0.05 p.p. in comparison to the same period of 2018 and the Central Government deficit decreased by three tenths, down to 0.85% of GDP, due to the State, whose deficit fell by 32.2% y-o-y, while that of the Other Central Government Bodies rose by 56.0%.

Regarding transfers between sub-sectors of the General Government, the increase in current transfers from the State to the Regional Governments (0.3%), up to € 61.3 billion, mainly due to the increase in advanced payments of the Financing System (2.1%) and the rise in advanced payments of the State to the Local Governments by the Financing System (1.5%) and the transfers from the Regional Governments to the Local Governments (8.2%) must be mentioned. Moreover, the decrease in current transfers from the State to the Social Security funds (-9.8%), down to € 11.3 billion, due to a greater advance in the execution of the previous year with respect to the current year, and, lastly, the largest transfers received from Local Corporations, which, considering the current and capital transfers combined, registered an amount of € 8.4 billion, representing an increase of 6.9% in comparison to the same period of the previous year should also be noted.

The primary surplus of the State grows, standing at 1.15% of GDP

Up to October 2019, the State registered a deficit, in terms of National Accounts of € 6.3 billion, equal to 0.50% of GDP, 0.16 p.p. lower compared to that of a year earlier (0.66%). This lower deficit is due to a rise in non-financial resources (2.5%) higher than that of non-financial uses (1.4%). In the first ten months of the year, the State has registered a primary surplus of € 14.4 billion (1.15% of GDP), higher in comparison to the figure recorded in the same period of the previous year (€ 13.6 billion, 1.13% of GDP).

Within non-financial resources, taxes grew at a y-o-y rate of 1.8%. According to tax items, taxes on production and imports rose by 2.5%, driven by VAT, which increased by 2.4%. On the other hand, current taxes on income and wealth grew by 1.0% y-o-y: the Personal Income Tax rose by 11.2% once the part corresponding to the Regional Governments was deducted, while revenues from Corporate Income Tax fell by € 2.2 billion. On the other hand, taxes on capital fell by 32.8%. Moreover, the transfers received from other General Government units, which increased by 13.8%, due to the higher income received from the Regional Governments should also be noted.

T 9. State

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

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

	October		y-o-y growth	% of GDP	
	2018	2019		2018	2019
1. NON-FINANCIAL REVENUE	**167,983**	**172,099**	**2.5**	**13.97**	**13.78**
Taxes	143,382	145,950	1.8	11.93	11.69
* Taxes on production and imports	81,665	83,678	2.5	6.79	6.70
* Current taxes on income, wealth, etc.	61,592	62,188	1.0	5.12	4.98
* Capital taxes	125	84	-32.8	0.01	0.01
Social contributions	5,894	5,792	-1.7	0.49	0.46
Transfers within general government	10,322	11,751	13.8	0.86	0.94
Other revenue	8,385	8,606	2.6	0.70	0.69
2. NON-FINANCIAL EXPENDITURE	**175,934**	**178,402**	**1.4**	**14.63**	**14.29**
Intermediate consumption	3,954	4,371	10.5	0.33	0.35
Compensation of employees	14,422	15,062	4.4	1.20	1.21
Interest	21,577	20,677	-4.2	1.79	1.66
Subsidies	3,623	3,119	-13.9	0.30	0.25
Social benefits other than social transfers in kind	13,298	14,673	10.3	1.11	1.17
Social transfers in kind: market production purchased	359	426	18.7	0.03	0.03
VAT and GNI-based EU own resources	8,425	9,444	12.1	0.70	0.76
Transfers within general government	101,013	100,541	-0.5	8.40	8.05
Gross fixed capital formation	4,071	3,855	-5.3	0.34	0.31
Capital transfers within general government	1,885	2,302	22.1	0.16	0.18
Other expenditure	3,307	3,932	18.9	0.28	0.31
3. NET LENDING (+) NET BORROWING (-) (1-2)	**-7,951**	**-6,303**	**-20.7**	**-0.66**	**-0.50**

Source: IGAE. Ministerio de Hacienda.

Within non-financial uses, the increase in the contribution to the EU based on VAT and GNI resources (12.1%); social benefits other than social transfers in kind (10.3%, driven by pensions of the civil servants scheme, which grew by 6.5%); intermediate consumption (10.5%, driven by the expenditure made to cover electoral expenses); and compensation of employees (4.4%), stand out. On the other hand, gross fixed capital formation and accrued interest decreased by 5.3% and 4.2%, respectively, and current transfers to other public administrations fell by 0.5%, where the decrease in transfers to the Social Security Funds (-4.2%) and the virtual stabilisation of transfers to the Regional Governments (-0.1%) is significant. The rest of current uses fell by 13.8%, mainly due to the decrease in subsidies to products due to the lower expenditure allocated to cover the costs of the electrical system (-15.3%).

In terms of Cash, the State recorded a surplus of 0.10% of GDP up to October 2019, compared to the 0.35% deficit recorded in the same period of 2018.

The borrowing requirement of the State up to October fell by 35.2% in comparison to the same period of the previous year, reaching € 16 billion, due to the cash deficit improvement.

The Social Security deficit up to October stands at 0.50% of GDP

The budget outturn of the Social Security, in terms of recognised rights and obligations, recorded a deficit up to October 2019 of 0.50% of GDP. This percentage is 0.06 p.p. above the figure recorded in the same period of 2018 (0.44% of GDP). Revenues grew by 6.4% in y-o-y terms, driven by social contributions, which also rose by 8.0%.

T 10. Social Security System Budget Outturn

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

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

	2018 December	2019 Budget	% Change	2018 October	2019 October	% Change
1. REVENUE	**135,026**	**135,253**	**0.2**	**114,212**	**121,567**	**6.4**
Social Security contributions	114,999	114,916	-0.1	95,552	103,203	8.0
Current transfers	18,081	18,441	2.0	17,001	16,934	-0.4
of which: from the State	14,650	14,876	1.5	14,164	13,636	-3.7
Property income	273	228	-16.4	239	100	-58.3
Other revenue (a)	1,673	1,667	-0.3	1,420	1,330	-6.3
2. EXPENDITURE	**151,988**	**152,565**	**0.4**	**119,494**	**127,798**	**6.9**
Pensions	130,783	129,495	-1.0	102,705	108,109	5.3
Sickness benefits	7,491	7,980	6.5	5,835	7,570	29.7
Maternity benefits	2,388	2,559	7.2	1,967	2,173	10.5
Other benefits	2,058	2,197	6.7	1,778	1,927	8.4
Wages and salaries	2,254	2,394	6.2	1,793	1,829	2.0
Purchase of goods and services	1,393	1,542	10.7	1,082	1,101	1.8
Other revenue (b)	5,620	6,398	13.8	4,333	5,089	17.5
3. BALANCE OF NON-FINANCIAL TRANSACTIONS (1-2)	**-16,962**	**-17,312**	**2.1**	**-5,282**	**-6,232**	**18.0**
As % of GDP	-1.40	-1.43		-0.44	-0.50	

(a) Fees and other current revenues, disposal of real investments and capital transfers. (b) 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.

On the other hand, expenses increased by 6.9%, where the pensions evolution should be noted as they rose by 5.3% y-o-y. The rise in benefits for temporary disability (29.7%), from € 5.8 billion up to October 2018 to € 7.6 billion up to October 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 (€ 1.3 billion), as result of a change in budget allocation criteria.

The General Government EDP Debt stands at € 1,207.0 billion in September

According to the BoS, the General Government Debt, according to the EDP methodology, reached € 1,207.0 billion at the end of September 2019, a figure € 7.0 billion higher compared to the one recorded in August and € 29.3 billion higher versus a year earlier. It should be noted that the monthly balance has a volatile evolution 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 decreases).

Using the cumulative nominal GDP of the last four quarters up to the third quarter of 2019, according to the Quarterly National Accounts flash estimate figures published by the INE, the General Government debt-to-GDP ratio up to September this year stood at 97.8%, a figure 1.1 points lower compared to the one recorded in the same period of 2018.

By subsectors, the State EDP Debt fell down to € 1,064.4 billion in September, 86.2% of GDP, a ratio eight tenths lower in comparison to that registered a year earlier. On the other hand, Other Bodies belonging to the Central Government, Regional Government and Local Corporations set their debt at € 28.5, € 297.3 and € 25.3 billion in September, reducing their GDP ratios in y-o-y terms three, five and four tenths, respectively, reaching 2.3%, 24.1% and 2.0%. Finally, the Social Security EDP Debt stood at € 52.4 billion, 4.2% of GDP, compared to 2.9% a year earlier.

The debt owned by General Government units, which is deducted to obtain the General Government consolidated debt, amounted to € 261 billion, 21.1% of GDP, six tenths above the figure recorded in September 2018. This item includes the loans granted by the State to other subsectors and the assets held by the Social Security Reserve Fund.

T 11 General Government EDP Debt as % of GDP(1)

	September 2019	September 2018	Change
TOTAL General Government consolidated	**97.8**	**98.9**	**-1.1**
State	86.2	87.0	-0.8
Central Government	2.3	2.6	-0.3
Regional Government	24.1	24.6	-0.5
Local Government	2.0	2.4	-0.4
Social Security Funds	4.2	2.9	1.3
Assets held by Government (consolidation)	21.1	20.5	0.6

(1) Cumulative nominal GDP from four quarters to thirds in 2019.
Source: Banco de España.

By instrument, long-term debt securities increased by € 36.8 billion in comparison to a year earlier, while short-term debt securities decreased by € 342 million. The € 7.4 billion fall recorded by loans should be pointed out.

Likewise, according to the BoS, by the end of October, the State's EDP Debt reached € 1,050.9 billion, which represents a decrease of € 13.5 billion in comparison to the previous month. One year earlier, the balance stood at € 1.022,3 billion.

December 2019