December 2015

SPANISH ECONOMY REPORT

GOBIERNO DE ESPAÑA

MINISTERIO DE ECONOMÍA Y COMPETITIVIDAD

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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

Financial markets

The financial markets evolution between late November 2015 and early January of this year was mainly conditioned by the monetary policy decisions of the United States and the Eurozone, as well as by lower oil prices, the geopolitical tensions and the uncertainty associated with the slowdown of the Chinese economy, where stock indices recorded significant declines, especially during the first week of January. This resulted in a rise of European public debt yields, a strong decline in major stock indices, and the rebound of the euro against the dollar.

The Fed raises the interest rates after confirming the economic activity improvement in the United States

The Federal Open Market Committee (FOMC) of the Federal Reserve (Fed), in its two day meeting held on 15th and 16th December 2015, decided to raise the target rate of the Federal Funds by 25 basis points, reaching the range 0.25%-0.50%, after standing since December 2008 within the range 0%-0.25%. The FOMC believes that, despite the beginning of a gradual adjustment in the stance of the monetary policy, the economic activity will continue to expand at a moderate pace and the labour market indicators will continue to improve, since its monetary policy remains accommodative. Moreover, there is a reasonable certainty that inflation will return to its medium-term objective, as the transitory effects of declines in energy and import prices dissipate. In order to determine the timing and size of the forthcoming adjustments of the interest rate target range, the FOMC will assess the progresses in achieving the employment and inflation objectives, taking into account measures of labour market conditions, indicators of inflation pressures and inflation expectations and international developments.

The BoE maintains the rates and the asset purchase programme

The Monetary Policy Committee of the Bank of England (BoE), in the meeting held on 8th and 9th December 2015, decided to keep the Official Bank Rate at 0.5% (in force since 5th March 2009) and to continue with the asset purchase programme, which currently stands at £ 375 billion, due to the persistence of inflation at levels below the target of 2%.

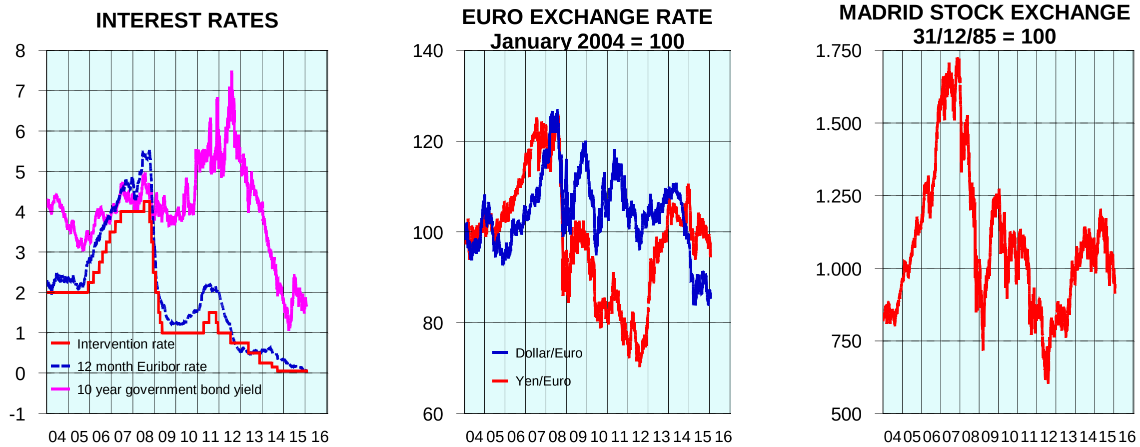
The BoJ modifies slightly its asset purchase programme

The Bank of Japan (BoJ), in the meeting held on 18th December 2015, decided to maintain the official interest rate between 0% and 0.1%, range set on 5th October 2010, and to continue with the annual increase of the monetary base of about 80 trillion yen, established at the meeting held on 31st October 2014. In addition, the BoJ decided to extend the average remaining maturity of the Japanese government bonds that are included in its asset purchase programme, from around 7-10 years to about 7-12 years as of 2016, maintaining the annual increase of its amount outstanding unchanged at approximately 80 trillion yen. On the other hand, it launched a new programme to purchase ETFs (exchange-traded funds) as of April 2016. These funds include securities issued by firms that invest in physical and human capital, setting an annual increase of these assets of approximately 300,000 million yen. This programme is added to the current programme of exchange-traded funds purchase under which their amount outstanding will increase at an annual pace of 3 trillion yen.

Stability of the interest rates in the interbank market of the Eurozone

In the interbank market of the Eurozone, interest rates rebounded after the European Central Bank (ECB) meeting held on 3rd December last year, where less expansionary than expected additional quantitative measures were adopted, but later extended the slightly downward path. More specifically, the 12 month Euribor stood at 0.051% at the beginning of January 2016, compared to the 0.048% recorded at the end of November 2015. This stability is explained because the expectations of rates increase, judging by the OIS evolution, which indicates the rates expectations, which increased 2 basis points, offset the increase in risk premiums required in this market, since on 7th January the Euribor-OIS differential stood at 35 b.p., 2 b.p. below the level registered on 30th November.

G1. MONETARY AND FINANCIAL INDICATORS (1)



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

European public debt yields rise

In the secondary public debt market, yields rebounded during most of December last year, largely due to a lower than expected extension of the ECB public debt purchase programme. However, the demand for European fixed income was boosted since late December as a result of an increased risk aversion related to the situation of China's economy and to the geopolitical tensions, partially offsetting the cumulative increases of yields. Thus, the 10-year Spanish bond yield stood on 7th January 2016 at 1.75%, 17 b.p. above the figure recorded on 30th November 2015, an increase influenced by the political uncertainty following the results of the general elections held on 20th December. On the other hand, the German bond yield rose 6 basis points over the same period, up to 0.54%, the Spain-Germany differential standing at 121 b.p., 11 b.p. above the level recorded in late November. Meanwhile, the Spain-Italy differential stood at 19 b.p., compared to 15 b.p. recorded on 30th November.

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

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-31-14	Nov-30-15	Jan-07-16	Variation in spreads		Dec-31-14	Nov-30-15	Jan-07-16	Variation in spreads	
	(1)	(2)	(3)	Period (3)-(2)	Annual (3)-(1)	(4)	(5)	(6)	Period (6)-(5)	Annual (6)-(4)
Germany	0.54	0.48	0.54	6	0					
Holland	0.68	0.64	0.72	8	4	14	16	18	2	4
Finland	0.65	0.73	0.83	10	18	11	25	29	4	18
Austria	0.71	0.74	0.85	11	14	17	26	31	5	14
Belgium	0.82	0.79	0.91	12	9	28	31	37	6	9
France	0.84	0.80	0.91	11	7	30	32	37	5	7
Ireland	1.24	1.01	1.05	4	-19	70	53	51	-2	-19
Italy	1.88	1.43	1.56	13	-32	134	95	102	7	-32
Spain	1.61	1.58	1.75	17	14	107	110	121	11	14
Portugal	2.69	2.33	2.62	29	-7	215	185	208	23	-7
Greece	9.60	7.50	8.78	128	-82	906	702	824	122	-82

Source: Financial Times.

Stock indices recorded sharp falls

In stock markets, the main European stock indices fell sharply, especially in Europe, throughout the period between late November 2015 and early January 2016, mainly due to the adoption of less expansionary than expected additional quantitative measures by the ECB in early December, as well as by the sharp decline in oil prices, the geopolitical tensions and the uncertainty caused by the slowdown of the Chinese economy, where stock indices recorded significant declines during the first week of January.

In Europe, the Eurostoxx 50 index decreased by 12% during December last year and the first week of January 2016 (-2% in comparison to the end of 2014), despite the fact that, in its meeting held on 3rd December, the ECB reduced the interest rate applicable to the deposit facility by 10 basis points and extended the length and composition of the asset purchase programme. In Spain, the IBEX 35 showed a very similar profile to other European indices, partly influenced by the political uncertainty following the results of the general elections, recording a 12.8% decrease in comparison to the end of November 2015, and of 11.9% compared to the end of 2014. In the US market, the S&P 500 index fell by 6.6% between 30th November 2015 and 7th January 2015, and by 5.6% in comparison to the end of 2014, also affected by the oil prices decrease and the uncertainty associated with the Chinese economy, in the context of the Fed's decision to start the monetary policy normalisation.

The euro recovers against the dollar

With respect to the currency market, the exchange rate of the euro against the dollar was conditioned by the monetary policy decisions in the United States and the Eurozone. Thus, during the first half of December last year, the euro appreciated against the dollar, influenced by the ECB's adoption of less expansionary than expected additional quantitative measures, starting the European currency a slight downward trend since the middle of that month, following the Fed's interest rates rise. Thus, in the period between late November 2015 and early January of this year, the euro appreciated against the dollar and the pound by 2.7% and 5.8%, respectively, and depreciated by 1.9% against the yen, trading at the end of the 7th January session at 1.0868 dollars, 0.74545 pounds and 127.74 yen. Compared to the end of 2014, the euro accumulates depreciations of 10.5%, 4.3% and 12% against the dollar, the pound and the yen, respectively. In that same period, the euro exchange rate in nominal effective terms depreciated by 5%.

T 2. International stock exchange

Countries	Index	Level Jan-07-16	% Variation Nov -30-15	Dec-31-14
Germany	DAX	9,979.85	-12.3	1.8
France	CAC 40	4,403.58	-11.2	3.1
Italy	FTSE MIB	20,189.48	-11.1	6.2
Spain	IBEX 35	9,059.30	-12.8	-11.9
Eurozone	EUROSTOXX 50	3,084.68	-12.0	-2.0
United Kingdom	FTSE 100	5,945.08	-6.5	-9.5
United States	S&P 500	1,943.09	-6.6	-5.6
Japan	NIKKEI 225	17,767.34	-10.0	1.8
China	SHANGHAI COMP	3,125.00	-9.3	-3.4
Mexico	IPC	40,661.57	-6.3	-5.8
Brazil	BOVESPA	40,694.72	-9.8	-18.6
Argentina	MERVAL	11,390.37	-12.2	32.8

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

The M3 broad monetary aggregate slowed down in November 2015…

On 30th December 2015, the ECB published the evolution of the monetary and credit aggregates in the Eurozone in November 2015. The M3 broad aggregate slowed down two tenths, down to 5.1% y-o-y, due to the lower increase in overnight deposits (11.8%, a rate seven tenths lower compared to October) and, to a lower extent, to the slowdown of marketable instruments and currency in circulation (2.6% and 8%, respectively, versus the 3.1% and 8.1% registered in the previous month). On the other hand, other short-term deposits moderated their drop rate by two tenths, to -4.1%.

T 3. Eurozone monetary aggregates

Monetary aggregates	November 2015 Balance (Billion €)	% Year-on-year variation September 2015	October 2015	November 2015
1. Currency in circulation	1,037	8.3	8.1	8.0
2. Overnight deposits	5,543	12.4	12.5	11.8
M1 (= 1 + 2)	**6,581**	**11.7**	**11.8**	**11.2**
3. Other short-term deposits (= 3.1. + 3.2.)	3,611	-4.7	-4.3	-4.1
3.1. Term deposits up to two years	1,448	-11.4	-10.9	-9.9
3.2. Deposits redeemable at notice up to three months	2,163	0.5	0.6	0.3
M2 (= M1 + 3)	**10,191**	**5.2**	**5.4**	**5.3**
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	658	0.7	3.1	2.6
4.1. Repurchase agreements	91	-23.0	-18.8	-29.7
4.2. Money market funds shares/units	484	9.0	10.0	12.0
4.3. Securities other than shares up to two years	83	-1.6	7.1	8.2
M3 (= M2 + 4)	**10,850**	**4.9**	**5.3**	**5.1**

Source: European Central Bank.

…and financing to the private sector in the Eurozone intensified its growth rate

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, grew by 1.2% y-o-y in November, two tenths more than in October, due to the higher increase of bank loans (1.3% compared to the 1% increase registered in the previous month) and of shares and other equity (3.4%, a rate nine tenths higher compared to the figure recorded in the previous month), despite the decrease in securities other than shares (-0.5% compared to the 0.2% increase registered in the previous month). Within loans, those received by households increased by 1.9%, two tenths more than in the previous month, and those received by non-financial corporations accelerated four tenths, up to 0.9% y-o-y.

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

	November 2015 Balance (Billion €)	% Year-on-year variation		
		September 2015	October 2015	November 2015
Credit to the private sector	**12,735**	**0.7**	**1.0**	**1.2**
Loans	**10,649**	**0.6**	**1.0**	**1.3**
Households	**5,309**	**1.6**	**1.7**	**1.9**
House purchases	*3,944*	*1.8*	*2.0*	*2.1*
Consumer credit	*597*	*2.6*	*2.8*	*3.5*
Other lending	*768*	*-0.5*	*-0.4*	*-0.1*
Non-financial corporations	**4,308**	**0.1**	**0.5**	**0.9**
Insurance companies & pension funds	**124**	**-1.4**	**1.9**	**-1.5**
Other financial intermediaries	**909**	**-2.1**	**-1.5**	**-0.2**
Securities other than shares	**1,288**	**1.0**	**0.2**	**-0.5**
Shares and other equities	**798**	**1.9**	**2.5**	**3.4**

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

The financing stock to the private sector in Spain moderated its rate of decline in November last year

According to the financing to the private non-financial sectors in Spain data, published by the Bank of Spain on 4th January 2016, the financing to the private non-financial sector decreased its rate of decline in November, one tenth, registering a y-o-y rate of 1.7%. This performance is explained by the evolution of the financing received by households, which recorded a y-o-y rate of -2.1%, three tenths higher than in the previous month, due to the lower decrease in loans for housing and the acceleration of other bank loans. On the other hand, financing received by firms intensified the pace of decline by one tenth, to 1.4%, due to the higher decline in bank loans.

New loan and credit operations to households and non-financial corporations accelerate

According to data published by the Bank of Spain on 30th December 2015, the amount of new loan and credit operations to households increased by 25.8% y-o-y in the period between January and November 2015, compared to the 17.3% increase recorded in the same period last year. This acceleration is due to the higher increase of credits for house purchases (35.3% y-o-y, versus the 19.9% increase registered in the period between January and November 2014), and for other purposes (18.9%, from 9.9% registered up to November 2014), partially offset by the slight slowdown in credits for consumption (18.1%, a rate 3.6 points lower than in the same period of 2014). The amount of new loan and credit operations to SMEs (using as a proxy for these credits those under one million euros) rose by 13.7% y-o-y up to November 2015, 5.6 points higher than the one recorded in the same period of 2014. On the other hand, the amount of new loan and credit operations exceeding one million euros also increased strongly, recording a y-o-y rate of 14% (-21.7% in the period from January to November 2014).

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

	November 2015 Balance (Billion €)	% Year-on-year variation		
		September 2015	October 2015	November 2015
Non-financial corporations and Households	**1,659**	**-2.6**	**-1.8**	**-1.7**
Non-financial corporations	**926**	**-2.5**	**-1.3**	**-1.4**
Bank loans	*554*	*-2.7*	*-1.1*	*-1.9*
Securities(1)	*86*	*1.5*	*2.8*	*4.0*
External loans	*286*	*-3.2*	*-2.9*	*-1.9*
Households	**733**	**-2.6**	**-2.4**	**-2.1**
Bank loans. Housing	*564*	*-3.5*	*-3.4*	*-3.3*
Bank loans. Other	*169*	*0.6*	*1.2*	*2.0*
General Government	**-**	**4.1**	**3.9**	**-**
Total financing	**-**	**-0.1**	**0.3**	**-**

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

The Spanish Economy

Domestic Demand and Production

The Bank of Spain revises upwards its growth forecasts for the Spanish economy

According to the latest estimates of the Bank of Spain, published in its December 2015 Economic Bulletin, the Spanish economy real GDP grew by 0.8% q-o-q in the last quarter of last year, a growth rate similar to that in the third quarter. The evolution in activity would have continued to rely on the domestic demand while the net external demand would have recorded a null contribution. Thus, the real GDP would have ended 2015 with an average annual growth of 3.2%, one tenth higher to the figure expected in September last year by the Bank of Spain.

The OECD composite leading indicator points to an expansionary trend for the Spanish activity

The composite leading indicator for Spain, published by the OECD and designed to anticipate six months in advance turning points in the economic activity with regards to its trend, remains in November at 101.5 for the fourth consecutive month, standing above its long-term average since October 2013. In addition, the indicator for the Eurozone also shows stability, since it remains at 100.6 for the second consecutive month, almost one point below that of Spain, indicating a steady growth.

The Spanish economy net lending increased in the third quarter of 2015

On 29th December 2015 the INE published the Quarterly Non-Financial Accounts for the Institutional Sectors (QNFAIS) for the third quarter of last financial year. The Spanish economy showed net lending vis a vis the rest of the world, amounting to €8.1 billion (3% of the quarterly GDP), €2.3 billion higher than that registered in the same quarter of 2014 (2.3% of GDP).

This improvement is explained by a slight y-o-y increase in the balance of trade in goods and services of 0.3% (rising from €10.5 billion up to €10.5 billion), as a result of an increase in exports (by €4.9 billion, up to €94.6 billion) slightly above that of imports (by €4.9 billion, up to €84.1 billion); and to a decrease in the negative balance of the income and current transfers balance of 15.8%, as well as to the sharp increase in capital transfers, which rose from €559 million euros up to €2 billion.

By institutional sectors, Households and Non-profit Institutions Serving Households (NPISH) went from recording a net lending of 0.7% of GDP in the third quarter of 2014 to showing a net borrowing equal to 0.6% of GDP in the third quarter of 2015. Conversely, the net lending of non-financial corporations increased from 0.8% of GDP up to 3.1%, while that of the financial institutions dropped by seven tenths, down to 1.2% of GDP. On the other hand, the General Government substantially reduced its net borrowing from 1.1% of GDP in the third quarter of 2014 to 0.6% in the same period of 2015.

Private consumption continues to show a dynamic trend...

The information available on private consumption indicates the dynamism of this variable. Thus, the European Commission consumer confidence indicator rebounded in December last year, registering the level 5.4, almost five points higher than in the previous month, and the one published by the CIS by 2.8 points in comparison to November, up to the level 107.4, record high of the series that began in September 2004. The increase of the latter indicator was due to the rise of its two components, that of the current situation, which improved one point, up to 95.2, and that of expectations, which rose by 4.7 points, up to 119.6). In 2015 as a whole, the Commission confidence indicator registered an average value of 0.3 and the CIS confidence indicator of 102.9, well above those of 2014 (-8.9 and 84.1, respectively).

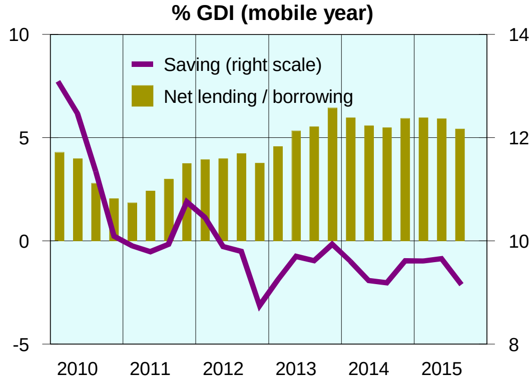
The expansionary behaviour of consumption was also reflected in the qualitative indicators, such as sales in large companies of goods and consumption services, which, with deflated, fixed-sample and calendar adjusted data, accelerated in November three tenths, reaching a y-o-y growth rate of 7.6%. Likewise, according to the figures provided by the ANFAC (Spanish Association of Vehicles Manufacturers), passenger car registrations in December continued to rise sharply, largely driven by the PIVE 8 Plan, registering a y-o-y growth rate of 20.7% and ending the year with an annual average rise close to 21%, higher than the figure registered in 2014 (18.3%).

On the other hand, the general index of retail, with work calendar and price adjusted data, registered a less expansionary performance in late 2015. In November it recorded a y-o-y increase of 3.3%, lower than that in the previous month (6.1%). With no gas stations, the growth rate stood at 2.7%, almost three points lower than in October (5.6%). By groups, the slowdown in November was due to the non-food group, which rose by 4.7% y-o-y, three and a half points lower than in the previous month and, to a lesser extent, to the food group, whose y-o-y growth rate (-1.2%) stood more than two points below the figure registered in October (1.9%).

…and the savings rate of household falls

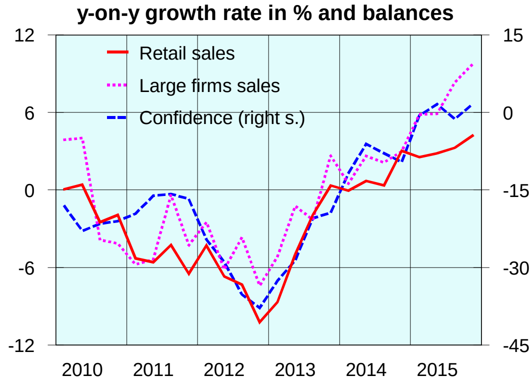
Households and NPISHs showed an increase of their gross disposable income (GDI) of 1.1% in the third quarter of 2015, compared to the same quarter last year, six tenths less than in the third quarter of 2014. This slowdown is due to the 4% decrease of the non-wage incomes, after the 7.1% increase of a year ago, and to the rise of current transfers paid (1.3%), compared with a 3.2% fall in the third quarter of 2014. Additionally, wage incomes grew faster (3.9%, a rate more than two points higher than a year earlier); current transfers received went from falling 6.8% in the third quarter of 2014, to growing by 0.5% in the third quarter of this year; and taxes paid on income and wealth increased by 1.7%, 1.2 points less than in the third quarter of 2014. The increase in gross disposable income was more moderate than the final consumption expenditure of households (3.1% y-o-y), thus reducing the household saving by 29% compared to the third quarter of 2014. The gross saving rate of households and NPISHs stood at 4.5% of GDI in the third quarter 2015, nearly two points lower than that of a year earlier (6.4%). The household savings, together with the negative balance of capital transfers received was not enough to finance household investment, which accelerated half a point, up to 4.1%. This explains the net borrowing of the sector in the third quarter of last financial year.

G 2. HOUSEHOLD SECTOR
% GDI (mobile year)



Source: INE.

G 3. CONSUMPTION INDICATORS
y-on-y growth rate in % and balances



Sources: INE, AEAT and European Commission

Equipment investment indicators point to a higher dynamism…

The available short-term information on equipment investment points to a higher dynamism in the last months of 2015. The productive capacity utilisation in the industry continued in the last quarter of last year (data for October) the rising profile, reaching 77.8%, and ending 2015 with an average percentage of 77.5% over one and a half points higher than that of 2014. On the other hand, according to figures provided by the DGT, truck registrations continued rising sharply in November, 42% y-o-y, and domestic sales of equipment and software rose by 5.1% during that month, three tenths more than in the previous month.

Likewise, according to the Business Tendency Survey, the industry climate indicator for investment goods improved in December, from a negative balance of -4 points to a positive one of 8.4 points. This improvement stems from the good performance in its three components: orders portfolio, production expectations and stock level reduction.

Non-financial corporations showed a net lending position equal to 3.1% of GDP in the third quarter of 2015, 2.3 points higher than that a year earlier. This rise is mainly due to the increase in savings of companies (14.9% y-o-y), while the business investment continued to grow (1.4%) but at a slower pace than a year ago (5.2%). In turn, the rebound in savings was due to the rise of the gross operating surplus (5.5%) and to the fall in net property income paid (-26.9%) and in net current transfers paid (-10.1%), partially offset by the corporate tax increase (16.1%). The increase in gross operating surplus is due to the rise of the gross value added (5.1%), partially offset by the rise in net taxes of subsidies on production (8.5%) and the compensation of employees paid (4.8%).

…the same as construction investment indicators

With regards to the short-term indicators of investment in construction, according to the INE Statistics, based on the properties entered in the Property Registers, housing sales experienced a y-o-y growth of 13.7% in November, eleven points higher than in October. As in previous months, the expansionary trend came from the sharp increase of used housing purchases, which grew by 30.5%, compared to a year earlier, while new housing purchases dropped by 25.7% y-o-y. According to the protection system, private housing purchases (90% of the total) increased by 14.1% in November, compared to the same month of last year and social housing purchases, by 10.2%. Thus, in the first eleven months of 2015 housing sales accumulated an average annual growth of 11.5%, nine and a half points higher than in 2014. Finally, the number of mortgages on housing accumulated an increase of over 20% in the first ten months of 2015, much higher than the figure registered in 2014 (2.3%).

The industrial activity maintained the expansionary pace at the end of last year

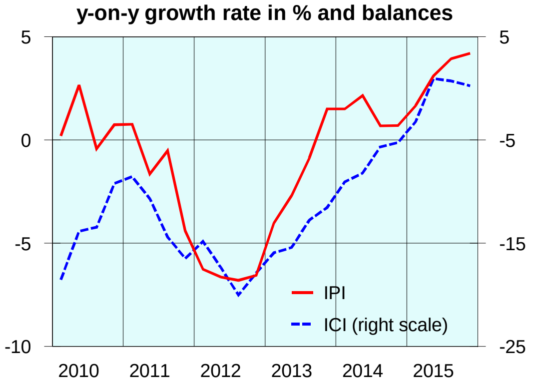
On the supply side, and with regards to the industrial sector, the Industrial Production Index (IPI), with seasonally and calendar adjusted data, increased by 4.2% y-o-y in November, one tenth more than in October. In m-o-m terms, the IPI remained stable, compared to the 0.2% m-o-m growth of the previous month.

By destination groups and with calendar and seasonally adjusted data, all the IPI components showed y-o-y increases in November, except for energy, which decreased by 2.5%. The dynamism of equipment goods stood out, which rose by 9.3%, followed by intermediate goods (4.3%), durable consumer goods (3.5%) and non-durable consumer goods (3.4%).

On the other hand, the Turnover Index in Industry (ICNI) and the Industry New Orders Index (INOI), adjusted for calendar effects, intensified the momentum in October, with y-o-y gains of 3.1%, the former, and of 2.1%, the latter (1.7% and 1.1% in the previous month). Among its components, equipment goods stand out, which rose by 12% in the ICNI and by 8.8% in the INOI, in y-o-y rate.

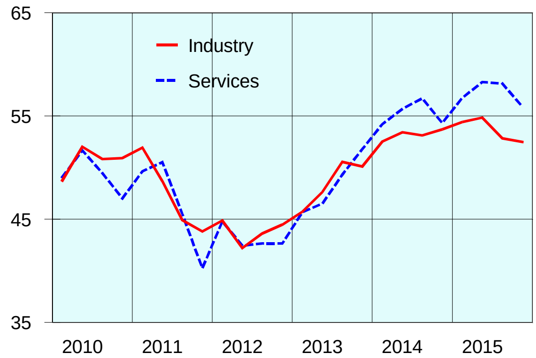
The dynamism of the industrial sector was also reflected in the evolution of the qualitative indicators. Thus, the PMI index of manufacturing for Spain stood at 53 in December, one tenth below that of November. Production and new orders intensified their growth rates and employment in the sector increased slightly.

G 4. INDUSTRY: PRODUCTION AND CONFIDENCE
y-on-y growth rate in % and balances



Sources: INE and European Commission.

G 5. PMI INDICES: INDUSTRY AND SERVICES



Source: Markit Group.

The construction sector activity prolonged the expansionary path

Among the indicators relating to the construction sector, the Production Index in the Construction Industry (PICI) increased by 8.2% y-o-y in October, as a result of the increase of its two components: building (7.3%) and civil works (12.6%). On the other hand, according to Construction New Permits, floorage approvals in new construction, a leading indicator of the activity in the sector, recorded a y-o-y decrease of 0.4% in October, after nine months of strong increases (37.5% in September). This was due to the slowdown of the non-residential component, which fell by almost 35%, and to the less expansionary trend of the residential component, which increased by 20% (51.5% in the previous month).

The service sector indicators pointed to a strong activity growth in the sector

Regarding the services sector, the Services Sector Turnover Index (SSTI), with calendar adjusted data, increased by 6.1% y-o-y in October, half a point more than in September. This rise was thanks to the strong growth of its two components, trade (6.5%) and other services (5.2%). Thus, the SSTI continued its upward path, linking more than two consecutive years of positive y-o-y rates and accumulating an average growth of 4.8% up to October.

On the other hand, the PMI of activity in the services sector fell by 1.6 points in December, down to 55.1, maintaining the strong growth signal of the sector activity. By subsectors, all of them registered an activity expansion, Financial Intermediation and Transport and Storage being the sectors with the most favourable results. The tourism sector indicators continued evolving favourably in the last months of 2015. Thus, in November 3.7 million foreign tourists visited Spain, 10.7% more than in the same month of 2014, and total expenditure of tourists rose by 12.2% in annual terms.

Prices

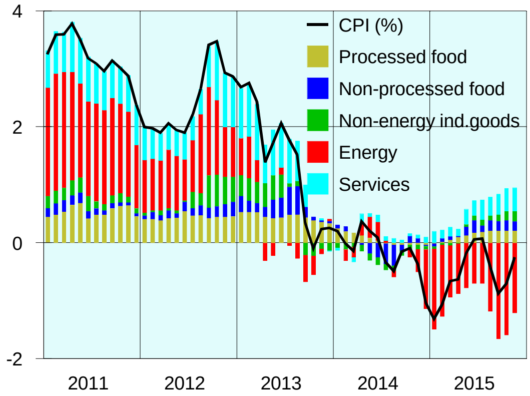
The annual rate of the CPI rose four tenths in November, up to -0.3%

The Consumer Price Index (CPI) recorded an annual rate of -0.3% in November, four tenths above the figure recorded in the previous month. Its m-o-m variation rate stood at 0.4%, half a point more than in the same month last year. This increase in the inflation rate mainly responded to energy products, whose volatility is conditioning significantly the evolution of the overall inflation. Non-energy industrial goods (BINE) also contributed to this inflation increase, albeit to a lesser extent. According to the national CPI leading indicator published by the INE, the inflation rate will be null in December, an increase due again to the prices of fuels and lubricants.

Core inflation increases by one tenth, up to 1%

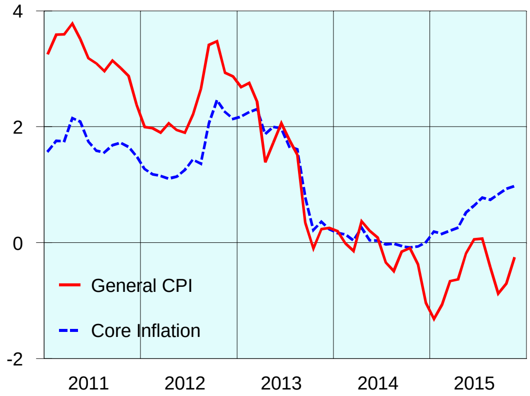
Core inflation (which excludes the most volatile elements from the General CPI, non-processed food and energy) continued the slightly upward trend that began in early 2015, rising one tenth in November, up to 1%. This acceleration was mainly due to the performance of BINE. The inflation that excludes total food and energy products from the General Index also rose one tenth in November, up to 0.9%. Both indices have consolidated their upward trend as a result of the recovery of the economic activity and private consumption.

G 6. CPI GROWTH CONTRIBUTION BY SECTORS
in percentage points



Sources: INE and SGACPE.

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



Source: INE.

Energy prices moderate the decline

The prices index of energy products increased by 0.7% in November compared to the previous month and its y-o-y rate stood at -10%, versus the sharper decline (-13.1%) of the previous month. This lower drop was due to its main item, fuels and gas, which moderated the pace of annual decline by 1.9 points, up to -13.7% and electricity, whose price rose from a y-o-y rate of -6.4% in October to 0.4% in November, as a result of a base effect.

Food prices slightly reduce their inflation rate, down to 1.7%...

In November, food prices fell by 0.2% compared to the previous month, in comparison to the stability registered one year earlier and its y-o-y rate moderated one tenth, to 1.7%. This slight moderation responded to the non-processed food group, which reduced its y-o-y rate by three tenths, down to 2.4%, mainly due to the lower price increases of some meats, such as sheep and pork, and fresh vegetables and pulses. On the other hand, the y-o-y rate of processed food, beverages and tobacco remained at 1.4% for the fourth consecutive month. In this latter sector, the evolution of oil prices stands out which, although it has moderated in recent months, continues to grow at rates close to 30%.

...while BINE inflation increases one tenth and services inflation stabilises

BINE inflation continued the upward trend and rose one tenth in November, up to 0.7%, accumulating an increase of almost one percentage point in the first eleven months of 2015. This acceleration was largely due to durable consumer goods, especially car prices, whose y-o-y rate stood at 3.9%, four tenths above that of last October. As for clothing and footwear prices, their monthly increase (5.1%) was equal to that of November 2014, thus keeping the annual rate at 0.6%.

Service prices maintained their y-o-y rate at 1% in November, after experiencing a 0.2% m-o-m decrease, the same as a year earlier. The two tenths increase in the annual rate of the tourism, catering and accommodation services item (1.3%) stands out, due to the pressure of the package holidays item, in line with the dynamism of the tourism demand. On the other hand, it should be noted the 2.5 points reduction in the y-o-y rate of long-distance public transport prices, down to -0.6%, mainly due to lower prices of air transport, very sensitive to oil prices in international markets.

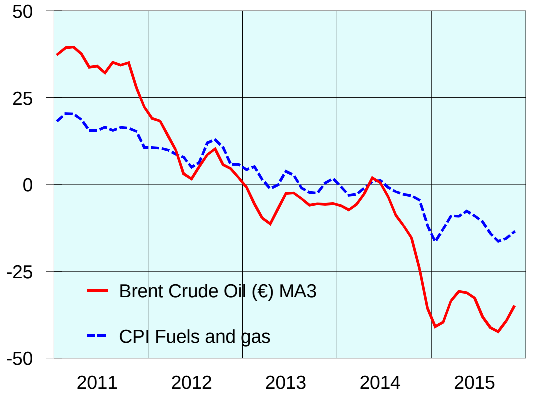
Inflation in the EMU accelerates one tenth in November, up to 0.2%…

In November 2015, the y-o-y rate of the Harmonised Monetary Union Consumer Price Index (HMUCPI) stood at 0.2%, one tenth above than the figure in the previous month. The slight increase of the HMUCPI rate was mainly due to the evolution in energy prices, and, to a lesser extent, to processed food. Energy prices moderated the rate of y-o-y decline by 1.2 percentage points, up to -7.3% in November, this being the only of the HMUCPI major sectors still retaining negative variation rates. Processed food registered a y-o-y increase of 0.7%, one tenth higher than the previous month. The moderation in the annual rates of other sectors has been very uneven. Thus, the rate of non-processed food prices was reduced by half a point, down to 2.7%, and services and Non-energy Industrial Goods (BINE) by one tenth, to 1.2% and 0.5% respectively. As a result of the sectors evolution described above, the rate of inflation excluding energy dropped by two tenths, down to 1%, and core inflation fell one tenth to 0.9%.

…and the differential favourable to Spain falls four tenths, down to -0.6 p.p.

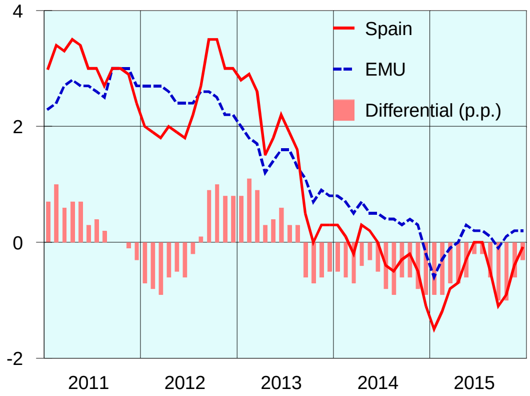
The annual rate of the Spanish Harmonised CPI (SHCPI) increased half a point in November, up to -0.4%. As a result, the inflation differential against the Eurozone, which has been favourable to Spain since September 2013, fell 0.4 p.p., down to -0.6 p.p. The differential in November continued to be favourable to our country in all major sectors, except in food (0.2 p.p.), due to processed food (0.8 p.p.). The Spanish harmonised core inflation rose one tenth, up to 0.8%, so its differential against the Eurozone as a whole fell two tenths, down to -0.1 p.p., after remaining five consecutive months at -0.3 p.p.

G 8. FUELS AND GAS AND BRENT CRUDE OIL
y-o-y change in %



Source: INE and Reuters.

G 9. HARMONISED CPI
y-o-y change %



Sources: INE and Eurostat. Dec 2015 data are prov

In December, according to the leading indicator of the Harmonised Monetary Union of Consumer Prices Index (HMUCPI), the inflation rate would remain at 0.2%, the same figure as in the previous month. In turn, the harmonised inflation, estimated by the variation rate of the leading indicator of the Spanish Harmonised CPI (SHCPI), would increase three tenths compared to November, up to -0.1%. If the final data for December confirm the leading data, the inflation differential favourable to Spain with the Eurozone would fall three tenths, down to -0.3 p.p.

Producer prices inflation moderates one point in November

The Industry Price Index (IPP) experimented in November a m-o-m fall of 0.2%, against the 1.2% decrease registered a year earlier. In y-o-y terms, the IPP fell 2.6%, a figure representing a moderation in the rate of decline of one point compared to the previous month. Based on the economic destination of goods, the moderation in the pace of decline in the general index in November was due to the lower decline of the energy component and to the acceleration of equipment goods prices. Among the other groups, consumer goods showed a lower inflation rate and the prices of intermediate goods accentuated the fall. As a result of the evolution of the different components of the general index, the non-energy IPP registered a 0.3% m-o-m fall and its y-o-y rate remained at -0.2%, two tenths less compared to October.

The y-o-y rate of energy prices stood at -9.4% in November, compared to the -13.4% recorded in October. This moderation in the decline of the energy IPP responded to the coke and refined petroleum item and supply of electricity and gas. On the other hand, the consumer goods IPP decreased 0.3% m-o-m in November, after the stability registered a year earlier, and its y-o-y rate fell three tenths, down to 0.9%. Intermediate goods prices recorded a y-o-y rate of -1.7%, two tenths less than in October, a fall entirely due to prices of metallurgy. In turn, the equipment goods IPP y-o-y rate stood at 1.1%, three tenth above that of October, settling the growth path shown in the last seven months at approximately 1%.

Labour market

Social Security covered workers increase by 85,314 people in December and by 533,186, throughout 2015

In the last month of 2015 the Spanish labour market continued the positive trend shown for over two years, in parallel with the economic activity. In that month, job creation kept on at a good pace and unemployment fell with intensity, according to the Social Security covered workers and registered unemployment in the State Public Employment Service data. The monthly average of Social Security (SS) covered workers increased by 85,314 people in December 2015, the best figure of the time series in a month of December, reaching a level of 17,308,400 covered workers. With seasonally adjusted data, a m-o-m increase of 62,682 covered workers took place, and the monthly rate stood at 0.4%, one tenth above from the previous month. Compared to the same month of 2014, the number of covered workers increased by 533,186 people, 3.2% more, a rate equal to that of the previous four months. On an annual average, the number of covered workers increased by 530,000 people, 3.2%. In turn, in the fourth quarter of 2015, the increase stood at 22,400, and its y-o-y rate at 3.2%.

Considering the professional status of covered workers, the monthly increase in December mainly affected employees, with a rise of 83,469 and to a lesser extent, self-employed, which increased by 1,845 people. Compared to a year earlier, employees increased by 491,250 and self-employed by 41,936, which implies a stabilisation of the y-o-y rate at 3.6% in the first group, and a slowdown of two tenths, down to 1.3% in the second group.

Most of the increase of the Social Security covered workers happens on the services sector

By main activity branches, the number of covered workers in December happened on the services and agricultural sectors, with 70,850 and 35,556 people more, respectively. On the other hand, it fell in industry by 3,734 people and by 17,359 in construction. With seasonally adjusted data, all non-agricultural sectors recorded increases in the number of Social Security covered workers: 44,041 in services, 4,764 in industry and 2,576 in construction. Compared to a year earlier, all main branches increased their number of covered workers: services standing out with 420,817 more covered workers. The y-o-y growth rate rose in industry and in agriculture, remained unchanged in services and moderated in construction.

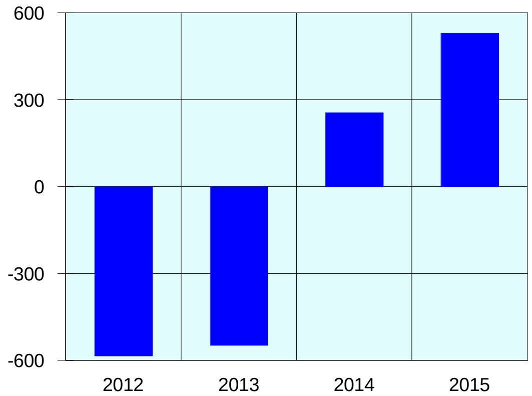
The number of registered contracts increases by 15.2% y-o-y in December

The total number of new contracts registered in December 2015 reached 1,594,915, representing a y-o-y increase of 15.2%. With seasonally adjusted data, they rose by 6.3% (99,300) compared to the previous month. 6.8% of all new contracts were permanent, a percentage 1.5 points lower compared to the one recorded in the previous month and 0.5 points lower than in December 2014. On the other hand, part-time contracts accounted for 33% of the total, a ratio 1.1 points lower than that of last November and four tenths lower than in the same month of 2014.

Registered unemployment falls by 354,203 people in 2015

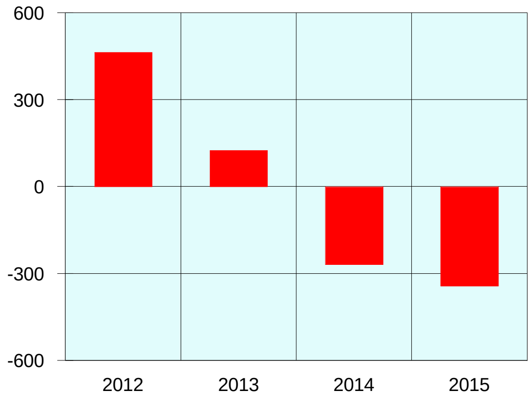
The unemployment registered in the Spanish Public Employment Service at the end of December decreased by 55,790 people in comparison to the previous month, reaching 4,093,508. In the same month of 2014, unemployment registered fell by 64,405 people. Adjusted for seasonal effects, the reduction amounts to 1,258 unemployed in December, which implies a null m-o-m variation rate, versus the -1.1% of the previous month. In y-o-y terms, the downward trend that started over two years ago keeps on, stabilising in December at -8%, which resulted in 354,203 fewer unemployed, the biggest decline in a calendar year for the whole historical series. In terms of annual average, registered unemployment fell by 343,800 people in 2015, 7.5%. In turn, in the last quarter of 2015, registered unemployment increased by 70,283 people versus the previous quarter, although with seasonally adjusted data, it fell by 47,100, 1.1%. In y-o-y terms, the decline in unemployment during this quarter moderated by three tenths, to 7.9%.

G 10. SOCIAL SECURITY-COVERED WORKERS
y-on y change in thousands



Source: MESS.

G 11. REGISTERED UNEMPLOYMENT
y-on-y change in thousands



Source: MESS.

The decline in unemployment in 2015 affected all main activity branches

By main activity branches, registered unemployment in December fell in services, with 61,336 fewer unemployed, and in agriculture, with 2,133 fewer unemployed. However, it increased in construction, with 15,470 more unemployed, and in industry, with an increase of 4,845. Unemployment also fell in the group of people without previous employment, by 12,636 people and by 24,970 in the group of workers among young people under 25, affecting a total of

346,816 and 342,177 people, respectively. When compared to the previous year, the number of unemployed fell in the main activity branches in December: 156,091 in services (-5.5%), 89,823 in construction (-16.5%), 59,817 in industry (-13.2 %) and 18,497 in agriculture (-8.7%). Considering the y-o-y rates of the previous month, unemployment moderated its fall rate in the main sectors, except in services, in which it remains constant. In turn, the y-o-y rate of decline in youth unemployment fell by one tenth, down to 11.8%.

The labour cost per worker and month rises in the third quarter of 2015

According to the Quarterly Labour Cost Survey (QLCS), in the third quarter of 2015 the average labour cost per worker and month recorded a 0.3% y-o-y growth, one tenth lower than the second quarter. In turn, the wage cost increased by 0.5%, which implies a slight moderation (one tenth) compared to the previous quarter.

Wage costs increase…

The ordinary wage cost grew 0.2% y-o-y, the same as in the previous quarter, while the extraordinary wage cost (arrears and other payments) accelerated 0.6 points, up to 3.8%. The difference between the ordinary wage increase and the one agreed in the collective bargaining agreements, considered as an estimate of the wage drift, stood at -0.5 p.p., one tenth less negative than the previous quarter.

...while other costs decrease due to lower dismissal costs per worker

The rest of the labour cost, corresponding to the other costs item (including, among others, the mandatory Social Security contributions and the cost of dismissal), registered a 0.5% y-o-y fall in the third quarter of 2015, three tenths above compared to the previous quarter. As in previous quarters, this decline intensification was mainly due to the fall of the dismissal cost per worker, (-20%) although the rest of the items grouped together in other costs also contributed to the decline. Mandatory Social Security contributions, the item with the largest proportion within other costs, recorded a y-o-y increase of 1%, one tenth lower than that of the previous quarter.

From a sector point of view, it can be seen that in the third quarter of last year, the y-o-y growth of wage costs (0.5%) was due to the service sector (0.7%) and to industry (0.2%), while it fell slightly in construction (-0.1%). In the y-o-y growth of total labour costs (0.3%), the services sector (0.5%) was the main responsible, while in the other costs component the decline was due to the industry sector and to a lower extent, to the construction sector.

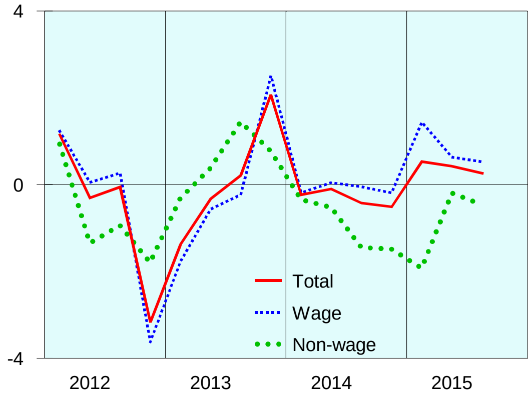
The labour cost per worked hour experienced a y-o-y fall of 0.4% in the third quarter, versus the 0.2% growth registered in the previous quarter, a setback that responds to the higher number of hours worked in comparison to a year earlier. With calendar and seasonally adjusted data, it appears that labour cost per worked hour registered a y-o-y rise of 0.1% and wage costs of 0.4%, rates that in the first case mean a moderation of two tenths and, in the second, of one tenth versus the previous quarter.

The agreed wage rise in collective bargaining agreements reaches 0.7% at the end of 2015…

According to the Collective Bargaining Agreement Statistics published by the Ministry of Employment and Social Security, 2,268 agreements were recorded by the end of December, affecting 6,484,829 workers. The provisional percentage that represents these employees covered by the collective bargaining on the global collective of last financial year stands at 77.1%. The agreed wage rise stood at 0.74%, two tenths above the figure agreed temporarily in 2014. It should be noted that the information available to date (as that of 2014) is still provisional, although it is not expected that the wage rate registered in December will experience significant changes.

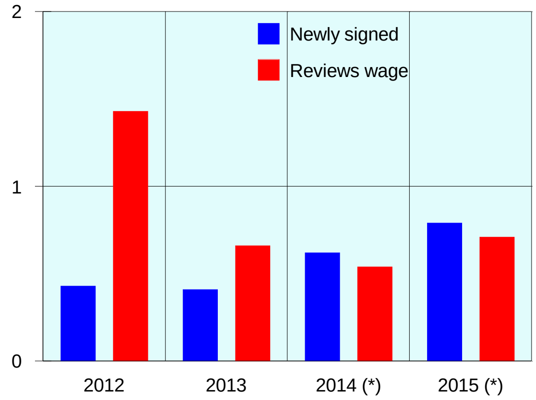
Of all the agreements signed so far, 1,438 correspond to wage revisions of multi-year agreements with economic effects in 2015, affecting 3,997,630 workers and the agreed wage increase is 0.71%. The newly signed agreements during 2015 stand at 830 and affect 2,487,199 workers (38.4% of the total), with a wage rise of 0.79%. These wage rates are below the upper limit recommended in the Collective Bargaining Agreement of 2015-2017 between the Social Partners, which sets a 1% ceiling for 2015.

G 12. LABOUR COSTS
year-on-year in %



Source: INE (ETCL: Quarterly labour cost survey).

G 13. WAGE RATES
Without wage revision clauses



(*) Provisional data.
Source: MESS.

…and 0.5% in company agreements

The rate agreed in company agreements (0.49%) was lower than that signed in other areas (0.75%). In turn, among the non-agrarian activity branches, construction leads the agreed wage rise with 0.79%, followed by industry (0.76%) and services (0.71%). On the other hand, the agricultural sector recorded a wage increase of 0.80%.

A total of 88 opt-outs affecting 2,177 workers (the accumulated data amount to 1,437 opt-outs and 43,173 workers) were submitted in December. 63.6% of the workers affected by the opt-outs is concentrated in the service sector and, with regards to the size of the companies, 42% of the affected workers worked mainly for companies with 250 or more employees. On the other hand, 90.3% of all opt-outs presented indicate that they have been "pulled away from" the wage amount agreed.

External sector

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

According to the Balance of Payments data, in October 2015, the Spanish economy generated net lending to the rest of the world of € 2.4 billion, for the eighth consecutive month, above the one registered a year earlier (€ 1.4 billion).

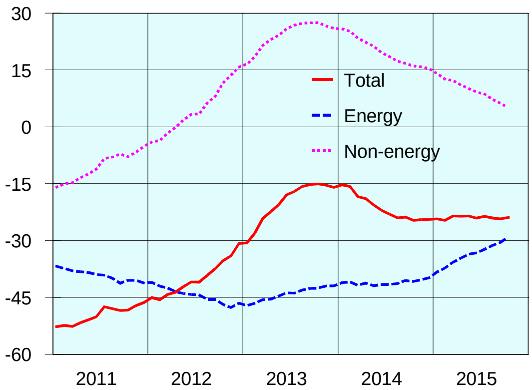
The current account balance recorded a € 2.4 billion surplus in October, in contrast with the € 1.2 billion surplus registered in the same month of 2014, given that a 15.7% y-o-y increase in the positive balance of goods and services coincided with a 42.9% decrease of the deficit of primary and secondary income. Meanwhile, the surplus in the capital account ended at € 35 million, versus € 207 million of October last year.

The energy balance deficit fell by 41.2% in October in line with the developments in the crude oil price

According to Customs data, the trade balance recorded a deficit of € 1.9 billion in October 2015, compared to a deficit of € 2.2 billion registered a year earlier. The correction of the external imbalance (of 15.7%) was exclusively due to the energy component, which registered a deficit decrease of 41.2%, while the price in euros of a barrel of imported oil dropped by 42.1% and the non-energy surplus fell by 82.3%.

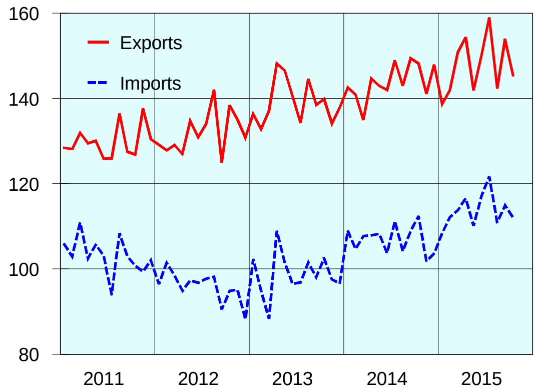
In cumulative terms for the last twelve months, the trade balance recorded a deficit of € 23.9 billion in October, compared with the € 24.7 billion of a year earlier. The 3.1% improvement in the external balance is exclusively due to the energy balance, which recorded a cumulative deficit of € 29 billion, almost € 11.8 billion less that registered a year earlier (€ 40.8 billion). The energy balance more than offset the fall of the non-energy balance, which registered a surplus of € 5.1 billion, lower by over € 11.0 billion the one recorded the previous year (€ 16.1 billon).

G 14. TRADE BALANCE
accumulated 12 months, billion euros



Sources: DA and SGACPE.

G 15. FOREIGN TRADE, VOLUME
index 2005=100, s.a.



Sources: DA and SGACPE.

Trade flows slowed down in October

According to Customs figures, goods exports decreased in October by 0.8% y-o-y, and their prices, approximated by unit value indices, increased by 0.7%, resulting in a 1.5% fall in real terms, after the 3.7% growth registered in September. The analysis by product groups in real terms and in y-o-y terms, shows an acceleration in exports of non-food consumer goods (1.4 percentage points, up to 13.3%) and of energy intermediate goods (of -18.9% in September to -16% in October). With regards to the other products, exports of food consumer goods slowed down (5.5 p.p., down to 0.4%) and the rate of non-energy intermediate goods exports variation changes sign, from positive to negative (-6.9%, against an increase of 3.1% in September).

By geographical areas, exports in volume to the European Union increased by 2.4% in October, and exports outside the Union fell by 8.5% (versus the 7.9% growth and the 4.6% fall, respectively registered in September).

Goods imports decreased by 2.2% y-o-y in nominal terms in October, after the 1.8% increase registered in the previous month, and their prices fell by 2.5% (-4.2% in September). These changes reflect a price fall in energy intermediate goods of 26.3% and an increase of 3.5% in the other products. As a result, imports in real terms, experienced a y-o-y increase of 0.3%, almost six points lower than in the previous month. The analysis by products in real terms and in y-o-y rates reflects positive rates in all products, except in energy intermediate goods (-16%), with an acceleration in purchases of capital goods (5.6 points, up to 15.5%) and food (5.3 p.p., up to 5%) and a slowdown in imports of non-food consumer goods by 1.9 percentage points, down to 4.2%, and non-energy intermediate goods by 7.2 percentage points, down to 1.3%.

By geographical areas and in real terms, imports from the European Union slowed down 1.6 points compared to September, down to 1.3% y-o-y, and those from the rest of the world went from an increase of 11.2% in September to a fall of 1% in October.

The "momentum" of exports and imports recorded negative rates

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 October (-2.1%) after six consecutive months registering positive rates, and that of imports became negative in October (-3.2%) after eight months registering positive rates.

The assets and liabilities net variation generated net capital outflows in October

According to the Balance of Payments, in October 2015 the financial balance, excluding the Bank of Spain assets, recorded net capital outflows of € 4.6 billion, versus the net outflows of € 438 million recorded a year earlier. This result is explained by the flows of other investment and financial derivatives, which recorded net capital outflows amounting to € 8.6 billion and € 132 million respectively, while direct and portfolio investment recorded net capital inflows amounting to € 1.5 billion and € 2.6 billion respectively.

The assets net variation recorded net capital outflows (investments) of € 3.2 billion in October, below the net outflows of € 8.2 billion registered in the same month of 2014. On the other hand, the liabilities net variation generated net outflows (disinvestments) of € 1.4 billion, versus the net inflows of € 7.8 billion recorded a year earlier

The net position of the Bank of Spain vis-à-vis the Eurosystem increased

The net position of the Bank of Spain vis-à-vis the rest of the world increased by € 5.7 billion in October, an amount that includes an increase of € 60 million in the reserves and of € 3 billion in the net position vis-à-vis the Eurosystem, and of € 2.7 billion of the remaining net assets.

Budget execution

On 22nd December 2015, the Ministry of Finance and Public Administrations published the data of non-financial transactions of the Central Government, the Regional Governments and the Social Security Funds, with consolidated data and in terms of National Accounts for October

2015. It also published the State monthly budget execution data for November, both in terms of National Accounts and Cash, as well as the non-financial transactions of the General Government up to the third quarter of 2015. On the other hand, the Ministry of Employment and Social Security published the monthly budget execution data of the Social Security, in terms of Cash, corresponding to November.

The General Government deficit falls up to the third quarter of 2015

Up to the third quarter of 2015, the General Government recorded a deficit, in terms of National Accounts, of € 33.7 billion (3.12% of GDP), 11.5% lower than in the same period last year (€ 38.0 billion). This decline in the deficit was due to an increase in non-financial resources (3.3% y-o-y) higher than the one recorded by non-financial uses (1.6%). The increase in non-financial uses would have been lower (1.2%) when removing the reallocation of capital investments made in previous years by Catalonia and Zaragoza, amounting to € 1.4 billion.

The increase in revenues is largely explained by the rises in taxes on production and imports (7%), current taxes on income and wealth (4.8%), and social contributions (1.5%). Regarding the non-financial uses, these mainly increased due to the higher compensation of employees (2.8%), intermediate consumption (3.6%) and gross fixed capital formation (19.2%, which stands at 10.3% when removing the reallocation of capital investments made in previous years by Catalonia and Zaragoza,).

The General Government consolidated deficit, excluding Local Governments, stands at 3.44% of GDP up to October 2015

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded up to October 2015 a deficit of € 37.2 billion (3.44% of GDP), 10.9% lower in comparison to the same period of 2014 (4% of GDP). This deficit decrease is explained by a y-o-y increase of non-financial resources (3.4%) higher than that registered by non-financial uses (1.7%).

The Central Government accumulated a deficit of € 21.9 billion (2.02% of GDP) up to October 2015, 22% lower than the figure registered in the same period of 2014 (€ 28.1 billion, equivalent to 2.69% of GDP). This deficit decrease is explained by a rise of non-financial resources (3.1%) and by a reduction of non-financial uses (-0.8%).

The Regional Governments accumulated a deficit of € 12.6 billion (equivalent to 1.17% of GDP, against the 0.7% deficit target set for the whole of 2015) up to October last year, 5.9% lower than in the same period of 2014 (€ 13.4 billion, equivalent to 1.29% of GDP). This lower deficit is explained by an increase of non-financial resources (3.9% y-o-y) higher than the one registered by non-financial uses (2.9%). It should be noted that in September last year an extraordinary expenditure was recorded, amounting to € 1.2 billion, as a result of the reallocation of capital investments made in previous years in Catalonia. Excluding this expense, the subsector reduced its deficit by 15.1%, 0.23 percentage points of GDP.

As for Social Security Funds, these ended the first ten months of 2015 with a deficit of € 2.7 billion, versus the 249 million deficit recorded in the same period of 2014. This was mainly due to the Social Security System deficit, which increased by more than 50% y-o-y, up to 0.74% of GDP. The higher deficit of the System was caused by an expenditure increase (3.2%) and, in particular, in the expenditure on social contributions (3.4%), much higher than the one recorded in revenues (0.5%).

The State's deficit decreases up to November 2015 by 22.2% y-o-y, in terms of National Accounts

Up to November 2015, the budget execution of the State ended with a deficit, in terms of National Accounts, of € 27.5 billion (2.55% of GDP), 22.2% lower than the deficit accumulated up to November 2014. This lower deficit was due to a y-o-y increase in non-financial resources (4.7%), boosted by increases in taxes on production and imports (7.8%) and in current taxes on income and wealth (5%), and to a reduction in non-financial uses (-0.3%). Uses in 2015 include the partial recovery of the 2012 extra pay. Removing the effect of this operation, uses would fall by 0.5% y-o-y.

In terms of Cash, the State recorded a deficit of € 11.6 billion up to November 2015, lower by 56.2% to the one recorded in the same period of 2014 (€ 26.5 billion). Non-financial revenues registered a y-o-y increase of 12.5%, reaching € 131.8 billion, while non-financial payments decreased by 0.2%, to € 143.4 billion.

Total tax revenues increase by 4.5% y-o-y up to November, in homogenous terms

Total tax revenues (including the Regional and Local Governments' share) recorded a y-o-y increase of 4.1% up to November 2015. In homogeneous terms, that is, adjusted by the different tax rebates rate in 2014 and 2015, rebates of the Tax on Retail Sales of Certain Hydrocarbon Products and the deferred debt of public entities, tax revenues increased by 4.5%. Without including the Regional and Local Governments, and in non-homogeneous terms, these increased by 6%.

Within total taxes, revenues from personal income tax, including the Regional and Local Governments' share, fell by 0.1% y-o-y up to November. Labour withholdings recorded a 1.1% decrease due to the effects of the measures approved by Royal Decree-Law 9/2015, of 10th July, which brings six months forward the second phase of the personal income tax reduction initially planned for 2016. This effect was partially offset by the employment improvement and the recovery of the December 2012 extra pay of public employees. In homogeneous terms, the personal income tax decreased by 0.5%.

Revenues from corporate tax up to November stood at € 16.8 billion, 19.4% more than in the same period of 2014. In homogeneous terms, revenues rose by € 19.9% compared to a year earlier.

VAT revenues, including the Regional and Local Governments' share, increased by 6.6% y-o-y up to November. In homogeneous terms, adjusted by the different tax rebates rate, the increase stands at 6.1%.

Excise duties collection, including the Regional and Local Governments' share, was 1.7% lower compared to the same period of 2014, due to the reductions in Duty on Hydrocarbons (-3.3%) and in Excise on Tobacco Products (-1.1%). In homogeneous terms, Excise duties increased by 1.7%.

The State's non-financial payments fall by 0.2% y-o-y up to November

With regard to expenses, total non-financial payments decreased by 0.2% up to November in comparison to the amount accumulated in the same period of 2014, due to the decrease of current transfers (-4.4%), especially those assigned to the Autonomous Bodies (-35.4%). Staff expenses rose by 4.7%, financial expenses by 0.3% and current expenses on goods and services, by 12.7%. With regards to capital transactions, real investments rose by 40.8% and capital transfers increased by 17.9%.

The borrowing requirement of the State decrease up to November 2015

On the other hand, the borrowing requirement of the State up to November 2015 fell by 20.4% compared to the same period of 2014, amounting to € 45.6 billion, compared to € 57.3 billion recorded in the same period of 2014. This decrease was explained by the lower cash deficit (€ 11.6 billion, compared to € 26.5 billion recorded a year earlier), partially offset by the higher net increase of financial assets (€ 34 billion, compared to € 30.8 billion in the same period of 2014). The borrowing requirement was mainly financed through mid and long term domestic debt (€ 42.1 billion). On the other hand, the State's debt, according to the methodology of the Excessive Deficit Procedure (EDP), stood at € 911.7 billion at the end of November, compared to € 862.6 billion registered a year earlier.

Finally, up to November 2015, the Social Security System (Managing Entities, General Treasury and Mutual Insurers) recorded a deficit of € 5.8 billion in terms of Cash, compared to the deficit of € 3.4 billion recorded up to November 2014. Revenues increased by 3.8% mainly due to the higher capital transfers (€ 3.9 billion versus € 643 million registered in the same period of 2014) and to the increase in social contributions, which rose by 1.3%. Payments increased by 5.8% y-o-y, mainly boosted by pensions and by the temporary disability, which rose by 3% and 13.7%, respectively. Finally, regarding Social Security's management expenses, staff expenses rose by 1.3% and current expenses on goods and services decreased by 0.6%.

The Bank of Spain published on 17th December 2015 the General Government Debt data for October 2015, according to the EDP methodology. According to the Bank of Spain, the General Government EDP Debt reached € 1.057 billion in that period, 3.9% higher than in the same period last year.

By subsectors, the State EDP Debt reached € 907.3 billion, registering an increase of 6.0% in comparison to the same period of 2014. On the other hand, the Regional Government EDP Debt reached € 253.1 billion, 8.8% higher than that recorded in the same month of 2014. Regarding the Social Security Administrations, the EDP Debt reached € 17.2 billion, a figure almost identical to the one registered in October 2014 (€ 17.2 billion). Finally, Local Corporations registered in October 2015 an EDP Debt of € 36.1 billion, 11.2% lower compared to that of the same period of 2014.

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