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SPANISH ECONOMY REPORT

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MINISTERIO DE ECONOMÍA Y COMPETITIVIDAD

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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

Financial markets

The financial markets evolution between late 2015 and early February of this year was mainly conditioned by the geopolitical tensions, the sharp fall in oil prices and, above all, by the uncertainty regarding the growth prospects for emerging economies. In this context, the European Central Bank (ECB), in the press conference that followed the meeting of its Governing Council, anticipated a possible further extension of its asset purchase programme (QE) in March this year and, after the Federal Reserve (Fed) meeting, the expectations of a more gradual than expected adjustment of the interest rates in the United States went up. This resulted in a fall of European public debt yields, a strong decline in major stock indices on both sides of the Atlantic, and a slight appreciation of the euro against the dollar.

The ECB maintains the interest rates and foresees a possible extension of the QE in March

The Governing Council of the ECB, on its meeting held on 21st January, decided to maintain the interest rates on the main financing operations, the marginal lending facility and the deposit facility at 0.05%, 0.30% and -0.30%, respectively. In the press conference that followed the meeting, Mario Draghi highlighted once again the growing downside risks stemming from the higher uncertainty regarding the growth prospects for emerging economies, the volatility in the financial and commodity markets and the geopolitical risks. According to the ECB statement, in this scenario, the downward pressure on inflation continues mainly due to the drop in oil prices, so it will be necessary to review and, possibly, reconsider, the monetary policy stance in the next meeting to be held in March, when the new macroeconomic forecasts become available. The aim is to ensure that the inflation returns to levels close to the medium-term objective.

The Fed maintains the interest rates in a context of economic activity moderation in the United States

The Federal Open Market Committee (FOMC) of the Fed, in its two day meeting held on 26th and 27th January, decided to maintain the target range for the Federal Funds rate at 0.25% to 0.50%, set on 17th December 2015, considering the improvement of the labour market conditions and the slower economic growth experienced late last year. The FOMC expects that with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labour market indicators will continue to improve. Likewise, the FOMC expects inflation to remain at low levels in the short term but to rise close 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 a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

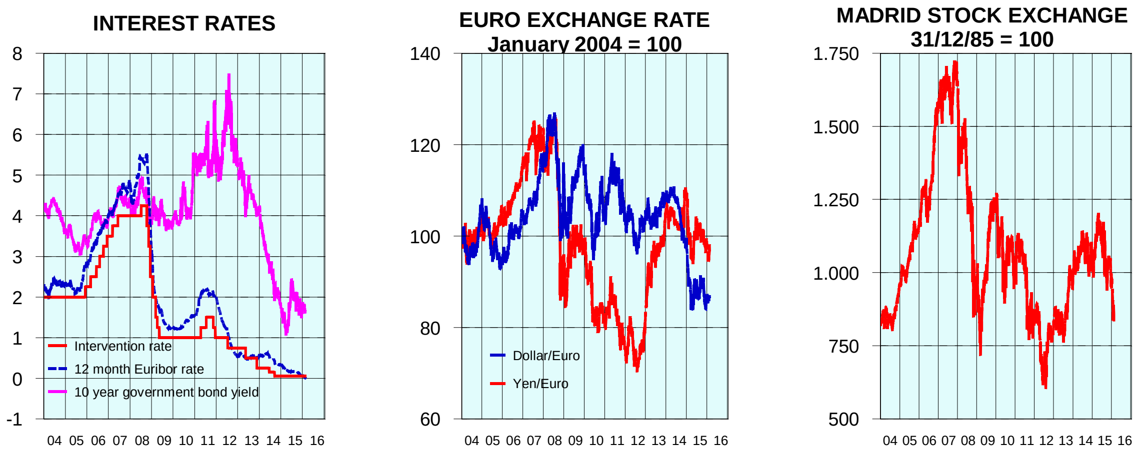
The BoJ applies negative rates to the current accounts that financial institutions hold in the bank

In the meeting held on 28th and 29th January, the Bank of Japan (BoJ) decided to start applying a negative interest rate of -0.1% to current accounts that financial institutions hold at the Bank, in order to achieve the inflation target of 2%, and continued conducting money market operations so that the monetary base will increase at an annual pace of about 80 trillion yen. In addition, the BoJ will continue with the purchase programme of Japanese government bonds, whose amount outstanding increases at an annual pace of about 80 trillion yen, and of exchange-traded funds (ETFs) which, as announced at the meeting held in December last year, will start from April 2016. These funds will 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 purchases under which their outstanding amount will increase at an annual pace of 3 trillion yen.

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 3rd February, 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%.

G1. MONETARY AND FINANCIAL INDICATORS (1)



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

Eurozone interbank market interest rates fall

In the interbank market of the Eurozone, interest rates continued the downward trend during January, especially after the ECB meeting, which increased the expectations of new quantitative expansionary measures in the Eurozone. More specifically, the 12 month Euribor stood at 0.008% at the beginning of February, compared to the 0.060% recorded at the end of December 2015. This fall is due to the expectations of rates decline, judging by the OIS evolution, which indicates the rates expectations, which decreased 15 basis points, partially offset by the increase in risk premiums required in this market, since on 3rd February the Euribor-OIS differential stood at 43 b.p., 10 b.p. above the level registered on 31st December last year.

European public debt yields fall

In the secondary public debt market, European yields fell during most of January, largely due to the increased risk aversion related to the uncertainty resulting from the slowdown of the Chinese economy, the geopolitical tensions and, above all, the expectations of an extension of the public debt purchase programme by the ECB, after recognising in the statement that followed the meeting held on 21st January that it will be necessary to review and, possibly, reconsider the monetary policy stance at the next meeting to be held in March. Thus, the 10-year Spanish bond yield stood on 3rd February 2016 at 1.55%, 25 b.p. below the figure recorded on 31st December

2015. On the other hand, the German bond yield fell 35 basis points over the same period, down to 0.28%, the Spain-Germany differential standing at 127 b.p., 10 b.p. above the level recorded in late December last year. Meanwhile, the Spain-Italy differential stood at 11 b.p., compared to 19 b.p. recorded on 31st December.

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

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-31-15	Jan-29-16	Feb-03-16	Variation in spreads		Dec-31-15	Jan-29-16	Feb-03-16	Variation in spreads	
	(1)	(2)	(3)	Period (3)-(2)	Annual (3)-(1)	(4)	(5)	(6)	Period (6)-(5)	Annual (6)-(4)
Germany	0.63	0.33	0.28	-5	-35					
Holland	0.79	0.44	0.42	-2	-37	16	11	14	3	-2
Austria	0.91	0.57	0.55	-2	-36	28	24	27	3	-1
Finland	0.92	0.58	0.56	-2	-36	29	25	28	3	-1
Belgium	0.97	0.60	0.59	-1	-38	34	27	31	4	-3
France	0.99	0.64	0.62	-2	-37	36	31	34	3	-2
Ireland	1.15	0.86	0.84	-2	-31	52	53	56	3	4
Italy	1.61	1.40	1.44	4	-17	98	107	116	9	18
Spain	1.80	1.51	1.55	4	-25	117	118	127	9	10
Portugal	2.54	2.67	2.72	5	18	191	234	244	10	53
Greece	8.35	9.69	9.46	-23	111	772	936	918	-18	146

Source: Financial Times.

Stock indices record sharp falls

In the stock markets, the major indices on both sides of the Atlantic intensified in January the downward trend that began in late November last year, due to the geopolitical tensions, the sharp fall in commodity prices and, above all, the uncertainty regarding the growth prospects for emerging economies. In Europe, the Eurostoxx 50 index decreased by 11.4% during January and the first days of February, despite the upturn registered at the end of the month due to the recovery in oil prices and the expectations of further quantitative expansionary measures in the Eurozone

T 2. International stock exchange

Countries	Index	Level Feb-03-16	% Variation Jan-29-16	% Variation Dec-31-15
Germany	DAX	9,434.82	-3.7	-12.2
France	CAC 40	4,226.96	-4.3	-8.8
Italy	FTSE MIB	17,412.04	-6.7	-18.7
Spain	IBEX 35	8,314.50	-5.7	-12.9
Eurozone	EUROSTOXX 50	2,896.63	-4.9	-11.4
United Kingdom	FTSE 100	5,837.14	-4.1	-6.5
United States	S&P 500	1,912.53	-1.4	-6.4
Japan	NIKKEI 225	17,191.25	-1.9	-9.7
China	SHANGHAI COMP	2,739.25	0.1	-22.6
Mexico	IPC	43,257.54	-0.9	0.7
Brazil	BOVESPA	39,588.82	-2.0	-8.7
Argentina	MERVAL	11,121.40	-1.6	-4.7

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

after the ECB meeting. In Spain, the IBEX 35 showed a very similar profile to other European indices, recording a 12.9% decrease in comparison to the end of last year. In the US market, the S&P 500 index fell by 6.4% between 31st December 2015 and 3rd February 2016, also influenced by the decline in oil prices and the uncertainty associated with the Chinese economy, in a context of delay expectations in the interest rates rise in the United States, despite the Fed having started in December last year the monetary policy normalisation.

The euro appreciates slightly against the dollar

With respect to the currency market, the exchange rate of the euro against the dollar remained relatively stable during January, in a context of expectations of new quantitative expansionary measures in the Eurozone and a more gradual than expected adjustment of the interest rates in the United States. Thus, in the period between late December 2015 and early February this year, the euro appreciated against the dollar and the pound by 0.4% and 2.6%, respectively, while it depreciated by 0.4% against the yen, trading at the end of the 3rd February session at 1.0933 dollars, 0.7533 pounds and 130.58 yen. Compared to the end of 2014, the euro accumulates depreciations of 9.9%, 3.3% and 10.1% against the dollar, the pound and the yen, respectively. In that same period, the euro depreciated by 4.3% in nominal effective terms.

The M3 broad monetary aggregate slowed down in December 2015…

On 29th January, the ECB published the evolution of the monetary and credit aggregates in the Eurozone in December 2015. The M3 broad aggregate slowed down three tenths in December, down to 4.7% y-o-y, due to the lower increase in currency in circulation (6.7%, versus the 8% increase registered in the previous month) and in overnight deposits (11.5%, a rate two tenths lower compared to the one recorded in November) and to the slowdown of marketable instruments (-2.8 y-o-y), following the increase recorded in the previous month (2.6%). On the other hand, other short-term deposits moderated their drop rate by half a point, to 3.5%.

T 3. Eurozone monetary aggregates

Monetary aggregates	December 2015 Balance (Billion €)	% Year-on-year variation		
		October 2015	November 2015	December 2015
1. Currency in circulation	1,035	8.1	8.0	6.7
2. Overnight deposits	5,563	12.3	11.7	11.5
M1 (= 1 + 2)	**6,598**	**11.6**	**11.1**	**10.7**
3. Other short-term deposits (= 3.1. + 3.2.)	3,607	-4.3	-4.0	-3.5
3.1. Term deposits up to two years	1,447	-10.9	-9.9	-9.1
3.2. Deposits redeemable at notice up to three months	2,160	0.6	0.3	0.5
M2 (= M1 + 3)	**10,205**	**5.3**	**5.2**	**5.2**
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	634	3.1	2.6	-2.8
4.1. Repurchase agreements	81	-18.8	-29.7	-35.1
4.2. Money market funds shares/units	481	10.0	12.0	11.9
4.3. Securities other than shares up to two years	72	7.1	7.8	-25.5
M3 (= M2 + 4)	**10,839**	**5.2**	**5.0**	**4.7**

Source: European Central Bank.

…the same as financing to the private sector in the Eurozone

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, grew by 0.8% y-o-y in December last year, four tenths less than in November, due to the lower increase of bank loans (0.6% compared to the 1.2% increase registered in the previous month) and of shares and other equity (0.6%, compared to the 3.4% rise recorded in the previous month), despite the increase in securities other than shares (1.8% compared to the same period last year), following the decrease registered in November (-0.7% y-o-y). Within loans, those received by households increased by 1.9%, the same as in the previous month, and those received by non-financial corporations slowed down six tenths, down to 0.1% y-o-y.

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

	December 2015 Balance (Billion €)	% Year-on-year variation		
		October 2015	November 2015	December 2015
Credit to the private sector	**12,675**	**0.9**	**1.2**	**0.8**
Loans	**10,588**	**0.9**	**1.2**	**0.6**
Households	**5,306**	**1.8**	**1.9**	**1.9**
House purchases	*3,948*	*2.0*	*2.1*	*2.1*
Consumer credit	*595*	*2.8*	*3.5*	*3.7*
Other lending	*764*	*-0.4*	*-0.2*	*-0.5*
Non-financial corporations	**4,271**	**0.3**	**0.7**	**0.1**
Insurance companies & pension funds	**124**	**1.9**	**-1.5**	**-4.1**
Other financial intermediaries	**887**	**-1.5**	**-0.1**	**-3.2**
Securities other than shares	**1,300**	**0.0**	**-0.7**	**1.8**
Shares and other equities	**787**	**2.5**	**3.4**	**0.6**

(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 December

According to the financing to the private non-financial sectors in Spain data, published by the Bank of Spain on 1st February 2016, the financing to the private non-financial sector decreased its rate of decline in December, three tenths, compared to November, registering a y-o-y rate of -1.5%. This performance is explained by the evolution of the financing received by firms, which moderated the pace of decline by seven tenths, to -0.8%, due to the increase of foreign borrowing, following the fall registered in the previous month. On the other hand, financing received by households recorded a y-o-y rate of -2.4%, two tenths lower than in the previous month, due to the higher decrease in loans for housing and the slowdown of other bank loans.

New loan and credit operations to households and non-financial corporations accelerate in 2015

According to data published by the Bank of Spain, the amount of new loan and credit operations to households increased by 25.2% in 2015 over the previous year, compared to the 18.1% increase recorded in 2014. This acceleration is due to the higher increase of credits for house purchases (33.4%, versus the 22.7% increase registered in the previous year), for consumption (20.1%, a rate 1.8 points higher than in 2014) and for other purposes (17.2%, from 11.4% registered in 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 12.8% last year, 3.8 points higher than the one recorded last year. On the other hand, the amount of new loan and credit operations exceeding one million euros also increased strongly, recording a 7.7% increase (-18.4% in 2014).

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

	December 2015 Balance (Billion €)	% Year-on-year variation		
		October 2015	November 2015	December 2015
Non-financial corporations and Households	**1,644**	**-1.9**	**-1.8**	**-1.5**
Non-financial corporations	**920**	**-1.5**	**-1.5**	**-0.8**
Bank loans	*548*	*-1.1*	*-1.9*	*-1.9*
Securities(1)	*84*	*2.3*	*2.9*	*2.4*
External loans	*288*	*-3.2*	*-1.9*	*0.6*
Households	**724**	**-2.4**	**-2.2**	**-2.4**
Bank loans. Housing	*561*	*-3.4*	*-3.3*	*-3.5*
Bank loans. Other	*163*	*1.2*	*1.9*	*1.7*
General Government	**-**	**3.9**	**4.4**	**-**
Total financing	**-**	**0.3**	**0.5**	**-**

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

The Spanish Economy

Domestic Demand and Production

Financial and geopolitical uncertainty and volatility, features of the international environment

Financial markets in January were characterised by financial and commodity markets volatility, as well as by the geopolitical risks and the uncertainty regarding the growth prospects for emerging economies. In this situation, the European Central Bank (ECB) anticipated a likely further extension of the asset purchase programme (QE) in March, leading to a reduction in European public debt yields and a rebound in stock indices that partially offset the strong accumulated falls.

Inflation is expected to remain at low levels in the short term and to get close to its medium-term objective, as the transitory effects of declines in energy prices, among other factors, dissipate. The expectations of new quantitative expansionary measures in the Eurozone and a more gradual than expected adjustment of the interest rates in the United States, explain the stability of the euro exchange rate against the dollar.

The Spanish economy growth stands ahead in the Eurozone

In this context of international uncertainty, the Spanish economy has kept on its expansionary path. According to the anticipated estimate of the Quarterly National Accounts, the GDP, in volume and with calendar and seasonally adjusted data, grew by 0.8% q-o-q in the fourth quarter of 2015, as in the third quarter, and the highest rate of the Eurozone members. In y-o-y terms, the GDP grew one tenth more than in the third quarter, 3.5%, reaching an annual growth rate of 3.2% in 2015 as a whole, nearly two points higher than that of 2014.

The European Commission raised its growth forecasts for the Spanish economy

The GDP growth anticipated estimate published by the INE for 2015 as a whole is in line with the IMF's, the OECD's and the European Commission's forecasts for the Spanish economy, (all of them foreseeing a 3.2%). The European Commission revised upwards the growth forecast for the Spanish GDP in the period 2015-2017, one tenth each year, up to 3.2%, 2.8% and 2.5% respectively. These rates stand well above those of the Eurozone (1.6%, 1.7% and 1.9%). The higher growth forecasted for the Spanish GDP is due to a higher contribution of domestic demand, which offsets the downward revision for the net external demand contribution.

The IMF also raised its growth forecast for 2016 and 2017, Spain being one of the few countries with an upward revision. The GDP is estimated to grow by 2.7% in 2016 and 2.3% in 2017, two and one tenth higher than anticipated in October, respectively.

Confidence indicators fall in January

Amongst the recent qualitative indicators, the Spanish *Economic Sentiment Indicator* fell by 4.1 points in January compared to the previous month, down to 107.8. All its components steered downwards: confidence in construction (11 points), consumer (6.3 points), industry (4.3 points), services (2.6 points) and retail (two tenths). In the Eurozone, the Economic Sentiment Indicator dropped by 1.7 points in January, reaching the level 105, thus reducing the favourable differential to Spain by 2.4 points, down to 2.8 points.

This behaviour of the Economic Sentiment Indicator may be affected by the political uncertainty following the last general elections. The OECD *Composite leading indicator*, designed to anticipate turning points in the economic activity with regards to the trend, shows more favourable signs and points to a higher dynamism standing at 101.6 in December, one tenth higher than the figure of the last six months and above its long-term average (100) since October 2013. On the other hand, the Eurozone *Composite leading indicator* was stable in December, as it stood at 100.6 for the third consecutive month, one point below that of Spain, indicating strong growth prospects affected by the decisions of the ECB and the Fed.

The Spanish economy lending position increased

According to the *Financial Accounts* of the Spanish Economy, published by the Bank of Spain, the Spanish economy showed net lending vis a vis the rest of the world in the third quarter of 2015, equivalent to 3% of GDP, eight tenths above that registered in the same period of 2014. This higher net lending position of the economy as a whole was the result of the expansion in households' and NPISH net financial transactions of households (one point, up to 1.2%), combined with the lower General Government deficit (0.45 points, down to 0.6%), partially offset by financial companies' reduction in net financial transactions (seven tenths, to 1.2%), the non-financial institutions' balances remaining unchanged (1.3% of GDP).

Consumption dynamism persists…

Amongst the GDP components on the demand side and, in particular, with regards to *private consumption*, available indicators point to a certain stabilisation in the growth rate in the last quarter of 2015.

Retail sales, with work calendar and price adjusted data and excluding petrol stations, rose by 1.8% in December compared to the 2.7% in November, ending 2015 with an average annual growth rate of 3%, compared to the 1% in 2014.

On the other hand, the sales in large companies of goods and consumption services component, with deflated and calendar adjusted data, grew in December by almost two points and a half less than in the previous month, in y-o-y terms (0.7% vs. 3.1%). In 2015 as a whole, the indicator experienced an average annual growth rate of 4.3%, more than three times that in 2014 (1.4%).

Domestic availability of consumer goods remained stable in the fourth quarter of 2015, growing by 1.9% q-o-q, as in the two previous quarters. This evolution was due, on the one hand, to an acceleration of the production (which grew by 1.9% in the fourth quarter, compared to the 1.6% increase in the third quarter), and on the other, to the slowdown both of imports (1.6% in the fourth quarter compared with the 2.2% in the third) and exports (2.7% versus the previous 4.1%). In y-o-y terms, availabilities accelerated three tenths, up to 9% in the fourth quarter, due to the slight increase of the consumer goods production growth rate by eight-hundredths, partially offset by an export acceleration of 1.4 points, while imports remained virtually stable. As a result, domestic availability of consumer goods increased at a strong pace in 2015, 7.5% versus the 6.1% increase of 2014.

…mainly boosted by the labour market good performance

The private consumption dynamism during the last financial year, summarised by the synthetic consumption indicator (that increased by 5% in 2015 compared to 3.4% in 2014) is mainly due to the labour market. This trend has continued during the current financial year, as observed in the Social Security covered workers figures for January, which increased by 3.2% y-o-y, as in the previous five months.

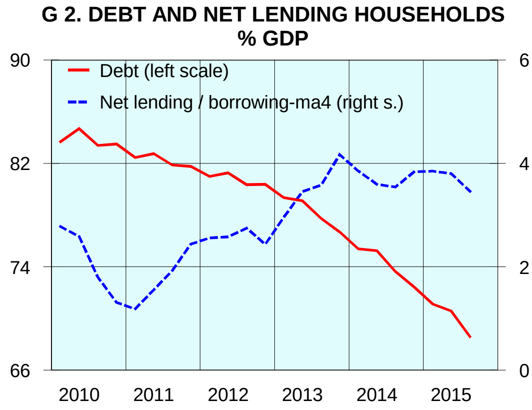
The private consumption dynamism has been compatible with the maintenance of the households' deleveraging process that started in mid-2010. Thus, the households' and NPISH debt accounted for 68.6% of GDP in the third quarter of 2015, five points lower than in the previous year.

Other private consumption determinants, such as households' financial wealth increased by 1% y-o-y in the third quarter of 2015, standing at 113.8% of GDP, due to the decrease of liabilities (-3.3% y-o-y) partially offset by the slight fall of financial assets (-0.7% y-o-y).

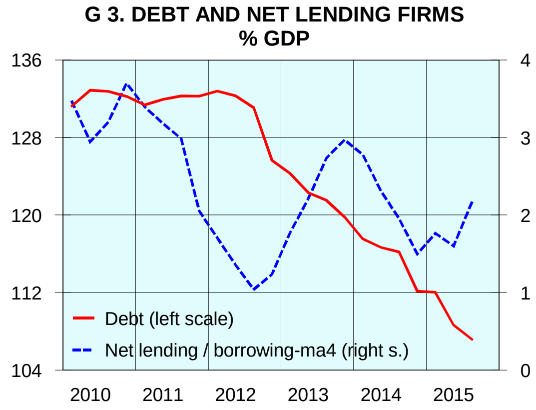
Households' financing conditions improve

The improvement of the financing conditions has also contributed positively to the evolution of households' consumption. Interest rates on new loans to households fell by the end of last year. Rates for new credit for house purchases fell by 20 basis points in the last twelve months, down to 2.55%, and that for new credits granted for consumption fell from 6.53% in December 2014 to 6.25% in December 2015.

Amongst the qualitative indicators, the consumer confidence indicator (CCI), published by the CIS, showed a sharp decline in January, 8.3 points, down to 99.1. This fall is explained by a worse assessment of the current situation, decreasing by 2.8 points compared to December and especially, by the sharp drop in expectations, -13.9 points. With regards to this last component, the sharp decline in expectations on the labour market (-19.1 points) and on the economic situation (-17.5 points) should be noted.



Sources: INE and BdE.



Sources: INE and BdE.

The corporations' debt stands at 2006 levels

As in the case of households, corporations have advanced in the deleveraging process, the non-financial corporations' debt reaching 107.2% of GDP in the third quarter of last year, nine points less than a year earlier and at levels similar to those in early 2006. The balance of non-financial corporations reflects an increase in assets (1.7% y-o-y) higher than the one in its liabilities (0.2%), which results into a decline in net financial liabilities compared to the third quarter of 2014 (2.1%). An increase in the gross operating surplus of non-financial corporations is also observed, in cumulative terms of four quarters. Savings and net lending of the sector can be seen to increase (the net lending in the third quarter stood at 2.2% of GDP, 0.6 points higher than in the previous quarter).

The volume of new credit transactions for loans of less than one million euros granted to non-financial corporations continued to grow, by 5.7% y-o-y in December 2015, up to €16 billion euros. Likewise, the weighted average rate of new credit transactions to non-financial corporations (TEDER) for transactions of less than one million euros fell in December (by 88 basis points compared to December 2014, down to 3.01%). In terms of outstanding amounts, the y-o-y decline rate of bank lending remained at 1.9%, partly offsetting the sizable recovery of two months ago, when the rate of decline rose from -2.7% in September up to -1.1% in October.

The productive capacity utilization in the first quarter of 2016 increased

The financial situation improvement, together with the domestic demand dynamism, have had a positive impact on the productive capacity utilisation of the Spanish industry, standing at 79% in the first quarter of 2016, nine tenths higher than in the previous quarter. The capacity increased four tenths in that period in the Eurozone, up to 81.9%.

Signs of moderation in the latest business confidence indicators

The international financial and geopolitical climate of uncertainty and the domestic political situation have had an impact on the business confidence indicators. Thus, the Business Confidence Index, published by the INE, fell by 1.3% q-o-q in the first quarter of 2016, compared with the 0.2% increase in the fourth quarter of 2015, this being the first drop in the last three years. By components, the improvement in the entrepreneurs' assessment about the current status of their business (two tenths) was more than offset by the loss of over five points in their assessment about their expectations balance.

The equipment investment remains strong...

Signs of some moderation can be seen in the Industrial Climate Index for investment goods which, after the very positive figures in December (8.3 points) it recorded negative values in January (-1.6 points) due to the weaker performance of all its components: orders portfolio, whose balance fell more than 7 points; production expectations, which fell by 13 points; and stock level, which increased by 1.7 points versus the 7.7 fall registered in December. *Domestic availabilities of equipment goods* reflect the same trend and they fell by 0.3% q-o-q in the fourth quarter of 2015 due to the combined effect of a reduction in production of 1.8% and 1.3% in imports, partially offset by a 0.7% decrease in exports. However, the trend for 2015 as a whole is very favourable, with an 8.1% annual increase of availabilities, as in 2014, but with a more balanced growth by components.

Consequently, the *synthetic indicator of equipment investment* shows an expansionary trend in the fourth quarter of 2015, with a q-o-q increase of 2.7% compared to the 0.8% registered in the third quarter. In y-o-y terms, the growth rate is maintained, with a 13.5% increase compared with the 15.2% recorded in the previous quarter.

...and the dynamism of investment in construction continues

The indicators related to *residential investment* show signs of acceleration. According to the INE Statistics, based on the properties recorded in the Property Registers, housing sales y-o-y growth rate in November was 13.7%, 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. Likewise, the number of mortgages on housing grew strongly in November, with a y-o-y growth rate of 16.4%, more than nine points higher than the figure of October (7.1%). The average amount per mortgaged property grew moderately, 1.5% y-o-y, compared to the 10.8% rise recorded in the previous month, so the borrowed capital increased by 18.2% y-o-y, half a point less than in October. Thus, in the period from January to November 2015 the increase in the number of mortgages on housing stood at 19.7%, well above the growth rate observed in the same period last year (0.5%) and above the average growth in 2014 (2.3%). This dynamism was also reflected in the price of private housing, deflated by the CPI, both according to statistics of the Ministry of Public Works and Transport (from assessment values), which increased up to 1.8% in the third quarter of 2015 (1.5% in the third), as according to the INE statistics (based on deeds of sale), which grew from 4.3% in the second quarter of 2015 to 4.9% in the third.

The industrial sector indicators show a positive trend

Among the *industrial activity* indicators, the Industrial Production Index (IPI) grew by 3.4% y-o-y in December last year, adjusted for calendar effects, nine tenths less than in the previous two months (4.3% in November and October). By groups, the high growth of equipment goods (7.6%) and intermediate goods (6.8%) in December stands out. The growth of the latter has not been seen since April 2011. The general IPI ended 2015 with an average annual increase of 3.3%, two points higher than a year earlier.

On the other hand, the Turnover Index in Industry (ICNI), with calendar adjusted data, lost dynamism in November, experiencing a y-o-y increase of 2.8%, four tenths lower than in October. The progress of equipment goods should be noted, as its growth rate stood at 11.3%. With seasonally adjusted data, the general ICNI fell by 0.2% m-o-m in November, after two months of increases (0.8% in October).

The Industry New Orders Index (INOI) displayed a slightly more expansionary trend in November 2015, recording a y-o-y increase of 1.9%, with calendar adjusted data, one tenth above that of October. This slight increase was due to the strong performance of equipment goods, which increased by 8.6% (1.3 points more than in the previous month), while consumer and intermediate goods slowed down by 2.1 and 0.8 points, respectively. With seasonally adjusted data, the overall INOI grew by 0.5% in November, versus the previous month, three tenths less than in October.

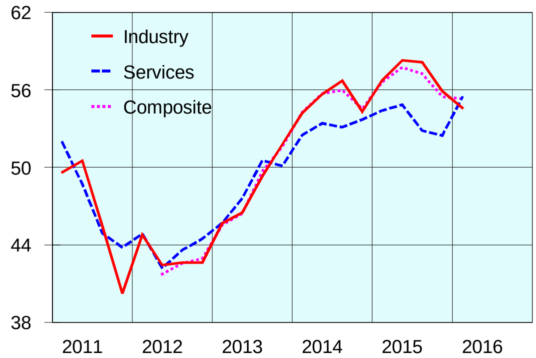
Qualitative and employment indicators for the sector point in the same direction. Social Security covered workers ended 2015 with a 2.2% growth rate (0.1% in 2014) and increased by 3% in January, two tenths more than in the previous month. On the other hand, the PMI of the manufacturing industry rose by 2.4 points in January, standing at 55.3, pointing towards the continuation of the expansionary trend.

The expansionary evolution in the construction sector keeps going

With regards to the *construction* sector, the indicators published point to an expansionary evolution. The Production Index in the Construction Industry (PICI) in Spain, published by the Eurostat, rose by 2.7% in November, compared with the same month of 2014, 5.3 points less than in October. This CPI behaviour affected the building component, which grew by 3.4% y-o-y, 3.6 points less than in the previous month, while the civil works component fell by 2.6%, after thirteen months of continued growth.

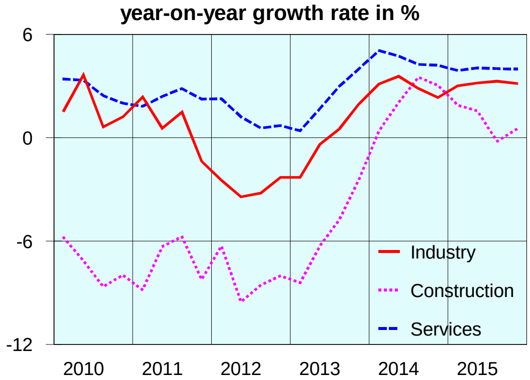
Regarding the construction activity leading indicators, according to construction new permits of the Ministry of Public Works and Transport, floorage approvals in new construction rebounded in November, with a y-o-y rate of 89.3% (-1.8% in the previous month). This evolution was due to the strong momentum of the residential component, which grew by 114.8%, well above the 19.2% increase of the non-residential component.

G 4. PURCHASING MANAGERS' INDEX (PMI)



Source: Markit Group.

G 5. COMPOSITE SUPPLY INDICATORS
year-on-year growth rate in %



Source: SGACPE.

The sector's covered workers ended 2015 with a 4.7% growth compared with the -1.7% recorded in 2014. In January 2016 these maintained a high growth rate, with a 3.3% rise (four tenths less than in December).

Activity in the services sector grows at a good pace

Lastly, with regards to the *services* sector, the Services Sector Turnover Index (SSTI) after filtering off the effects of the work calendar, increased by 4.3% y-o-y in November, 1.8 points less than in the previous month. This slowdown affected both the trade sector and the other services, whose y-o-y growth rates stood at 4.2% and 4.4% respectively (6.4% and 5.2% in the previous month). Filtering off the seasonal effects, the general SSTI dropped by 0.7% m-o-m in November, after the increase observed in the preceding two months (0.6% in October), with falls of 1.1% in the trade sector and 0.3% in the other services sector.

Social Security covered workers in the services sector grew at an annual rate of 3.5% in 2015 (2.2% in 2014), and maintained the expansionary sign in January, with a growth rate of 3.2%.

On the other hand, the services PMI remained clearly above the expansion indicative threshold in January, reaching 54.6. However, it is the lowest level reached by the indicator since December 2014, the interviewees mentioning the uncertainty with regards to the political situation, according to Markit Group Agency.

The tourism sector ended 2015 with very positive figures

Regarding the *tourism sector* indicators, the arrival of 3.4 million visitors to Spain in December last year is striking. According to the Survey of Tourist Movements on Border (Frontur) this is 7.6% higher than that of same month in 2014. This increase was three points lower than the figure registered in November, continuing the expansionary trend that began in early 2013. Hence, the year 2015 ended with a total 68.1 million tourist arrivals, representing an annual increase of 4.9%.

The total expenditure by tourists who visited Spain in December was 8.5% higher than that of the same month of 2014, a rate 3.7 points lower than in November. Expenditure growth has been higher than the tourist inflow (7.6%), and this resulted in a 0.8% increase of the average spending per person in that period. After this result, tourism expenditure in 2015 exceeded the € 67 billion, representing an annual increase of 6.8%.

On the other hand, overnight stays in hotels grew by 7% y-o-y in December, almost two more points than in the previous month (5.1%). This acceleration was due to the good performance of domestic overnight stays, which increased their stays by 5% over the previous year (versus the 3.5% drop registered in November). Thus, 2015 ended with an average annual growth of total overnight stays standing at 4.4%, 1.2 points above that in 2014. This trend is also observed in air traffic, which grew by 9% in December (9.3% in November), due both to the increase in domestic traffic, 8.7%, 1.1 points higher than in November, and international traffic, which rose by 9.1%, one point less than in November.

Prices

Inflation ends 2015 with a null value...

The *Consumer Price Index* (CPI) recorded a null annual growth rate in December, three tenths above the figure recorded in the previous month. The m-o-m variation rate stood at -0.3%, against the sharpest fall (-0.6%) observed in the same month of 2014. This increase in the annual inflation rate mainly responded to energy products, and to a lesser extent, to non-processed food. In terms of annual average, the general CPI ended 2015 with a rate of -0.5% compared to the -0.2% registered in 2014. According to the leading indicator published by the INE, the national CPI variation rate stands at -0.3% in January, mainly due to the drop in electricity prices.

…and core inflation stands at 0.9%

Core inflation (which excludes the most volatile elements from the General CPI, non-processed food and energy) moderated one tenth in December, down to 0.9%, its average annual rate standing at 0.6% in 2015, compared with the 0.0% of the previous year. The slight core inflation decline in December is explained by the moderation of one tenth in the rate of Non-energy Industrial Goods (BINE), given the stability of the y-o-y rates of services and processed food. The inflation that excludes total food and energy products from the General Index also fell one tenth in that month, down to 0.8%. Both indices continue consolidating their upward trend as a result of the recovery of the economic activity and private consumption.

The CPI y-o-y rate has recorded negative values throughout 2015, starting the year at -1.3% and ending it at 0.0%. On the other hand, core inflation registered positive values in all months of the financial year, starting at 0.2% and ending at 0.9%. The factor that explains this differential behaviour between both inflation indices is the evolution of oil prices, which decreased by almost half in 2015 (52.15 US dollars per Brent barrel) compared to 2014 (99.4 US dollars per Brent barrel).

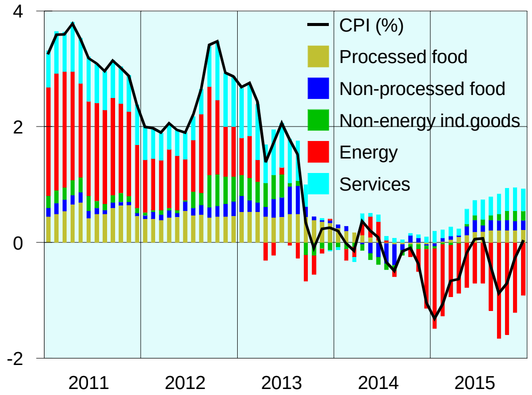
Moderation of energy price fall continues

The prices index of energy products decreased by 2.2% in December compared to the previous month and its y-o-y rate stood at -7.5%, versus the sharper decline (-10%) of the previous month. This lower drop was due to its main item, fuels and gas, which moderated the pace of decline by more than three percentage points, to -10.6%. Electricity also influenced as its price rose from an annual rate of 0.4% in November to 0.8% in December.

Food prices register an annual rate of 1.7%

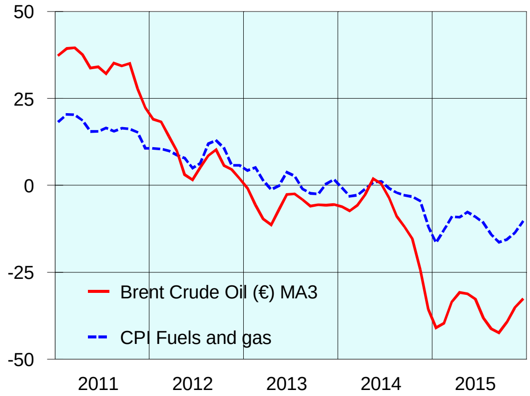
In December 2015, food prices did not vary compared to the previous month, in comparison to the slight fall (-0.1%) of one year earlier and its y-o-y rate stood at 1.7%. This stability responded to the slight acceleration of non-processed food, which increased one tenth, up to 2.5%, and the maintenance of the annual rate for processed food, beverages and tobacco, at 1.4%. In the case of non-processed food, the slight acceleration responded primarily to fresh fruits and fresh and frozen fish, partially offset by sheep and chicken meat and the moderation in the fresh vegetables and pulses item. On the other hand, the y-o-y rate of processed food, beverages and tobacco remained at 1.4% for the fifth 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 y-o-y rates close to 27%.

G 6. CPI GROWTH CONTRIBUTION BY SECTORS
in percentage points



Sources: INE and SGACPE.

G 7. FUELS AND GAS AND BRENT CRUDE OIL
y-o-y change in %



Source: INE and Reuters.

BINE and services inflation increases eight and seven tenths, respectively

BINE inflation moderated one tenth in December, to 0.6%. This slowdown was largely due to clothing and footwear prices, which moderated its annual rate by one tenth, to 0.5%, interrupting the upward trend observed since last spring. It is noteworthy to mention that the first winter sales took place in December, so the m-o-m rate stood at -2%, the same as that of a year earlier. The slowdown of medicines and pharmaceutical products item, two tenths, down to 0.8%, also contributed to moderation of BINE prices.

Service prices maintained their y-o-y rate at 1% in December, after experiencing a 0.3% m-o-m increase, the same as a year earlier. The two tenths moderation in the annual rate of the tourism, catering and accommodation services item (1.1%) stands out, due to the performance of the package holidays item, which slowed down 1.1 points, down to 2.9%. On the other hand, it should be noted the slight acceleration in the personal care services.

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

In December 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 increase of the HMUCPI rate was due to the slowdown in the fall of energy prices, 1.5 points to -5.8%, this being the only one of the HMUCPI major sectors that maintains negative rates. The evolution of the annual rates for other sectors was very uneven. The three tenths reduction of food inflation, to 1.2%, was the result of the slowdown of non-processed food prices, seven tenths, to 2%, compared to the stability at 0.7% of the processed food rate. On the other hand, services inflation fell one tenth, down to 1.1%, and BINE inflation remained unchanged compared to November (0.5%). As a result of the sectors evolution described above, the rate of inflation excluding energy dropped by one tenth, down to 0.9%, and core inflation fell remained at 0.9%.

…and the differential favourable to Spain stood at -0.3 p.p.

The annual rate of the Spanish Harmonised CPI (SHCPI) increased three tenths in December, up to -0.1%. As a result, the inflation differential against the Eurozone, which has been favourable to Spain since September 2013, fell 0.2 p.p., down to -0.3 p.p. Both the Spanish harmonised core inflation and its differential against the Eurozone as a whole remained at 0.8% and -0.1 p.p. in November, respectively.

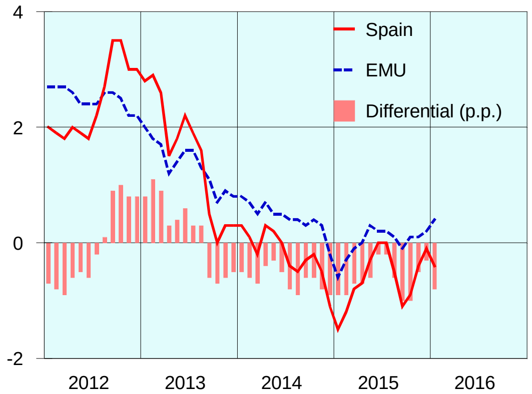
The harmonised average of the annual inflation rate stood at -0.6% in Spain and was null in the EMU in 2015, the inflation differential favourable to Spain reaching -0.6 p.p., as in 2014. With regard to core inflation, the annual average reached 0.8% in the EMU and 0.4% in Spain, and the inflation differential favourable to Spain stood at -0.4 p.p. (-1 p.p. in 2014).

In January, according to the *leading indicator of the Harmonised Monetary Union of Consumer Prices Index* (HMUCPI), the inflation rate would accelerate two tenths, up to 0.4%, which responds to the rate increase of all sectors, except food, which rose 1.2%, one tenth less than in December, as a result of non-processed food. The fall in energy prices moderated half a point, to -5.3%, and Non-energy Industrial Goods (BINE) and services rates rose two and one tenth, up to 0.7% and 1.2% respectively. The harmonised inflation y-o-y rate, estimated by the leading indicator of the Spanish Harmonised CPI (SHCPI), also fell three tenths compared to December, down to -0.4%. If the final data for January confirm the leading data, the inflation differential favourable to Spain with the Eurozone would rise half a point, up to -0.8 p.p.

The annual rate of decline of producer prices moderated in December

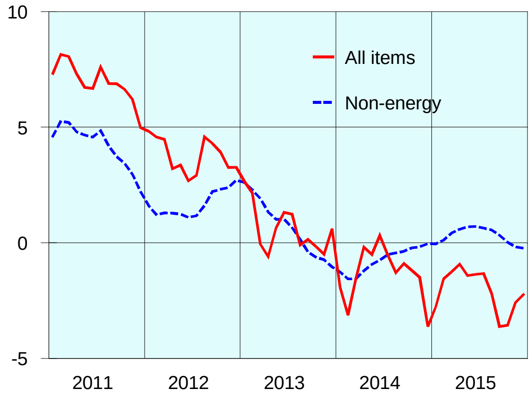
The *Industry Price Index* (IPP) experimented in December a m-o-m fall of 0.7%, against the 1.1% decrease registered in the same month of the previous year. In y-o-y terms, the IPP fell 2.2%, a figure representing a moderation in the rate of decline of four tenths compared to the previous month. In turn, the average annual CPI rate in 2015 was -2.1%, eight tenths less than in the previous financial year.

G 8. HARMONISED CPI
y-o-y change %



Sources: INE and Eurostat. Jan 2016 data are prov.

G 9. INDUSTRIAL PRODUCER PRICES (PPI)
y-o-y change in %



Source: INE.

Based on the economic destination of goods, the lowest y-o-y fall in the general index was due to the lower decline of the energy prices and to a lesser extent of intermediate goods. Among the other groups, consumer and equipment goods showed a lower inflation rate than in November (three and two tenths, respectively). As a result of the evolution of the different components of the general index, the non-energy IPP registered a 0.1% m-o-m fall, the same as a year earlier, and its y-o-y rate remained at -0.2%, the same as in November. In terms of annual average, the general index fall in 2015 is entirely attributed to the energy component, standing the non-energy IPP average annual rate at 0.3%, 1.1 p.p. higher than in 2014.

The y-o-y rate of energy prices stood at -7.9% in December, compared to the -9.3% recorded in November. This moderation in the decline of the energy IPP responded both to the coke and refined petroleum item and supply of electricity and gas. The energy IPP average annual rate stood at -8.8% in 2015, compared to the -3.1% recorded in 2014. On the other hand, the consumer goods IPP rate fell three tenths, down to 0.6% due to the non-durable consumer goods prices slowdown. Intermediate goods prices recorded a y-o-y rate of -1.7%, one tenth more than in November. This lower annual fall was entirely due to the chemical industry, whose rate stood at -1.1%, compared with the -3% registered in November, while the metallurgy industry accelerated the pace of decline by 1.2 points, down to -10.9%. In turn, the equipment goods IPP y-o-y rate stood at 0.9%, two tenths below that of November.

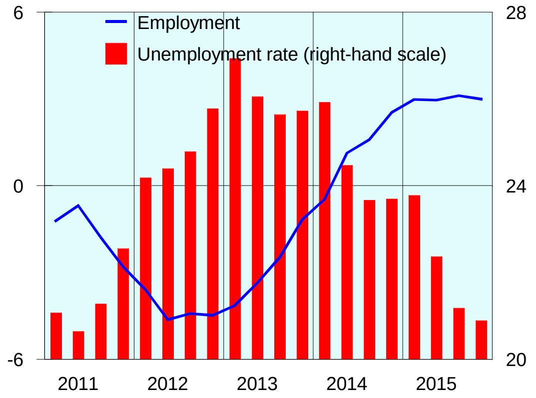
Labour market

525,100 net jobs were created in 2015,...

In the last quarter of 2015 the Spanish labour market continued to show a strong dynamism, as it maintained and improved the favourable trend exhibited for more than two years. The decline in unemployment throughout the financial year reached a record high and net job creation largely exceeded half a million people. From the Social Security (SS) covered workers records and registered unemployment in January 2016, it can be assumed that the positive trend of the labour market continues in the early stages of this financial year.

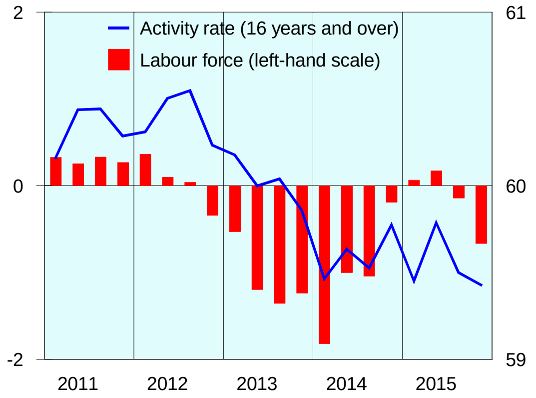
According to the *Labour Force Survey (LFS)*, for the fourth quarter, the Spanish economy ended 2015 with the creation of 525,100 net jobs, representing a y-o-y growth rate of 3%, one tenth less than the previous quarter. Employment increased by 45,500 people during that quarter, and employed population reached 18,094,200, which is 0.3% higher than the previous quarter. Adjusted for seasonal effects, the variation rate implies a higher q-o-q rate (0.7%), which represents an acceleration of one tenth versus the previous quarter. The employment rate of the population over 16 years old continues the upward trend and rose one tenth in the quarter, reaching 47%, 1.4 points above that of a year earlier.

G 10. EMPLOYMENT AND UNEMPLOYMENT RATE
y-on-y in % and percentage of labour force



Source: INE (LFS).

G 11. LABOUR FORCE AND ACTIVITY RATE
y-on-y in % and percentage of population



Source: INE (LFS).

...mainly on the private and services sector

By main activity branches, the q-o-q increase of employment mainly affected agriculture and services, with 70,200 and 54,900 more people, respectively. On the other hand, it fell in industry by 55,500 people and by 24,100 in construction. Compared to the fourth quarter of 2014, employment grew in the main sectors, mainly in non-agricultural sectors, with increases of

421,500 (3.2%) in services, 28,100 (2.7%) in construction and 24,600 (1%) in industry. Employment in agriculture sector increased by 50,800 people (7%).

The increase in employment in the fourth quarter went up in the private sector by 31,200 people, while in the public sector it rose by 14,300 people. During 2015, private employment increased by 452,000 people and public employment did it by 73,100, registering annual rates of 3.1% and 2.5%, respectively. The annual growth rate of employment reduced six tenths in the private sector while it rose four tenths in the public sector, versus the previous quarter.

The employment created is largely contracted employees

Considering the professional status of covered workers, the quarterly increase of employment was mostly integrated by contracted employees, 39,900 people more, and, to a lower extent, by self-employed, which rose by 5,600. Compared to a year earlier, most of the employment created was for contracted employees, which increased by 505,700 people, 3.5%, compared with the 3.7% recorded in the previous quarter. The group of self-employed showed an annual increase of 19,400, or 0.6%, in comparison to the 0.3% of the previous quarter

By type of contract, the employment created in the last quarter of 2015 was of a permanent nature. Thus, the number of employees with permanent contracts rose by 103,400 in this period and those with temporary ones fell by 63,600. When compared to the previous year, the increase of wage employment was 170,600 (1.6%) workers on a permanent contract and 335,100 workers with a temporary one (9.5%). As a result of this evolution of employment, the temporary rate fell by half a point in the quarter and stood at 25.7%, 1.5 points higher than a year earlier.

The partiality rate fell last year till 15.7%

Regarding working hours, employment created in the fourth quarter of last year was mainly part-time. Full-time workers fell by 47,900 during the quarter, while part-time employees rose by 93,300. Compared to the same quarter of 2014, full-time employees grew by 3.4% while part-time employees registered a significantly lower increase (0.8%). These rates show an acceleration of 0.6 points in the first group and a moderation of 4 points in the second group. Following these results, the weight of part-time workers on the total increased by half a point in the quarter and fell by 0.4 points compared to a year earlier, standing the partiality rate at 15.7%.

The number of unemployed dropped by almost 700,000 people and the unemployment rate decreased almost three points in 2015

The number of unemployed fell by 71,300 people in the last quarter of 2015, while in the same period of 2014 it increased by approximately 30,000 people. The total number of unemployed people stood below 5 million, for the second consecutive quarter, reaching 4,779,500 people, 678,200 less than one year earlier, the largest annual decline in the LFS time series, which implies an intensification of the annual rate of decline of almost two percentage points, from 10.6% down to 12.4%. The unemployment rate fell three tenths, reaching 20.9% of the labour force, which implies a decrease of 2.8 points compared to a year earlier. With seasonally adjusted data, the q-o-q variation in the number of unemployed stands at -3.7%, compared to the -3.8% registered in the previous quarter, linking eleven consecutive quarters of declines.

The quarterly reduction in unemployment affected mainly men, with 71,200 fewer unemployed, while the number of unemployed women remained virtually unchanged in the quarter. By activity branches, compared to the previous quarter, unemployment decreased in agriculture, with 35,800 less unemployed people. In non-agricultural sectors, the increases were of 64,700 unemployed in services, 11,700 in construction and 3,600 in industry. Over the last twelve months, unemployment fell in all sectors: 53,400 in services, 48,800 in agriculture, 37,700 in industry and 21,300 in construction. Unemployment fell by 98,100 people in the group without previous employment and decreased by 17,400 among people who lost their jobs over a year ago. In these groups, the fall in unemployment throughout 2015 was of 91,700 and 425,400 people, respectively.

The youth unemployment rate fell for the sixth consecutive quarter

By gender, the unemployment rate decreased 0.2 p.p. amongst women (22.5%) and 0.4 points amongst men (19.5%). By age groups, the unemployment rate among young people (from 16 to 24 years old) accumulates six quarters of declines, and even though it still recorded a very high level (46.2%), there was a reduction of four tenths in the fourth quarter of 2015.

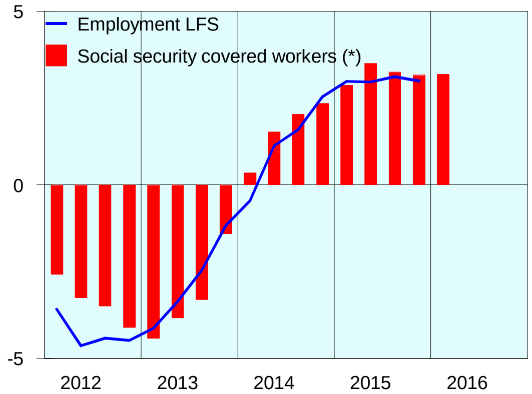
Labour force fell by 25,800 people in the last quarter of last year, reaching 22,873,700 and, compared to a year earlier, it dropped by 153,200 people, -0.7%, versus the more moderate decline (-0.1%) of the previous quarter.

Social Security covered workers increased by 529,045 people in January compared to a year earlier

The labour market dynamism shown by the LFS data continued in the first month of 2016, according to the Social Security covered workers and registered unemployment in the State Public Employment Service data. Thus, the Social Security (SS) *covered workers* fell by 204,043 people in January, reaching 17,104,357 covered workers. With seasonally adjusted data, a m-o-m increase of 24,601 covered workers took place, and the monthly rate stood at 0.1%, two tenths less than in the previous quarter. In y-o-y terms, the number of covered workers increased by 529,045 people, implying a stabilisation of the y-o-y growth rate at 3.2% for the sixth consecutive month.

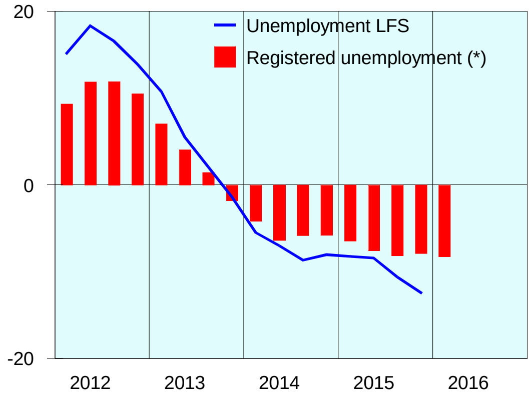
By main activity branches, the decrease of covered workers in January happened on all of them, mainly on services, with a drop of 147,834 people. Compared to a year earlier, all main

G 12. EMPLOYMENT
year-on-year change in %



(*) Data for I.T.2016 refers to January.
Sources: INE (LFS) and MESS.

G 13. UNEMPLOYED
year-on-year change in %



(*) Data for I.T.2016 refers to January.
Sources: INE (LFS) and MESS.

branches increased their number of covered workers: services with 395,096, industry with 59,593, construction with 32,085 and agriculture with 42,272. In y-o-y terms, the growth rate rose in industry by two tenths (3%), remained unchanged in agriculture (3.2%), and moderated one tenth in services (3.2%) and four tenths in construction (3.3%).

The total number of *new contracts registered* in January reached 1,396,900, representing a y-o-y increase of 2.1%. With seasonally adjusted data, they fell by 196,800 compared to the previous month. 9% of all new contracts were permanent, a percentage more than two points higher compared to the one recorded in the previous month and two tenths more than in January 2015. On the other hand, part-time contracts accounted for 31.4% of the total, a ratio 1.6 points lower than that of last December and seven tenths lower than in the same month of 2014.

Registered unemployment in January experienced the largest decrease since 1999 for that month

The *registered unemployment* in the Spanish Public Employment Service at the end of January 2016 increased by 57,247 people, reaching 4,150,755. In the same month of 2015, it rose by 77,980 people. Adjusted for seasonal effects, the reduction amounts to 49,552 unemployed in January, which implies a m-o-m variation rate of -1.2%, versus the -0.3% of the previous month. In annual terms, the downward trend that started almost two and a half years ago keeps on, standing in January at -8.3%, versus the -8% recorded in the previous year, which resulted in 374,936 fewer unemployed compared to January 2015, the biggest decline in a month of January since 1999.

When compared to the previous year, the number of unemployed fell in the main activity branches in January: 165,706 in services (-5.6%), 86,787 in construction (-16.2%), 59,539 in industry (-13.2 %) and 30,450 in agriculture (-13.3%). Considering the y-o-y rates of the previous month, unemployment intensified its fall rate in agriculture and services, remained unchanged in industry and moderated in construction. In turn, the annual rate of decline in youth unemployment increases three tenths, to 12.1%.

External sector

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

According to the *Balance of Payments* data, in November 2015, the Spanish economy generated net lending to the rest of the world of € 2.2 billion, for the ninth consecutive month, below the one registered a year earlier (€ 2.9 billion).

The current account balance recorded a € 2.1 billion surplus in November, in contrast with the € 2.6 billion surplus registered in the same month of 2014, given that a 1% y-o-y decrease in the positive balance of goods and services coincided with an 87.7% decrease of the surplus of primary and secondary income. Meanwhile, the surplus in the capital account ended at € 110 million, versus € 241 million in November 2014.

The energy balance deficit fell by 29% in November in line with the developments in the crude oil price

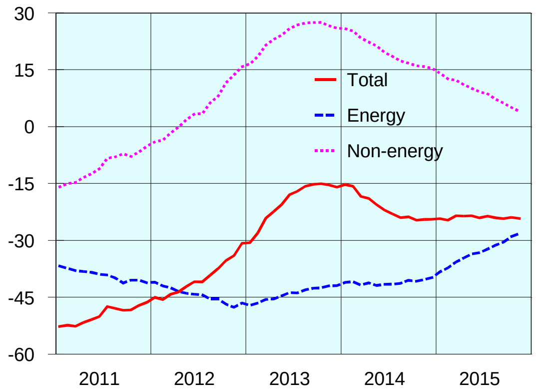
According to Customs data, the trade balance recorded a deficit of € 1.9 billion in November 2015, compared to a deficit of € 1.6 billion registered a year earlier. The increase of the external imbalance (of 18.9%) was exclusively due to the non-energy component, which registered a surplus decrease of 95.7%, while the energy deficit fell by 29% and the price of a barrel of imported oil dropped by 39.5% in euros.

In cumulative terms for the last twelve months, the trade balance recorded a deficit of € 24.2 billion in November, compared with the € 24.5 billion of a year earlier. The 1.1% improvement in the external balance is exclusively due to the energy balance, which recorded a cumulative deficit of € 28.2 billion, € 12.1 billion less that registered a year earlier (€ 40.3 billion). The energy balance more than offset the fall of the non-energy balance, which registered a surplus of € 4 billion, lower by over € 11.8 billion the one recorded the previous year (€ 15.9 billon).

Trade flows rose in November…

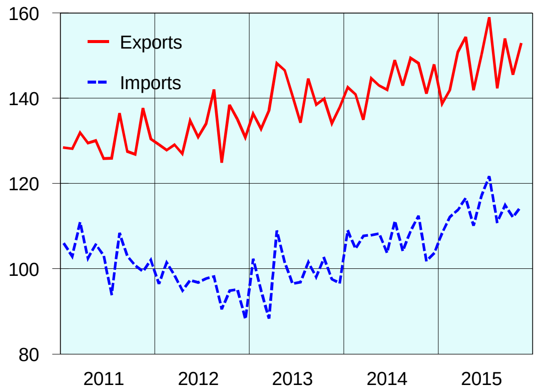
According to *Customs* figures, goods exports increased in November by 8.6% y-o-y, and their prices, approximated by unit value indices, increased by 0.1% (0.7% in October), resulting in an 8.5% increase in real terms, after the 1.5% drop registered in October. The analysis by product groups in real terms and in y-o-y terms, shows an acceleration in exports of all groups: in exports of consumer goods, food (7.8 percentage points, to 8.2%) and non-food (4.2 p.p., to 17.5%), and change sign in the other products, exports in capital from -2.3% in October to 22% in November, energy intermediate goods from -16% to 4.4% and non-energy intermediate goods move from a 6.9% fall in October to a 2.4% increase in November.

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.

By geographical areas, exports in volume to the European Union increased by 8.4% in November, six points more than in October, and exports outside the Union went from recording an 8.5% decline in October to an identical increase in November.

Goods imports increased by 9.3% y-o-y in nominal terms in November, after the 2.2% decrease registered in the previous month, and their prices fell by 2.9% (-2.5% in October). These changes reflect a price fall in energy intermediate goods of 28.3% and an increase of 2.6% in the other products. As a result, imports in real terms, experienced a y-o-y increase of 12.6%, versus the virtual stabilisation (0.3%) registered in the previous month. The analysis by products in real terms and in y-o-y rates reflects an acceleration in all products: in purchases of consumer goods, food (4.3 percentage points, to 9.3%) and non-food (11.7 p.p., to 15.9%), imports of capital goods (0.6 points, to 16.1%) and in non-energy intermediate goods (13 points, to 14.3%), while those of energy goods change sign, from -16% in October up to 2% in November.

By geographical areas and in real terms, imports from the European Union grew 13.6 y-o-y in November compared to the 1.3% registered in October, and those from the rest of the world went from a fall of 1% in October to an increase of 11% in November.

…and the "momentum" improved compared to the previous month

The "momentum" (change during the last three months in comparison to the previous three months) of exports in real terms registered a slightly positive rate in November (0.1%) after the negative rate of October that interrupted six consecutive months in the positive, and that of imports continued to be negative in November (-2.3%), although it improved nine tenths compared to the rate registered in October.

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

According to the Balance of Payments, in November 2015 the financial balance, excluding the Bank of Spain assets, recorded net capital outflows of € 9.8 billion, versus the net inflows of € 10.6 billion recorded a year earlier. This result is explained by the net outflows registered in all functional categories, mainly in portfolio investment (€ 7.4 billion) as a result of the divestments of the non-residents in Spain and the investments abroad by residents, as well as other investment (€ 2.1 billion).

The assets net variation recorded net capital outflows (investments) of € 13.1 billion in November, below the net outflows of € 25.5 billion registered in the same month of 2014. On the other hand, the liabilities net variation generated net inflows (investments) of € 3.3 billion, versus the net inflows of € 36.1 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 € 11.7 billion in November, an amount that includes an increase of € 13.2 billion in the net position vis-à-vis the Eurosystem and improvements of 97 million in the reserves and of € 1.4 billion in the remaining net assets.

Public sector

On 26th January 2016, 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 November 2015.

The General Government consolidated deficit, excluding Local Governments, stands at 3.89% of GDP up to November 2015

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded up to November 2015 a deficit of € 42.0 billion (3.89% of GDP), 12.4% lower in comparison to the same period of 2014 (4.61% of GDP). This deficit decrease is explained by a y-o-y increase of non-financial resources (3.8%) higher than that registered by non-financial uses (1.7%).

The increase in revenues is largely explained by the rises in taxes on production and imports (7.5%), current taxes on income and wealth (5.6%) and social contributions (1.8%).

Regarding non-financial uses, these mainly increased due to the higher compensation of employees (3.5%), intermediate consumption (5.8%) and gross fixed capital formation (15.3%, which stands at 7% when removing the reallocation of capital investments made in previous years by Catalonia).

The Central Government accumulated a deficit of € 24.8 billion (2.30% of GDP) up to November 2015, 25.5% lower than the figure registered in the same period of 2014 (€ 33.3 billion, equivalent to 3.20% of GDP). This deficit decrease is explained by a rise of non-financial resources (4.1%) and by a reduction of non-financial uses (-0.9%).

The Regional Governments accumulated a deficit of € 14.2 billion (equivalent to 1.31% of GDP, against the 0.7% deficit target set for the whole of the year) up to November last year, 1.7% higher than in the same period of 2014 (€ 14 billion, equivalent to 1.34% of GDP). This higher deficit is explained by an increase of non-financial resources (€ 4.3 billion) lower than the one registered by non-financial uses (€ 4.5 billion). It should be noted that in 2015 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 7.2%, equal to 0.14 percentage points of GDP.

As for Social Security Funds, these accumulated a deficit of € 3 billion up to November 2015, versus the 719 million deficit recorded in the same period of 2014. This was mainly due to the Social Security System deficit, which increased by 50.4% y-o-y, up to 0.82% of GDP. The higher deficit of the System was caused by an expenditure increase (3.3%) and, in particular, in the expenditure on social contributions (3.4%), much higher than the one recorded in revenues (0.7%).

The General Government EDP debt slightly accelerates in November…

The Bank of Spain published on 15th January the *General Government Debt* data for November 2015, according to the Excessive Deficit Procedure (EDP) methodology. According to the Bank of Spain, the General Government EDP Debt reached € 1.068 billion in that period, 4.4% higher than in the same period last year.

By subsectors, the State EDP Debt reached € 911.7 billion in November, 5.7% higher than in the same period of 2014. On the other hand, the Regional Government EDP Debt reached € 254.1 billion, 9.7% higher than in the same month last year. Regarding the Social Security Administrations, the EDP Debt reached € 17.2 billion, a figure almost identical to the one registered in November 2014 (€ 17.2 billion). Finally, Local Corporations registered in November 2015 an EDP Debt of € 35.4 billion, 13.1% lower compared to that of a year earlier.

...while the State debt moderates the rate of increase in December

Finally, the State's debt, according to the methodology of the EDP, stood at € 917 billion at the end of December 2015, registering a y-o-y increase of 5.3%, a rate five points lower than the one registered in the same month in 2014.

February 2016