April 2016

SPANISH ECONOMY REPORT

GOBIERNO DE ESPAÑA
MINISTERIO DE ECONOMÍA Y COMPETITIVIDAD

The Spanish Economy: recent developments and prospects: April 2016
Elaboración y coordinación, Dirección General de Análisis Macroeconómico y Economía Internacional.
Madrid: Ministerio de Economía y Competitividad, Centro de Publicaciones, 2016
V; 26 cm.

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

NIPO: 720-15-012-4
e-NIPO: 720-15-013-X

DEPÓSITO LEGAL: M-8492-2014

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

RECENT EVOLUTION OF THE ECONOMIC INDICATORS

Financial markets

The financial markets in April and early May were conditioned by the uncertainty associated with the world economy evolution, as well as by the monetary policy meetings of the Federal Reserve (Fed) and the European Central Bank (ECB), in a context of rising oil prices and high volatility. All this resulted in declines in most stock indices, increases in the peripheral European public debt yields and a slight appreciation of the euro against the dollar.

The ECB maintains the interest rates and warns that the global uncertainty continues

The Governing Council of the ECB, on its meeting held on 21st April, decided to maintain the interest rates on the main financing operations, the marginal lending facility and the deposit facility at 0.00%, 0.25% and -0.40%, respectively, after the reduction that took place on 10th March. In the press conference that followed the meeting, Mario Draghi announced the start of the extension of the asset purchase programme up to € 80 billion per month, compared with the previous € 60 billion, which will run until March 2017. Likewise, the ECB president also announced the start, as of June this year, of the Corporate Sector Purchase Programme (CSPP). He also stressed that the monetary expansion is improving the financing conditions in the Eurozone, even though the high global uncertainty continues. In this regard, the ECB will use all the available instruments within its mandate to prevent the low inflation environment from causing second-round effects that would hinder the achievement of the inflation target.

The Fed keeps the interest rates unchanged

The Federal Open Market Committee (FOMC) of the Fed, in its two day meeting held on 26th and 27th April, decided to maintain the target range for the Federal Funds rate at 0.25% to 0.50%, set on 17th December 2015, in a context in which labour market conditions continue to improve, despite the slight slowdown experienced by the economic activity. The FOMC expects inflation to approach its medium-term objective, as the transitory effects of declines in energy and import prices dissipate. It also believes that with a gradual adjustment in the stance of monetary policy, economic activity will expand at a moderate pace and labour market indicators will continue to strengthen, although the global economic and financial events will continue to condition the pace of normalisation of the monetary policy.

The BoJ decides not to change its monetary policy

On the other hand, in the meeting held on 27th and 28th April, the Bank of Japan (BoJ) decided not to change its current monetary policy after applying in its previous meeting held in January 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%. Similarly, the BoJ decided to keep its asset purchase programme unchanged, expanding the monetary base at an annual rate of approximately 80 trillion yen.

The BoE maintains the interest rates and the asset purchase programme

Likewise, the Monetary Policy Committee of the Bank of England (BoE), in the meeting held on 13th April, 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 Central Bank of Sweden maintains the interest rates and expands the public debt purchase programme

Following the meeting held on 20th April, the National Bank of Sweden (Riksbank) decided to maintain its interest rates (Repo rate) at -0.50% and to expand the public debt purchase programme up to SEK 45 billion during the second half of 2016. With this monetary expansion, the Riksbank aims to reduce the risk of a higher-than-expected appreciation of the SEK and of an interruption in the inflation rise, in a context of persistent global uncertainty.

The Central Bank of Australia reduces the official interest rate

In its meeting held on 3rd May, the Central Bank of Australia decided to reduce the official interest rate by 25 b.p., down to 1.75%, due to lower inflationary pressures in a context of downward revision of growth forecasts for the world economy.

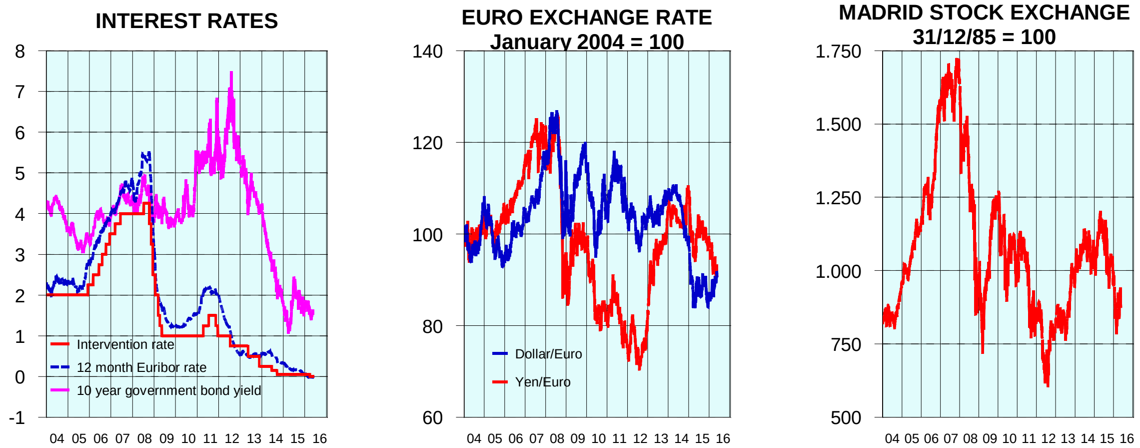
The 12 month Euribor remains close to zero

In the interbank market of the Eurozone, interest rates remained negative in April. More specifically, the 12 month Euribor stood at -0.013% at the beginning of May, compared to the -0.005% recorded at the end of March. This reduction is due to the expectation of the rates decrease, since the Overnight Index Swap -OIS-, which indicates the rates expectations, fell 1 basis points, while the risk premiums required in this market remained unchanged during this period, as on 5th May the Euribor-OIS differential stood at 38 b.p., the same level as the one recorded on 31st March.

Peripheral European public debt yields rise

In the secondary public debt market, peripheral European yields rebounded during the first week of April as a result of the risk aversion increase, while that of the German bond fell, which resulted in a rebound of the risk premium. During the rest of the month, both the peripheral and the German yields reported a growing trend in the context of increased oil prices and maintenance of the ECB's monetary policy, although the German bond yield flexed downwards again in the first week of May due to a further rebound in risk aversion. Thus, the

G1. MONETARY AND FINANCIAL INDICATORS (1)



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

10-year Spanish bond yield stood on 5th May 2016 at 1.58%, 13 b.p. above the figure recorded on 31st March. On the other hand, the German bond yield rose 2 basis points over the same period, up to 0.17%, the Spain-Germany differential standing at 141 b.p., 11 b.p. above the level recorded in late March. Meanwhile, the Spain-Italy differential stood at 8 b.p., compared to 22 b.p. recorded on 31st March.

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

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-31-15	Mar-31-16	May-05-16	Variation in spreads		Dec-31-15	Mar-31-16	May-05-16	Variation in spreads	
	(1)	(2)	(3)	Period (3)-(2)	Annual (3)-(1)	(4)	(5)	(6)	Period (6)-(5)	Annual (6)-(4)
Germany	0.63	0.15	0.17	2	-46					
Finland	0.92	0.44	0.47	3	-45	29	29	30	1	1
Holland	0.79	0.23	0.41	18	-38	16	8	24	16	8
Austria	0.91	0.36	0.41	5	-50	28	21	24	3	-4
France	0.99	0.41	0.54	13	-45	36	26	37	11	1
Belgium	0.97	0.38	0.58	20	-39	34	23	41	18	7
Ireland	1.15	0.73	0.90	17	-25	52	58	73	15	21
Spain	1.80	1.45	1.58	13	-22	117	130	141	11	24
Italy	1.61	1.23	1.50	27	-11	98	108	133	25	35
Portugal	2.54	2.78	3.29	51	75	191	263	312	49	121
Greece	8.35	8.68	8.64	-4	29	772	853	847	-6	75

Source: Financial Times.

The stock indices fall in a context of volatility

In the stock markets, the indices on both sides of the Atlantic fell between late March and early May due to the uncertainty associated to the world economy evolution in a context of high volatility, thus counteracting the profits accumulated by mid-month as a result of the rise in oil prices. In Europe, the Eurostoxx 50 index decreased by 2.1% during that period, despite the upward trend of oil prices and the continuity of the ECB quantitative expansion. In Spain, the IBEX 35 recorded in early May a 0.4% decrease in comparison to late March, dropping by 9% compared to late last year. In the US market, the S&P 500 index fell by 0.4% between 31st March and 5th May, in a context in which global economic and financial developments continue to influence the pace of normalisation of the monetary policy.

Slight appreciation of the euro against the dollar

With respect to the currency market, the exchange rate of the euro against the dollar remained relatively stable during April after rebounding strongly in March, due to the expectation of a possible delay of some of the interest rate increases initially planned for this year in the US. Thus, in the period between late March and early May, the euro appreciated against the dollar by 0.5% and depreciated by 4.2% and 0.4% against the yen and the pound, respectively, trading at the end of the 5th May session at 1.1439 dollars, 122.51 yen and 0.7886 pounds. In that same period, the euro appreciated by 0.5% in nominal effective terms.

T 2. International stock exchange

Countries	Index	Level May-05-16	% Variation Mar-31-16	Dec-31-15
Germany	DAX	9,851.86	-1.1	-8.3
France	CAC 40	4,319.46	-1.5	-6.8
Italy	FTSE MIB	17,923.90	-1.1	-16.3
Spain	IBEX 35	8,689.40	-0.4	-9.0
Eurozone	EUROSTOXX 50	2,940.35	-2.1	-10.0
United Kingdom	FTSE 100	6,117.25	-0.9	-2.0
United States	S&P 500	2,050.63	-0.4	0.3
Japan	NIKKEI 225	16,147.38	-3.6	-15.2
China	SHANGHAI COMP	2,997.84	-0.2	-15.3
Mexico	IPC	45,147.97	-1.6	5.1
Brazil	BOVESPA	51,671.04	3.2	19.2
Argentina	MERVAL	13,348.13	2.7	14.3

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

The M3 broad monetary aggregate grows in March by 5% y-o-y

On 27th April, the ECB published the evolution of the monetary and credit aggregates in the Eurozone in March 2016. The M3 broad aggregate grew by 5% y-o-y, one tenth more than in the previous month, due to the acceleration of the currency in circulation (5.9%, a rate two tenths higher than in February) and the smaller decline of other short-term deposits (from -2.6%, to -2.5%) and marketable instruments (-1% compared to the -1.9% registered in February). On the other hand, overnight deposits moderated their growth rate by one tenth (11%, in comparison to the 11.1% registered in the previous month).

T 3. Eurozone monetary aggregates

Monetary aggregates	March 2016 Balance (Billion €)	% Year-on-year variation January 2016	February 2016	March 2016
1. Currency in circulation	1,052	6.1	5.7	5.9
2. Overnight deposits	5,715	11.3	11.1	11.0
M1 (= 1 + 2)	**6,767**	**10.4**	**10.2**	**10.1**
3. Other short-term deposits (= 3.1. + 3.2.)	3,590	-2.7	-2.6	-2.5
3.1. Term deposits up to two years	1,427	-7.4	-7.4	-6.7
3.2. Deposits redeemable at notice up to three months	2,163	0.7	0.9	0.6
M2 (= M1 + 3)	**10,357**	**5.4**	**5.4**	**5.4**
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	641	-1.6	-1.9	-1.0
4.1. Repurchase agreements	89	-29.2	-27.9	-28.7
4.2. Money market funds shares/units	463	9.3	8.2	7.5
4.3. Securities other than shares up to two years	90	-15.9	-12.3	-2.5
M3 (= M2 + 4)	**10,998**	**5.0**	**4.9**	**5.0**

Source: European Central Bank.

Financing to the private sector in the Eurozone slows down slightly in March

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, grew by 1.1% y-o-y in March, one tenth less than in February, due to the lower increase of bank loans (1% compared to the 1.2% increase registered in the previous month) and the further decline recorded by shares and other equity (-2.4%, a rate one point lower than in February). Furthermore, securities other than shares accelerated four tenths, up to 3.3% y-o-y. Within loans, those received by households increased by 2.2%, a rate identical to the one registered in the previous month, and those received by non-financial corporations accelerated one tenth, up to 0.8% y-o-y.

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

	March 2015 Balance (Billion €)	% Year-on-year variation		
		January 2016	February 2016	March 2016
Credit to the private sector	**12,709**	**0.9**	**1.2**	**1.1**
Loans	**10,645**	**0.8**	**1.2**	**1.0**
Households	**5,338**	**1.9**	**2.2**	**2.2**
House purchases	3,973	2.1	2.3	2.3
Consumer credit	603	4.0	5.0	5.0
Other lending	762	-0.4	-0.2	-0.4
Non-financial corporations	**4,290**	**0.5**	**0.7**	**0.8**
Insurance companies & pension funds	**109**	**-9.6**	**-6.9**	**-19.2**
Other financial intermediaries	**908**	**-2.5**	**-1.5**	**-1.3**
Securities other than shares	**1,312**	**2.4**	**2.9**	**3.3**
Shares and other equities	**752**	**-0.4**	**-1.4**	**-2.4**

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

The financing stock to the private sector in Spain intensifies the y-o-y rate of decline

According to the financing to the private non-financial sectors in Spain data, published by the Bank of Spain on 3rd May 2016, the financing to the private non-financial sector decreased by 2% y-o-y in March, four tenths more than in the previous month. Financing received by firms intensified the pace of decline by eight tenths, to 2%, due to the higher decline in bank loans, foreign loans and securities other than shares. On the other hand, financing received by households recorded a y-o-y rate of -2%, one tenth higher compared to the previous month, due to the acceleration in bank loans for purposes other than housing, partially offset by the higher decrease of bank loans for housing.

New loan and credit operations to households and SMEs continue to grow sharply

According to data published by the Bank of Spain on 29th April, the amount of new loan and credit operations to households, in cumulative terms for the last twelve months, increased by 24.8% y-o-y in March, seven tenths less compared to February. This slight slowdown is due to the lower increase of credits for house purchases and for other purposes (31.9% and 15.1% y-o-y, 1.2 points lower than in February), partially offset by the acceleration of credits for consumption (four tenths, to 23% y-o-y). The amount of new loan and credit operations to SMEs (using as a proxy for these credits those under one million euros) rose, in cumulative terms for the last twelve months up to March, by 11.5% y-o-y, an increase seven tenths lower than the one recorded in the previous month. On the other hand, the amount of new loan and credit operations exceeding one million euros slowed down 8.5 points, down to 1.5% y-o-y.

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

	March 2016 Balance (Billion €)	% Year-on-year variation		
		January 2016	February 2016	March 2016
Non-financial corporations and Households	**1,623**	**-1.3**	**-1.6**	**-2.0**
Non-financial corporations	**905**	**-0.7**	**-1.2**	**-2.0**
Bank loans	540	-1.1	-1.2	-2.0
Securities(1)	80	2.1	-3.3	-4.8
External loans	285	-0.8	-0.5	-1.0
Households	**718**	**-2.1**	**-2.1**	**-2.0**
Bank loans. Housing	555	-3.4	-3.4	-3.5
Bank loans. Other	163	2.7	2.7	3.5
General Government	**-**	**2.9**	**3.4**	**-**
Total financing	**-**	**0.3**	**0.3**	**-**

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

Spanish economy

Domestic demand and production

The uncertainty and international financial volatility slow down the world economy progress

In a context of continuation of the financial uncertainty and volatility, the world economy slowed down the pace of progress and the Eurozone continues to recover moderately. The slowdown of the Chinese economy, the falling price of raw materials, the low interest rates and the high debt level, marked the international scene in recent weeks.

The IMF and the European Commission revised their growth forecasts for Spain slightly downwards in 2016

In this context, both the IMF and the European Commission (EC) revised their growth forecasts for the Spanish economy slightly downwards in 2016. The IMF lowered it by one tenth, down to 2.6%, maintaining its forecast for 2017 at 2.3%, and the EC by two tenths in 2016, also down to 2.6%, with growth standing at 2.5% in 2017.

In both scenarios, the slight downward revision of the Spanish GDP growth in 2016 is explained by the loss of momentum in domestic demand, as the expansionary effects derived from the external factors dissipate, as well as by the uncertainty regarding the political scene. By components, both the IMF and the EC estimate that private consumption will reduce the rate of progress slightly in 2016, down to 3%. With regard to gross fixed capital formation, both Institutions foresee a slowdown this year. The EC forecasts a slowdown of 1.7 points down to 4.7%) whereas the IMF foresees a slowdown of1.9 points (down to 4.5%). As far as the foreign sector contribution to GDP growth is concerned, the EC expects it to remain negative both in 2016 and 2017, while the IMF envisages that it will be positive in 2017.

The INE advanced estimate sets the GDP q-o-q growth at 0.8% in the first quarter of 2016

According to the anticipated estimate of the Quarterly National Accounts published by the INE, the GDP, in volume and with calendar and seasonally adjusted data, grew by 0.8% q-o-q in the first quarter of 2016, as in the previous first two quarters. In y-o-y terms, the GDP grew by 3.4%, one tenth less than in the previous quarter.

These rates stand significantly above those estimated in the first quarter of the year for the EU average (0.5% q-o-q and 1.7% y-o-y) and for the Eurozone (0.6% q-o-q and 1.6% y-o-y).

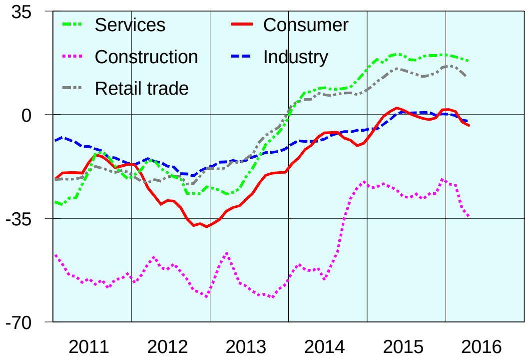
Leading indicators point to the maintenance of the expansive trend in activity

The continued growth of the Spanish economy has been supported by the composite leading indicator for Spain, published by the OECD and designed to anticipate turning points in the economic activity with regards to its trend. This indicator moderated slightly in March by one tenth, reaching 101.2 and remaining above its long term average for one additional month. Moreover, the indicator for the Eurozone stands eight tenths below that of Spain, extending our country's positive differential that started in late 2013.

Likewise, the global activity composite PMI for Spain reached 55.2 in April, one tenth higher than in March, pointing to a slight acceleration in the activity.

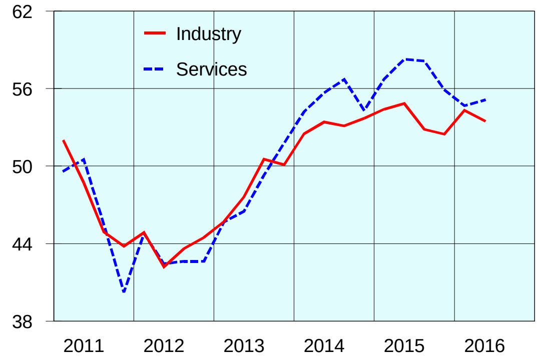
On the other hand, the Spanish Economic Sentiment Indicator *(*ISE, by its Spanish abbreviation) fell by eight tenths in April compared to the previous month, down to 106.1. By components, confidence in services steered downwards by 2.8 points, whereas confidence in retail and industry fell by 6 tenths. Confidence in construction rose by 4.9 points and consumer confidence by 0.8 points. In the Eurozone, the Economic Sentiment Indicator rose by nine tenths in April, reaching the level 103.9, thus decreasing the favourable differential to Spain by 1.7 points, down to 2.2 points.

G 2. CONFIDENCE INDICATORS: SPAIN
Moving average (3 months)



Source: European Commission.

G 3. PURCHASING MANAGERS' INDEX (PMI)



Source: Markit Group.

Private consumption dynamism persists in the first quarter…

Amongst the GDP components on the demand side and, in particular, with regard to private consumption, the signals from available indicators are mixed, even though they generally point to the maintenance of the expansionary path in the first quarter of the year.

Thus, the retail index, with deflated and calendar adjusted data, grew in March by 4.4% y-o-y, four tenths more than in February, accumulating in the first three months of 2016 an annual average growth of 4%, two tenths higher than the registered in the previous quarter (3.8%).

On the other hand, the consumer goods and services component of domestic sales in large companies, with deflated, fixed-sample and calendar adjusted data, grew by 3.5% y-o-y in March, compared to the 7.5% of the previous month. It accumulated an annual growth of 5.3% between January and March, lower by almost one point and a half the one recorded in the last quarter of 2015 (6.7%).

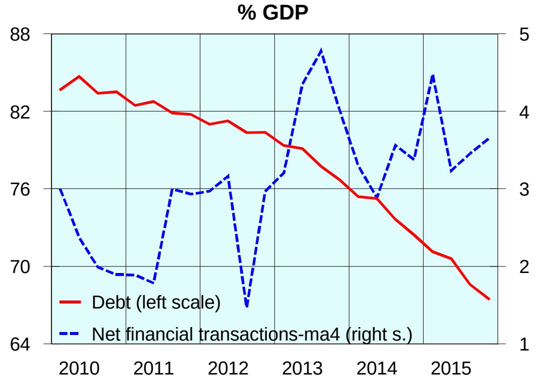
Among the qualitative indicators, the Consumer Confidence Indicator (CCI), published by the CIS, decreased in April, for the fourth consecutive month, down to 91, below the 100 threshold. This fall is the result of a worse assessment on both, the current situation (which declined 1.3 points compared to March), and of expectations (which dropped 1.8 points). Within the current situation component, the assessment of the general evolution of the economy loses 6.4 points, the perception of the labour market possibilities decreases more moderately (2 points) and the assessment of the households situation is again one the most positive component, with an increase of 4.6 points.

Finally, the advance of household incomes continues to contribute to the private consumption dynamism, boosted by the good performance of the labour market. Indeed, according to Social Security covered workers figures for April, there was a y-o-y increase of 2.7%, very similar to the one registered in March (2.8%).

The companies deleveraging process continues

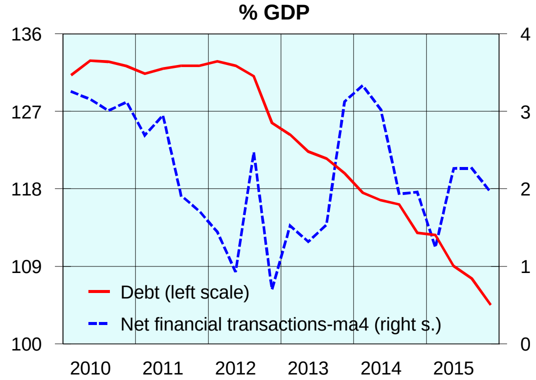
In the fourth quarter of 2015, the Spanish companies continued the deleveraging process started in 2010. Their debt, materialised in loans and securities other than shares, reached 104.6% of GDP, 8.2 points lower than that of the previous year (86% of GDP in consolidated terms, compared with the 93% registered in the last quarter of 2014).

G 4. DEBT AND NET LENDING HOUSEHOLDS
% GDP



Sources: BdE and INE.

G 5. DEBT AND NET LENDING FIRMS
% GDP



Sources: BdE and INE.

The equipment investment remains strong…

The strength of equipment investment is reflected in the Industrial Climate Index of investment goods, which improved in April by 3.6 points. This was due to a decrease of the stocks level (11.3 points) and the upturn of the portfolio orders, which rose by almost 11 points, while production forecasts fell (11 points).

Likewise, domestic availability of equipment goods reflects an expansive signal, with a q-o-q rate of increase of 1.2% in the first quarter.

On the other hand, domestic sales in large companies directed at capital services, with deflated, fixed-sample and calendar adjusted data, accelerated by 1.3 points in March, registering a y-o-y growth of 1.4%. This evolution was mainly due to sales of equipment goods and software, which accelerated 2.6 points and recorded a y-o-y growth of 4.6%.

...and investment in construction accelerates

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 experienced a strong growth of 16.8% y-o-y in March, ending the first quarter with an average annual increase of 9.2%, higher by more than one point and a half the one registered in the previous quarter. This acceleration in the first quarter was due to the lower decline in new housing purchases (-13% compared to the 27.4% fall of the previous quarter) while used housing purchases slowed down by 5.3 points, although they continue to grow at a strong pace (16.9%).

Likewise, the number of mortgages on housing accelerated by 5.3 points in February, up to a y-o-y rate of 15.9%. The average amount per mortgaged property fell by 1.3%, after the slight two tenths rise recorded in the previous month. Thus the borrowed capital increased by 14.4%, 3.6 points more than in January.

Industrial sector activity indicators drops mixed signals

Amongst the indicators of the industrial activity, the Industrial Production Index (IPI) with calendar and seasonally adjusted data, increased by 2.8% y-o-y in March, more than seven tenths higher than the growth rate in the previous month. By groups, the strong growth in equipment goods (9.2%) and intermediate goods (3.1%) is remarkable.

Likewise, amongst the qualitative indicators, the PMI index of manufacturing for Spain reached the level of 53.5 in April, one tenth above that of the previous month, maintaining the favourable differential for Spain at 1.8 points against the Eurozone.

On the other hand, the Industry New Orders Index (INOI) recorded a y-o-y increase of 0.9% in February, with calendar adjusted data, six tenths less than in January. This slowdown was due to the sharp decline in energy, which fell by 35.2% (9.9 points more than in the previous month), and to a moderate decline in intermediate goods (-1.6%, after the stabilisation registered in the previous month), while consumer goods continued to grow at a sustained pace (2.7% versus 3.4% in January) and equipment goods accelerated significantly, more than four points, up to 13.4%.

In turn, the Turnover Index in Industry (ICNI) was less dynamic in February, with a 1% y-o-y decrease, with calendar adjusted data, after five months of consecutive increases. This decline is explained by the sharp fall of the energy component (-35.2%). With seasonally adjusted data, the general ICNI fell by 0.4% m-o-m in February, half a point lower to that registered in January.

Finally, social security covered workers registrations in the industrial sector grew at a y-o-y rate of 2.8% in April, two tenths more than in March.

The expansionary evolution in the construction sector keeps going

Concerning the construction sector, the indicators published continue pointing to a strong expansionary evolution, although more moderated than in the previous months. The Production Index in the Construction Industry (PICI) in Spain, published by Eurostat, rose by 13% in February, compared with the same month of 2015, 6.5 points less than in January. This PICI evolution is explained by a reduction in the accelerating pace of its two components: the building component, which grew by 15.4%, 4.6 points less than in the previous month, while the civil works component fell by 2.2%, after the 14.6% increase observed in the previous month.

Regarding the construction activity leading indicators, according to construction new permits of the Ministry of Public Works and Transport, floorage approvals in new construction continued to grow at a strong pace in February, showing a y-o-y growth rate of 16.2%. This evolution was due to the strong momentum of the residential component, which grew by 43.8%, while the non-residential component fell by 32.3% compared to the same month of 2015.

Finally, Social Security covered workers in the construction sector grew by four tenths in April, registering a 2.2% y-o-y rate.

Slight moderation in the services sector activity

With regard to the services sector, the Services Sector Turnover Index (SSTI) after filtering off the effects of the work calendar, increased by 3.1% y-o-y in February, seven tenths less than in the previous month. This slowdown affected the trade sector, which fell by 1.1 points versus the previous month, down to 2%, while the other services sector accelerated by one tenth, up to 5.2%.

On the other hand, the services PMI remained above the threshold of 50 in April (55.1, two tenths lower than in March), showing an expansionary trend . The index stands 2 points above that of the Eurozone.

Social Security covered workers in the services sector held a dynamic trend, with a y-o-y growth rate standing at 2.9% in April, slightly below the figure from the previous months (3.1% in February and March).

Favourable performance of the tourism sector in March

Regarding the tourism sector indicators, the arrival of 4.8 million visitors to Spain in March is striking. According to the Survey of Tourist Movements on Border (Frontur) this figure is a 16.1% higher than that of the same month in 2015 and 2.4 points higher than that in February, keeping the expansionary trend that began in early 2013. The total expenditure by tourists who visited Spain in March was 10% higher than in the same month of 2015 and 2 points higher than in February. Expenditure growth has been lower than the tourist inflow (16.1%), and this resulted in a 5.3% decrease of the average spending per person.

On the other hand, overnight stays in hotels grew strongly in March by 17.6% y-o-y, 5.2 points more than in the previous month. This was due, among other factors, to the effect of the Easter holidays, which this year was held in March whereas last year it was celebrated in April.

This acceleration was due to the good performance of domestic overnight stays, which increased their stays by 22.2% over the previous year (versus the 11.2% in February) and overnight stays for foreigners, which experienced a 14.4% y-o-y increase, compared with the 13.3% in the previous month.

Meanwhile, air traffic grew by 14.6% y-o-y in March (1.6 points less than in February). This was due to both the moderation in domestic traffic which grew by 14.1% (2 points lower than in February) and to the international traffic, which rose by 14.9% (1.4 points less than in the previous month).

Prices

The CPI y-o-y rate remains at -0.8% in March…

The y-o-y rate of the *Consumer Price Index* (CPI) remained at -0.8% in March 2016, the same figure as that registered in February. This stability of the y-o-y rate of the CPI was mainly due to the inflation of non-processed food and services, which offset the sharp fall experienced by energy prices. According to the leading indicator of the national CPI published by the INE, the CPI y-o-y rate fell three tenths in April in comparison to the previous month, a behaviour that could be explained by a decline in package holidays and electricity prices.

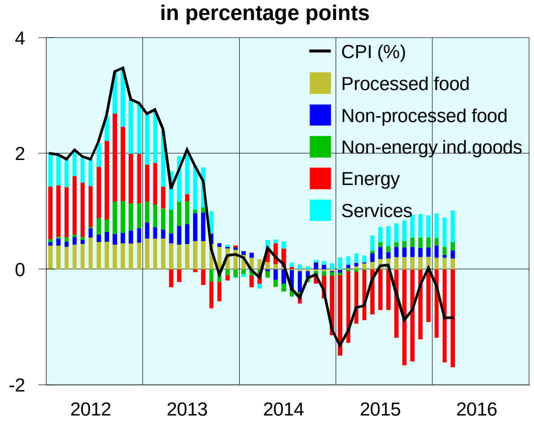
…while core inflation rises one tenth, up to 1.1%

Core inflation (which excludes the most volatile elements from the General CPI, non-processed food and energy) rose one tenth in March, up to 1.1%, due to the slight acceleration in services prices, while the inflation rate of non-energy industrial goods (BINE) and processed food remained unchanged. The inflation that excludes total food and energy products from the General Index remained at the same level of February, 1%.

Energy products prices intensify the pace of decline

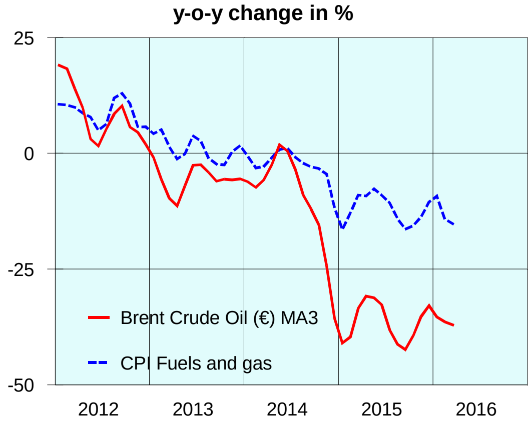
By breaking down the CPI into its main components, it is possible to observe that the prices for *energy products* registered in March a y-o-y rate of -14.8%, seven tenths lower than the figure recorded in February. The larger y-o-y fall was due to the fuel and lubricant item

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 %



Sources: INE and Reuters.

(-14.4%, versus the -13.3% of February), whilst the y-o-y electricity price rate remained at -14.2%.

Food prices increased by 1.5% y-o-y

Food prices accelerated by three tenths in March, up to 1.5%. This evolution was due to non-processed food, whose rate rose from 0.8% in February, up to 2.2% in March, and especially to fresh vegetables and pulses prices and fresh fruits, whose rates stood at 1.6% and 4.9%, respectively. On the other hand, the annual rate of processed food, beverages and tobacco stabilised at 1.3% of the previous month, highlighting within this group the sharp increase in the prices of oils (20.6%) and potatoes and potato products (14.5%).

BINE inflation stabilises and services inflation increases one tenth

BINE inflation stability in March, which stood at 0.5% for the third consecutive month, was due to the stability for clothing and footwear (0.4%) and cars (3.6%). In addition, the medicines and pharmaceutical product prices intensified their pace of decline three tenths, down to -1.8%. On the other hand, the *services* y-o-y rate rose one tenth in March, up to 1.4%, as a result of a heterogeneous behaviour of the items included in it. The rates for university education (0%), telephone services (3%) and urban public transport (-0.6%) remained stable, while long-distance public transport and catering and accommodation services increased by 1.8 and 0.1 points respectively, reaching 0.4% and 1.6%. These increases have a high seasonal component since this year the Easter holidays were celebrated in March.

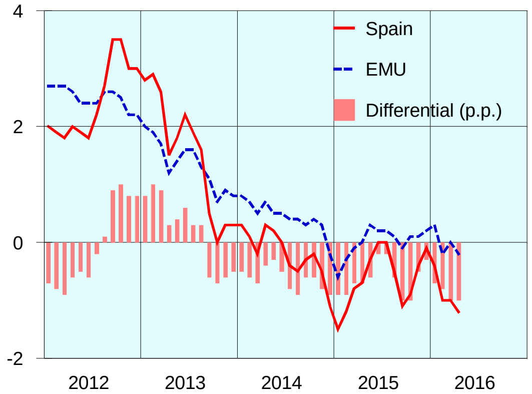
Inflation in the EMU becomes null in March, following the slight decline registered in the previous month

In March, the y-o-y rate of the *Harmonised Monetary Union Consumer Price Index* (HMUCPI) became null, following the 0.2% decrease recorded in the previous year. On the other hand, core inflation also rose two tenths, up to 1%. The general inflation rate increase was due to the price evolution of services and food, which rose five and two tenths, up to 1.4% and 0.8% respectively. The acceleration in food prices was due to non-processed food, which went from recording a rate of 0.6% in February to 1.3% in March. The higher services inflation partly reflects a significant seasonal component, since this year the Easter holidays were celebrated in March. On the other hand, the annual rates of non-energy industrial goods (BINE) and processed food fell two tenths, down to 0.5% and 0.4%, respectively, and energy prices intensified the pace of decline by six tenths, down to -8.7%.

The inflation differential favourable to Spain rose two tenths against the Eurozone

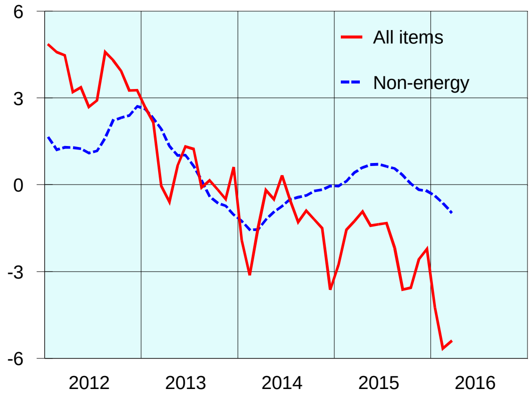
The annual rate of the *Spanish Harmonised CPI (SHCPI)* and the harmonised core inflation remained in March at the same levels as those recorded in February, -1% and 0.9%, respectively. As a result, both inflation differentials against the Eurozone, favourable to Spain since the fourth quarter of 2013, registered a two tenth improvement (-1 percentage point of the general index and -0.1 points of the core inflation). By sector of origin, energy, BINE and services showed an inflation differential favourable to our country in March, of 6.1, 0.3 and 0.2 percentage points. The half a point increase of the y-o-y rate of services prices in the Eurozone, in comparison to the one tenth increase in Spain, explains that the services differential was favourable. Finally, the food unfavourable differential falls two tenths, down to 0.8 points as a result of the worsening of its two components differential, one tenth processed food, down to 0.8 points, and two tenths non-processed food, down to 0.6 points.

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



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

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



Source: INE.

According to the flash estimate of the Monetary Union Harmonised Index of Consumer Prices (MUICP) the price drop in April was -0.2% which contrasts with the stabilisation of the previous month, due to the lower inflation in services (1%, four tenths less than in March). This also reduced the annual rate of the non-energy HCPI by two tenths, down to 0.8%. The rates of total food and non-energy industrial goods (BINE) remained at the same levels as those registered in March, 0.8% and 0.5%, respectively. On the other hand, energy remains the only sector with negative rates and it registered a y-o-y fall of 8.6%, very similar to the one registered in March (-8.7%). In turn, the Spanish harmonised annual inflation rate fell by two tenths in April, down to -1.2%, keeping the inflation differential favourable to Spain against the Eurozone at the same level as that of March, -1 p.p.

The y-o-y fall of producer prices moderated

From the producer prices point of view, the *Industry Price Index* (IPRI) fell in March by 5.4% y-o-y, and this is a moderation of three tenths in its decline rate in comparison to the previous month. Based on the economic destination of goods, the lower fall in the general index was due to the evolution of energy prices (-17.7% versus the -19.5% of the previous month). In turn, the reduction in the energy IPRI fall was mainly due to the refined petroleum item, whose y-o-y rate decreased from 35.7% in February to 30.5% in March. On the other hand, the y-o-y rate of the energy and gas supply item increased three tenths, up to -13.7% and the m-o-m rate stood at -0.4% in March against the -0.8 % registered a year earlier.

The y-o-y rates of intermediate goods, consumer goods and equipment goods prices fell five, two and one tenth in March, respectively, down to -2.7%, 0% and 0.7 %. Considering the durability of goods, durable consumer goods inflation remained at the same level as the one registered in February (1%), while non-durable goods inflation fell by two tenths, down to -0.1%. As a result of the evolution of the general index components, the y-o-y rate of the *non-energy IPRI* registered a decline of three tenths in comparison with February, reaching -0.9%.

Labour market

574,800 net jobs were created in the last twelve months,...

The activity dynamism in the months of the year so far was reflected both in employment and unemployment figures. According to the Labour Force Survey (LFS) published by the INE, in the first quarter of 2016 574,800 net *jobs* were created in comparison to a year earlier, representing a y-o-y rate of 3.3%, three tenths higher than the one for the previous quarter and the highest since the third quarter of 2007.

From the employment view point, the first quarter of each year is usually characterised as being negative due to seasonal factors. Thus, with seasonally adjusted data, the number of employed increased by 0.9% q-o-q in the first quarter of 2016, two tenths more than in the fourth quarter of 2015. Following this behaviour of the employment, the employment rate of the population over 16 years old stood at 46.8%, 1.5 points above that of the first quarter of 2015.

...this increase focusing on the private sector and services

By *main activity branches*, the employment growth was widespread in y-o-y terms, except in construction, where it fell by 29,000 people (-2.7%). Among the remaining branches, employment increased by 503,500 people in services (3.8%), by 60,000 in agriculture (8.4%) and by 40,300 in industry (1.7%).

Employment evolution in the first quarter of this year was the result of an annual increase of 513,300 employed people in the private sector and of 61,500 in the public sector, with y-o-y rates standing at 3.5% and 2.1%, respectively. This implies an acceleration of four tenths in private employment and a slowdown of the same magnitude in public sector employment (growing by 2.1%, after the 2.5% registered in the previous quarter).

Employment created is mainly of waged employees

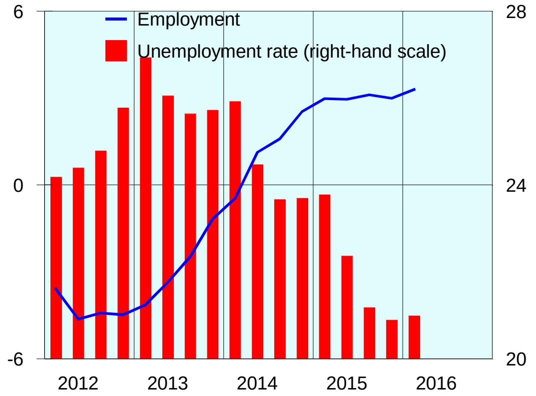
Considering the *professional status* of workers, and in comparison to a year earlier, employment created in the first quarter of 2016 was mostly integrated by contracted employees, with 541,200 people more, representing a y-o-y rate of 3.8%, three tenths higher than in the previous quarter. The group of self-employed showed an increase of 33,600, 1.1% y-o-y, in comparison to the 0.6% of the previous quarter.

By *type of contract*, in the first quarter of 2016 the increase of wage employment was 197,700 (1.8% y-o-y) workers on a permanent contract and 343,600 workers with a temporary one (10.1%). As a result of this evolution of employment, the *temporary rate* stood at 25%.

The partiality rate stood at 15.7%

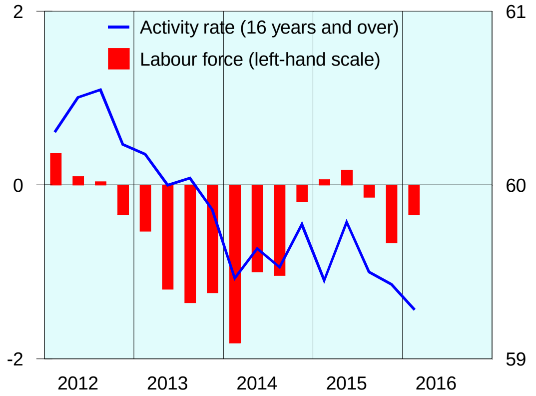
Regarding *working hours*, full-time employment rose in the first quarter by 4% y-o-y and part-time employment decreased slightly, by 0.2%. These rates imply an acceleration of six tenths in the first group and a moderation of one point in the second group. Following these results, the weight of part-time workers on the total decreased by six tenths compared to the first quarter of 2015, standing the partiality rate at 15.7%.

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).

The number of unemployed dropped by 653,200 people last year

According to LFS figures, the number of *unemployed* stood at 4,791,400 people in the first quarter of 2016, 653,200 less than one year earlier, representing a y-o-y rate of -12%, four tenths higher than the last quarter of 2015. With seasonally adjusted data, the q-o-q variation in the number of unemployed stood at -2.7%, versus the 3.5% fall registered in the previous quarter, linking twelve consecutive quarters of declines with seasonally adjusted data.

By gender, the unemployment rate amongst women stood at 22.8%, more than three points higher than the rate registered by men (19.5%). By age groups, the unemployment rate among young people under 25 stood at 46.5%.

By main activity branches, unemployment fell in the main sectors last year: 19,800 in services, 21,900 in agriculture, 22,700 in industry and 14,900 in construction. Unemployment fell by 107,200 people in the group without previous employment and decreased by almost half a million (466,600) among people who lost their jobs over a year ago.

Labour force fell by 78,400 people in the first quarter of this year in comparison to the same period of 2015, -0.3% y-o-y, and the *unemployment rate* stood at 21% of the labour force, which implies a decrease of 2.8 points compared to a year earlier

Social Security covered workers increased at a y-o-y rate of 2.7% in April

The Social Security covered workers and registered unemployment figures in the second quarter of the year point to an extension of the favourable performance of the labour market. Thus, the number of Social Security (SS) *covered workers* increased by 158,038 people in April versus March, the average number reaching 17,463,386. With seasonally adjusted data, a m-o-m increase of 55,307 covered workers took place, (0.3%, the same as the figure registered in March). In y-o-y terms, the number of covered workers increased by 455,540 people in April, implying a moderation of the growth rate of one tenth, to 2.7%.

Considering the professional status of covered workers, the y-o-y increase in April included both contracted employees and self-employed. The first group registered an advance of 420,900 (3%), and the second group of 34,700 people (1.1%), both rates being two tenths lower in comparison to the previous month.

By main activity branches, the increase of covered workers in April compared to a year earlier happened on all of them, mainly on services, with 371,961 people more, industry with 58,300, construction with 22,161 and agriculture with 3,117. In y-o-y terms, the growth rate of covered workers moderated in in agriculture and services and rose in construction and industry.

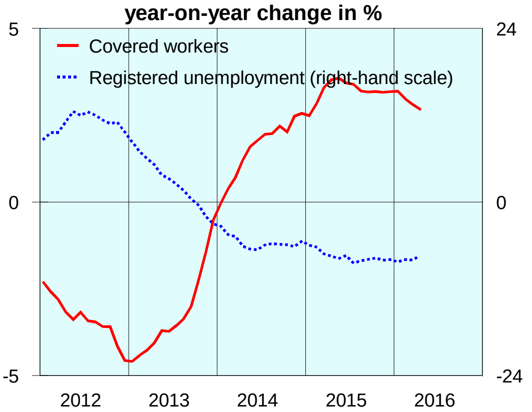
New contracts registered in April grew by 7% y-o-y-

The number of *new contracts* registered in April rose by 1,541,729, representing a y-o-y increase of 7%, compared to the 4.7% registered in the previous month. With seasonally adjusted data, the number of new contracts rose by 31,500 compared to the previous month (2%). 9.5% of all new contracts were permanent, a percentage five tenths lower than the one recorded in the previous month and nine tenths higher to the figure recorded in April 2015. On the other hand, part-time contracts accounted for 36.3% of the total, a ratio identical to that of March and seven tenths higher than in the same month of 2015.

Registered unemployment decreased at a y-o-y rate of 7.4% in April...

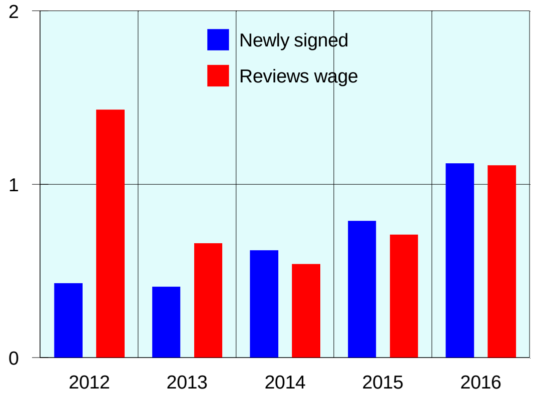
The *registered unemployment* in the Spanish Public Employment Service at the end of April decreased by 83,599 people, reaching 4,011,171. In the same month of 2015, it fell by 118,900 people. Adjusted for seasonal effects, the reduction amounts to 8,329 unemployed, which implies a m-o-m variation rate of -0.2%, versus the sharper decline (-1.1%) of the previous month. In y-o-y terms, registered unemployment fell by 7.4% in April, a drop six tenths lower than in March, which resulted in 321,845 fewer unemployed, compared to a year earlier.

G12. SOCIAL SECURITY-COVERED WORKERS AND REGISTERED UNEMPLOYMENT
year-on-year change in %



Source: MESS.

G 13. WAGE RATES
year-on-year change in %



(*) Data refers to april.
Source: MESS.

...the fall affecting the main activity branches

The number of unemployed in April fell in all the main activity branches, although at a slower pace than in the previous month, mainly in services, with 158,564 fewer unemployed (-5.6% y-o-y). In the construction sector, it fell by 71,964 people (-14.5%), by 51,508 (-12%) in industry and by 9,287 (-4.4%) in agriculture.

The agreed wage rise in collective bargaining agreements reaches 1.11% in April

According to the Collective Bargaining Agreement Statistics published by the Ministry of Employment and Social Security, the average agreed wage rise with the information available up to the end of April reached 1.11%. This figure was obtained on the basis of 1,385 agreements affecting 468,400 companies and 4,405,980 workers. The provisional percentage of these salaried employees covered by the global collective bargaining of last year stood at 59% and the wage rate was three tenths higher than the one temporarily agreed in 2015 (0.81%).

It should be noted that the significant increase in the number of affected workers by the collective bargaining in comparison to April last year is mainly due, according to the Ministry of Employment and Social Security, to "the changes made in the Collective Bargaining Agreements Registry making mandatory the incorporation of annual reviews, when these are known and contained in the text at the time of registering multi-year agreements." However, it is important to note the provisional nature of the information available to date, as that of 2014.

Of all the agreements signed until April, 1,218 correspond to wage revisions of multi-year agreements with economic effects in 2016, affecting 4,124,529 workers and the agreed wage increase is 1.11%. The newly signed agreements during 2016 stand at 167 and affect 281,451 workers (6.4% of the total), with a wage rise of 1.12%. Let’s not forget that, according to the "III Agreement for Employment and Collective Bargaining 2015, 2016 and 2017", negotiable wages for 2016 should adhere to a rise of 1.5%.

The rate agreed in firm-level agreements (0.72%) was lower than that signed in Other Levels (1.13%). In turn, among the non-agricultural activity branches, services leads the agreed wage rise with 1.14%, followed by industry (1.11%) and construction (0.67%). On the other hand, the agricultural sector maintained the wage increase at 0.89%.

External sector

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

According to the Balance of Payments data, in February 2016, the Spanish economy generated **net borrowing** from the rest of the world for the second consecutive month (€ 761 million), below the one recorded a year earlier (€ 2 billion).

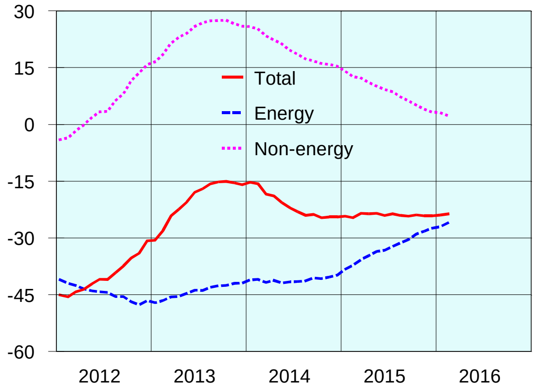
The current account balance recorded a € 1.5 billion deficit in February, in contrast with the € 2.0 billion deficit registered in the same month of 2015, given that a 5.4% y-o-y increase in the surplus of goods and services coincided with a 17.2% decrease of the deficit of primary and secondary income. Meanwhile, the surplus in the capital account amounted to € 694 million, versus the € 15 million registered in February last year.

The trade balance deficit fell by 13.6% in February

According to Customs data, the **trade balance** recorded a deficit of € 1.8 billion in February 2016, versus the deficit of € 2.0 billion registered a year earlier. The correction of the external imbalance (of 13.6%) was due to the energy component, which registered a deficit decrease of 41%, while the non-energy balance went from positive to negative.

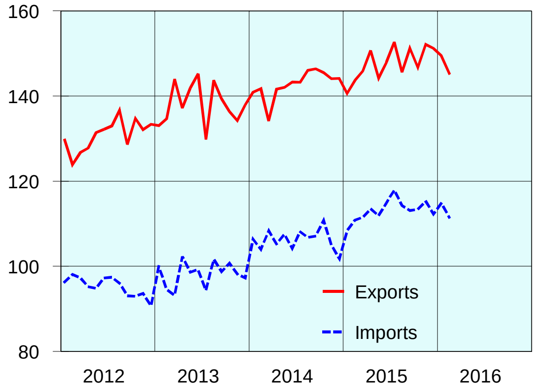
In cumulative terms for the last twelve months, the trade balance recorded a deficit of € 23.7 billion up to February 2016, compared with the € 24.7 billion deficit accumulated in the twelve months up to February 2015. The 4% improvement in the external balance is due to the energy balance, which recorded a cumulative deficit of € 26.0 billion, € 11.2 billion less than that registered a year earlier. The energy balance more than offset the fall of the non-energy balance, which registered a surplus of € 2.3 billion, lower by € 10.3 billion than the one recorded in the previous year.

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 accelerated

According to Customs figures, goods exports increased in February by 2.7% y-o-y, and their prices, approximated by unit value indices, fell by 2.1% (-1% in January), resulting in a 4.9% increase in real terms, after the 3.2% registered in January. The analysis by product groups in real terms and in y-o-y rates, shows an acceleration in exports of consumer goods, food (1.4 percentage points, up to 6.3%) and especially exports of non-food consumer goods (2.8 p.p. to 10%), the return to positive rates of non-energy intermediate goods (3.8% versus -0.2% in January), the slowdown in capital goods (9.9 p.p., down to 4%) and the highest rate of decline in exports of energy intermediate goods (falling from -9.8% in January, down to -34.2% in February).

By geographical areas, exports in volume to the European Union increased by 5.1% in February, eight tenths less than in January, and exports to the rest of the world changed sign, from the 2.6% decline registered in January, to a 4.4% increase in February.

Goods imports increased by 1.2% y-o-y in nominal terms in February, after the 0.8% registered in January, and their prices fell by 3.3% (-2.2% in January). This evolution reflects a price fall in energy intermediate goods of 29% and an increase of 0.7% in the other products. As a result, imports in real terms, experienced a y-o-y increase of 4.6%, following the 3% registered in the previous month. The analysis by products in real terms and in y-o-y rates reflects an acceleration in purchases of consumer goods, food (5.6 p.p., up to 13.9%) and non-food (4.2 p.p., to 11.8%), and of non-energy intermediate goods (4.5 percentage points, to 6.1%), while imports of capital goods change sign (from 3.6% in January to -4.2% in February) and energy intermediate goods accentuate the decline from the virtual stabilisation registered in January (-0.1%) down to -12.8% in February.

By geographical areas and in real terms, imports from the European Union grew by 3% y-o-y in February, almost one point higher compared to January, and those from the rest of the world went from recording an increase of 4.3% in January to 7% in February.

The "momentum" of exports and imports register 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 February (-0.9%),coinciding with that of imports, in both cases due to the negative contribution of the OECD countries and by products, to the negative contribution of energy intermediate goods and capital goods.

The financial account generated net capital outflows in February

According to the Balance of Payments, in February 2016 the financial account, excluding the Bank of Spain assets, recorded net capital outflows of € 7.6 billion, versus the net outflows of € 717 million recorded a year earlier. This result is explained by the net outflows registered in portfolio investment (€ 21.4 billion), as a result of the divestments of the non-residents in Spain and, to a lesser extent, of the investments abroad by residents, and in direct investment (€ 2.6 billion), which offset the net inflows from other investment (€ 15.9 billion) and financial derivatives (€ 493 million).

The assets net variation recorded net capital outflows (investments) of € 4.5 billion in February, below the net outflows of € 14.0 billion registered in the same month of 2015. On the other hand, the liabilities net variation generated net outflows (disinvestments) of € 3.1 billion, versus the net inflows of € 13.3 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 € 13 billion in February, an amount that includes an increase of € 14.1 billion in the net position vis-à-vis the Eurosystem, a decrease of € 48 million in reserves and an improvement of € 1.1 billion in the remaining net assets.

Public sector

On 26th April 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 February 2016. It also published the State monthly budget execution data, both in terms of National Accounts and Cash, for March.

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 March.

The General Government consolidated deficit, excluding Local Governments, stands at 1.13% of GDP up to February 2016

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded up to February 2016 a deficit of € 12.7 billion (1.13% of GDP), 28% higher in comparison to the same period of 2015 (0.92% of GDP). This deficit increase is explained by a y-o-y decrease of non-financial resources (-2.7%) and by an increase of non-financial uses (2%).

The decrease in revenues is largely explained by the falls in taxes on production and imports (-5.1%) and current taxes on income and wealth (-16.1%, largely affected by the extraordinary revenues of the Central Government for inspection reports in 2015), partially offset by the increase in social contributions (2.6%). Regarding non-financial uses, these mainly increased due to the rise in social contributions other than transfers in kind (1.4%), compensation of employees (0.8%), intermediate consumption (3%) and gross fixed capital formation (6.9).

The Central Government ended the first two month period of 2016 with a deficit of € 12.9 billion (1.14% of GDP), almost 15% higher than the figure registered in the same period of 2015 (€ 11.2 billion, equivalent to 1.04% of GDP). This deficit increase is explained by a fall of non-financial resources (-9.6%) higher than the one recorded by non-financial uses (-2.1%). The expenditure of the Central Government eligible to be included in the calculation of the expenditure rule increased by 5.4% y-o-y, with an amount of € 17.5 billion in comparison to the € 16.6 billion registered in the first two month period of 2015.

The Regional Governments accumulated a deficit of € 1.3 billion (equivalent to 0.11% of GDP) up to February this year, 40.1% higher than in the same period of 2015 (€ 910 million, equivalent to 0.08% of GDP). This higher deficit is explained by an increase of non-financial resources (0.6% y-o-y) lower than the one registered by non-financial uses (2.1%). This evolution is due to the fact that in 2015 the Regional Governments received advances on account from the financing system amounting to € 895 million, while in February 2016 the advances amounted to € 381 million. If this effect is removed in both periods, the accumulated deficit in February this year amounted to € 1.7 billion, 8.3% lower than in the same period of 2015. The expenditure of the Regional Governments eligible to be included in the calculation of the expenditure rule in the analysed period increased by 2.5% y-o-y, with an amount of € 21.2 billion.

As for Social Security Funds, these ended the first two month period of 2016 with a surplus of € 1.5 billion (0.13% of GDP), 33.8% lower than the figure registered in the same period of 2015 (€ 2.2 billion). This balance reduction is explained by a fall of non-financial resources (-2.1%), due in turn to the decline of transfers received (-18.3%) and to an increase in non-financial uses (0.9%). This evolution is mainly due to the result of the State Public Employment Service, which went from recording a surplus of € 655 million in the first two months of 2015 to a surplus of € 180 million in the same period of 2016, mainly due to lower State transfers.

The State's deficit stands at 0.78% of GDP in March in terms of National Accounts

Up to March 2016, the budget execution of the State ended with a deficit, in terms of National Accounts, of € 8.8 billion (0.78% of GDP), 18.2% lower than the deficit accumulated in the same period of 2015. This lower deficit was due to a y-o-y decrease in non-financial resources (-0.2%) lower than the one registered by non-financial uses (-3.8%).

In terms of Cash, the State recorded a deficit of € 11.1 billion up to March 2016, higher by 35.3% to the figure recorded in the same period of 2015 (€ 8.2 billion). Non-financial revenues decreased by 21.6% y-o-y, reaching € 27.3 billion, while non-financial payments decreased by 10.8%, down to € 38.4 billion.

Tax revenues decrease by 0.3% y-o-y in the first quarter of the year, in homogeneous terms

Total tax revenues (including the Regional and Local Governments' share) recorded a y-o-y increase of 0.3% up to March. In homogeneous terms, that is, adjusted by the different tax rebates rate in both years, the IVMDH refunds (health cent) and the deferrals of public entities, tax revenues fell by 0.3%. Without including the Regional and Local Governments, and in non-homogeneous terms, they decreased by 2.7%.

Within total taxes, revenues from personal income tax, including the Regional and Local Governments' share, decreased by 5.6% up to March, mainly due to the reform impact in labour and capital withholdings (-5.2% and -6.7%, respectively), which, according to the information provided by the Central Tax Agency, has reduced personal income tax revenues by € 1.5 billion. In homogeneous terms, the reduction stands at 2.8%.

Revenues from corporate tax recorded a negative figure of € 4.0 billion up to March, due to the rebates made, although these were lower by 8.5% than in the same period of 2015.

VAT revenues, including the Regional and Local Governments' share, increased by 3.6% y-o-y up to March. In homogeneous terms, adjusted by the different tax rebates rate, the increase stands at 2.5%.

Excise duties collection, including the Regional and Local Governments' share, was 6.4% higher compared to the figure registered in the first quarter of 2015, mainly due to the increase in the Duty on Hydrocarbons (13.5%, which in homogeneous terms and once the health cent refunds are corrected stands at 4.4%), and to a lower extent, to the increase in Excise on Tobacco Products (0.8%).

Non-financial payments decrease by 10.8% up to March

With regard to expenses, total non-financial payments decreased by 10.8% y-o-y in the first quarter of this year, due to the fall of staff expenses (-8.3%), current transfers (-10.7%), real investments (-34.2%), capital transfers (-34.8%) and financial expenses (-2.2%). On the other hand, current expenses on goods and services increased by 8%.

The borrowing requirement of the State rises in the first quarter of 2016

The borrowing requirement of the State recorded in the first quarter of 2016 amounted to € 26.8 billion, compared to the € 16.2 billion recorded in the same period of 2015 (64.7% higher). This increase is due to the cash deficit increase (€ 11.1 billion, compared to the € 8.2 billion recorded a year earlier) and to the higher net increase of financial assets (€ 15.6 billion, compared to the € 8.0 billion recorded in the same period of 2015). This is mainly due to the rise in the positions in the Bank of Spain current account. The borrowing requirement was mainly financed through mid and long term domestic debt (€ 19.4 billion) and 12 month or less Treasury Bills (€ 1.7 billion). On the other hand, the State's debt, according to the methodology of the Excessive Deficit Procedure (EDP), stood at € 938.3 billion at the end of March, compared to € 883.4 billion registered a year earlier.

The Social Security records surplus up to March

On the other hand, up to March 2016, the Social Security System (Managing Entities, General Treasury and Mutual Insurers) recorded a surplus of € 3.4 billion in terms of Cash, slightly above the figure recorded in the same period of 2015 (€ 3.3 billion). Revenues increased by 2.7% mainly due to the momentum of social contributions, which rose by 1.9%, and to the current transfers, which increased by 10% due to the State's higher current transfers (10.5%). Payments increased by 2.7%, mainly boosted by temporary disability, pensions and other benefits. Finally, regarding Social Security's management expenses, staff expenses fell by 4% and current expenses on goods and services decreased by 8.9%.

The General Government EDP debt accelerates slightly in February

The Bank of Spain published the General Government Debt data for February 2016, according to the EDP methodology. According to the Bank of Spain, the General Government EDP Debt accelerated half a point in February compared to January, to 3.4% year on year, reaching € 1,081.3 billion.

By subsectors, the State EDP Debt stood at € 925.2 billion, recording a 5.5% increase compared to the figure registered in the same period of 2015. On the other hand, the Regional Government EDP Debt reached € 263 billion, 10.3% higher than that recorded a year earlier. Regarding the Social Security Administrations, the EDP Debt reached € 17.2 billion, a figure almost identical to the one registered in February 2015. Finally, Local Corporations registered in February an EDP Debt of € 35.4 billion, 8.5% lower compared to that of a year earlier.

May 2016