

**QUARTERLY BULLETIN**

**May 2016**

**SPANISH  
ECONOMY  
REPORT**



GOBIERNO  
DE ESPAÑA

MINISTERIO  
DE ECONOMÍA  
Y COMPETITIVIDAD

The Spanish Economy: recent developments and prospects: May 2016

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Madrid: Ministerio de Economía y Competitividad, Centro de Publicaciones, 2016  
V; 26 cm.

I. 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: 720-15-048-2

e-NIPO: 720-15-049-8

DEPÓSITO LEGAL: M-8493-2014

**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

## 1. FINANCIAL MARKETS

The financial markets between late March and early June were conditioned by the rebound in oil prices and the uncertainty associated with the slowdown of the world economy, in a context where the expectations of rising interest rates in the United States increased, especially after the release of the Federal Reserve (Fed) Minutes corresponding to the meeting held in April, and where the degree of accommodation of the Eurozone monetary policy was maintained. As a result, most stock indices and peripheral European public debt yields rose and the euro against the dollar depreciated.

### *The ECB maintains the interest rates and announces the beginning of the corporate bond purchases*

The Governing Council of the European Central Bank (ECB), on its meeting held on 2<sup>nd</sup> June, 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 10<sup>th</sup> March. In the press conference that followed the meeting, Mario Draghi confirmed that the asset purchase programme amounting to € 80 billion per month will continue at least until March 2017. Likewise, the ECB president also announced the start of the purchases under the Corporate Sector Purchase Programme (CSPP) as of 8<sup>th</sup> June and the implementation of the first operation in the new series of Targeted longer-term refinancing operations (TLTRO II) as of 22<sup>nd</sup> June. According to Draghi, the monetary expansion is improving the financing conditions and boosting the economic recovery in the Eurozone, although there are still downside risks associated with the developments in the world economy, the geopolitical risks and the forthcoming British referendum. On the other hand, the Governing Council revised upwards its growth forecasts for real GDP growth and inflation for 2016, remaining those for 2017 and 2018 virtually unchanged.

### *The Fed keeps the interest rates unchanged*

The Federal Open Market Committee (FOMC) of the Fed, in its two day meeting held on 26<sup>th</sup> and 27<sup>th</sup> April, decided to maintain the target range for the Federal Funds rate at 0.25% and 0.50%, set on 17<sup>th</sup> December 2015, in a context in which labour market conditions have improved further even as economic activity appears to have slowed down. 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 27<sup>th</sup> and 28<sup>th</sup> 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.

Table 1.1. Financial and monetary indicators

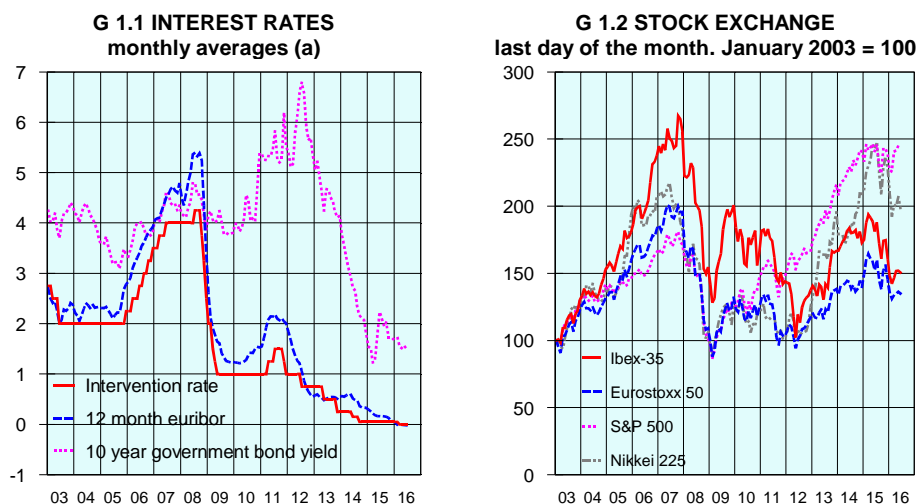
	2014	2015	2016					
			Jan.	Feb.	Mar.	Apr.	May	Jun.
<b>A) Interest rates (percentages) (1)</b>								
Official rates (2)								
Eurozone	0.05	0.05	0.05	0.05	0.00	0.00	0.00	0.00
United States	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Japan	0.10	0.10	0.10	0.10	-0.10	-0.10	-0.10	-0.10
Euribor rates								
3 months	0.21	-0.02	-0.15	-0.18	-0.23	-0.25	-0.26	-0.26
12 months	0.48	0.17	0.04	-0.01	-0.01	-0.01	-0.01	-0.02
Debt market (3)								
3 years	0.92	0.36	0.23	0.26	0.13	0.13	0.08	0.02
5 years	1.46	0.81	0.67	0.67	0.55	0.54	0.51	0.49
10 years	2.71	1.74	1.73	1.72	1.55	1.51	1.57	1.51
Bank rates (3)								
Loans and credit. Synthetic rate	3.84	2.94	2.92	2.65	2.92	2.88	-	-
Mortgage loans (households)	3.11	2.50	2.36	2.34	2.29	2.31	-	-
Deposits. Synthetic rate	0.61	0.29	0.22	0.21	0.21	0.18	-	-
<b>B) Spreads (basis points) (1)</b>								
Spain-Germany 10 years	147	120	124	149	134	134	140	137
USA-Germany 10 years	131	159	161	155	169	163	165	170
<b>C) Eurozone monetary aggregates (4)</b>								
M1	8.10	10.80	10.50	10.30	10.10	9.70	-	-
M2	3.80	5.30	5.50	5.40	5.40	5.00	-	-
M3	3.80	4.70	5.10	4.90	5.00	4.60	-	-
<b>D) Exchange rates (1)</b>								
Dollar/euro	1.329	1.110	1.086	1.109	1.110	1.134	1.131	1.118
% (4)	-10.0	-11.8	-6.6	-2.3	2.4	5.2	1.4	-0.3
Yen/euro	140.4	134.3	128.3	127.3	125.4	124.3	123.2	122.0
% (4)	3.8	-10.0	-6.7	-5.4	-3.9	-3.6	-8.6	-12.1
Yen/dollar	105.8	121.0	118.2	114.8	113.0	109.6	108.9	109.1
% (4)	15.4	2.0	-0.1	-3.3	-6.1	-8.4	-9.9	-11.8
Effective nominal euro rate	101.8	92.3	93.6	94.7	94.1	94.8	95.1	94.6
% (4)	-4.3	-6.6	-1.7	1.5	3.8	5.7	3.8	2.5
<b>E) Stock market indexes % (5)</b>								
Madrid General Index	3.0	-7.4	-7.9	-11.3	-8.8	-5.6	-5.6	-6.5
IBEX 35	3.7	-7.2	-7.6	-11.3	-8.6	-5.4	-5.3	-6.1
Eurostoxx – 50	1.2	3.8	-6.8	-9.8	-8.0	-7.3	-6.2	-7.2
Dow Jones	7.5	-2.2	-5.5	-5.2	1.5	2.0	2.1	2.4
Standard & Poors 500	11.4	-0.7	-5.1	-5.5	0.8	1.0	2.6	3.0
Nikkei 225	7.1	9.1	-8.0	-15.8	-12.0	-12.4	-9.5	-13.0

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

Source: European Central Bank and Banco de España.

### ***The BoE keeps the interest rates and the asset purchase programme unchanged***

Likewise, the Monetary Policy Committee of the Bank of England (BoE), in the meeting held on 11<sup>th</sup> May, decided to keep the Official Bank Rate at 0.5% (in force since 5<sup>th</sup> 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%.



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

Source: Bolsa de Madrid, Nasdaq and Stoxx.

### ***The Central Bank of Sweden maintains the interest rates and expands the public debt purchase programme***

Following the meeting held on 20<sup>th</sup> 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 3<sup>rd</sup> 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 a 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 continued the slightly downward trend between late March and early June, remaining close to zero, in a context of maintenance of the degree of monetary policy accommodation in the Eurozone. As a result, the yield curve shifted downwards during the above-mentioned period, the one, six and twelve month Euribor standing on 2<sup>nd</sup> June at -0.349%, -0.153% and -0.017%, respectively (-0.334%, -0.132% and -0.005% at the end of March). More specifically, the 12-month Euribor profile is explained by the slight decrease of the risk premiums required in this market (the Euribor-OIS differential reached 36 basis points, 1 b.p. below the figure registered on 31<sup>st</sup> March), while the expectation of the rate

stability was maintained, since the Overnight Index Swap (OIS), which indicates the rates expectations, reached -0.38% for the twelve-month Euribor, the same level as the one recorded at the end of March.

### *Peripheral European public debt yields rise*

In the secondary public debt market, peripheral European yields increased during April as a result of the risk aversion increase, in a context of oil prices increases and maintenance of the ECB monetary policy. However, peripheral yields edged downwards since mid-May, especially after the agreement reached between the Greek authorities and the European institutions, partially offsetting the cumulative increases.

This agreement will entail the disbursement of the second tranche of the financial assistance programme, amounting to € 10.3 billion, which will be used to meet the debt service and for arrears clearance. Likewise, based on the general principles agreed on 9<sup>th</sup> May, a package of measures to ensure the sustainability of the Greek public debt is included, which will be phased in progressively and that will be subject to the conditionality of the programme.

Thus, the 10-year Spanish bond yield stood on 2<sup>nd</sup> June 2016 at 1.49%, 4 b.p. above the figure recorded on 31<sup>st</sup> March. On the other hand, the German bond yield fell 4 basis points during that period, down to 0.11%, the Spain-Germany differential standing at 138 b.p., 8 b.p. above the level recorded in late March. Meanwhile, the Spain-Italy differential stood at 11 b.p., compared to 22 b.p. recorded on 31<sup>st</sup> March.

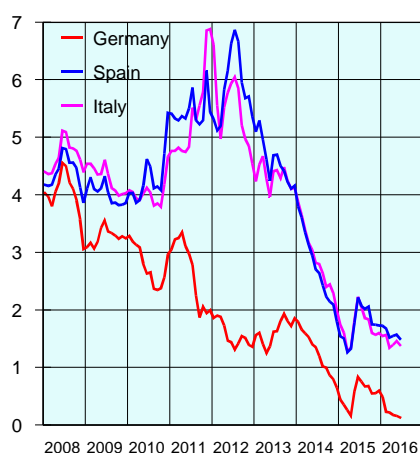
Table 1.2. **Ten-years government bond yields**  
% and basis points

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-31-15	Mar-31-16	Jun-02-16	Variation in bp		Dec-31-15	Mar-31-16	Jun-02-16	Variation in bp	
				Period (3)-(2)	Annual (3)-(1)				Period (6)-(5)	Annual (6)-(4)
(1)	(2)	(3)	(3)-(2)	(3)-(1)	(4)	(5)	(6)	(6)-(5)	(6)-(4)	
Germany	0.63	0.15	0.11	-4	-52					
Austria	0.91	0.36	0.30	-6	-61	28	21	19	-2	-9
Holland	0.79	0.23	0.33	10	-46	16	8	22	14	6
Finland	0.92	0.44	0.40	-4	-52	29	29	29	0	0
France	0.99	0.41	0.47	6	-52	36	26	36	10	0
Belgium	0.97	0.38	0.52	14	-45	34	23	41	18	7
Ireland	1.15	0.73	0.79	6	-36	52	58	68	10	16
Italy	1.61	1.23	1.38	15	-23	98	108	127	19	29
Spain	1.80	1.45	1.49	4	-31	117	130	138	8	21
Portugal	2.54	2.78	3.18	40	64	191	263	307	44	116
Greece	8.35	8.68	7.29	-139	-106	772	853	718	-135	-54

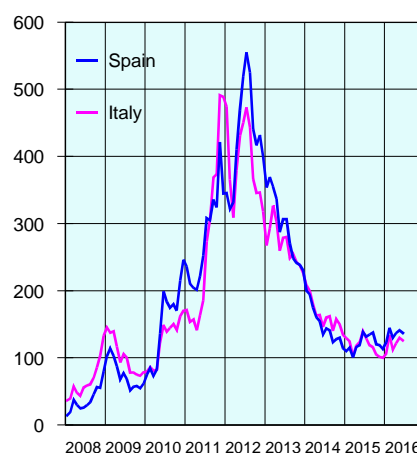
Source: Financial Times.

### *The stock indices rise in a context of volatility*

In the stock markets, the indices on both sides of the Atlantic rose between late March and early June in a context of high volatility, driven by the increase of the energy stock prices due to the rise in oil prices, and by the continuation of the ECB quantitative expansion, as well as by the agreement reached in late May between the Greek authorities and the European institutions.

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


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

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


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

In Europe, the Eurostoxx 50 index increased by 1% during that period, despite the uncertainty associated with the evolution of the world economy. In Spain, the IBEX 35 recorded in early June a 2.7% increase in comparison to late March, dropping by 6.1% compared to late last year. In the US market, the S&P 500 index rose by 2.2% between 31<sup>st</sup> March and 2<sup>nd</sup> June, affected by the release of the Fed Minutes corresponding to the meeting held in April, showing that some FOMC members consider it appropriate to increase the interest rates, given the lower downward risks associated with the world economic and financial developments, the favourable evolution of the labour market conditions and the expectation of an inflation increase in the US this year.

**Table 1.3. International stock exchanges**

Countries	Indexes	Level Jun-02-16	% Variation	
			Mar-31-16	Dec-31-15
Germany	DAX	10,208.00	2.4	-5.0
France	CAC 40	4,466.00	1.8	-3.7
Italy	FTSE MIB	17,767.30	-1.9	-17.0
Spain	IBEX 35	8,957.90	2.7	-6.1
Eurozone	EUROSTOXX 50	3,033.86	1.0	-7.2
United Kingdom	FTSE 100	6,185.61	0.2	-0.9
United States	S&P 500	2,105.26	2.2	3.0
Japan	NIKKEI 225	16,562.55	-1.2	-13.0
China	SHANGHAI COMP	2,925.23	-2.6	-17.3
Mexico	IPC	45,508.31	-0.8	5.9
Brazil	BOVESPA	49,887.24	-0.3	15.1
Argentina	MERVAL	12,717.90	-2.1	8.9

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

### *The euro depreciates against the dollar*

With respect to the currency market, the exchange rate of the euro against the dollar depreciated especially during May, due to higher expectations of a monetary policy normalisation

in the United States in the short term, following the concerns expressed by some FOMC members with regards to the risks associated with a too slow withdrawal of the accommodative monetary policy. Thus, in the period between late March and early June, the euro depreciated by 1.7%, 4.6% and 2.3% against the dollar, the yen and the pound, respectively, trading at the end of the 2<sup>nd</sup> June session at 1.1188 dollars, 121.96 yen and 0.77335 pounds. In that same period, the euro depreciated by 0.4% in nominal effective terms.

### *The M3 broad monetary aggregate moderates its rate of growth in April*

On 31<sup>st</sup> May, the ECB published the evolution of the monetary and credit aggregates in the Eurozone in April 2016. The M3 broad aggregate slowed down by four tenths, down to 4.6% y-o-y, due to the moderation of the currency in circulation and overnight deposits growth rates (1.3 and 0.3 points, respectively, to 4.6% and 10.7% y-o-y), and the higher decline of other short-term deposits (-2.8%, a rate four tenths lower compared to that of March) and marketable instruments (from -1.0% to -1.6%).

Table 1.4. Eurozone monetary aggregates

Monetary aggregates	April 2016 Balance (Billions €)	% Year-on-year variation		
		February 2016	March 2016	April 2016
1. Currency in circulation	1,048	5.7	5.9	4.6
2. Overnight deposits	5,748	11.2	11.0	10.7
<b>M1 (= 1 + 2)</b>	<b>6,795</b>	<b>10.3</b>	<b>10.1</b>	<b>9.7</b>
3. Other short-term deposits (= 3.1. + 3.2.)	3,571	-2.6	-2.4	-2.8
3.1. Term deposits up to two years	1,409	-7.4	-6.8	-7.3
3.2. Deposits redeemable at notice up to three months	2,163	0.9	0.6	0.4
<b>M2 (= M1 + 3)</b>	<b>10,366</b>	<b>5.4</b>	<b>5.4</b>	<b>5.0</b>
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	664	-2.4	-1.0	-1.6
4.1. Repurchase agreements	93	-28.1	-28.9	-26.9
4.2. Money market funds shares units	472	7.6	7.6	6.5
4.3. Securities other than shares up to two years	98	-12.2	-2.8	-4.5
<b>M3 (= M2 + 4)</b>	<b>11,030</b>	<b>4.9</b>	<b>5.0</b>	<b>4.6</b>

Source: European Central Bank.

### *Financing to the private sector in the Eurozone accelerates slightly*

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, grew by 1.2% y-o-y in April, one tenth more than in March, due to the higher increase of bank loans (1.1% compared to the 1% increase registered in the previous month) and of securities other than shares (4.1%, a rate 0.8 points higher than in March). Furthermore, shares and other equity decreased 2.4% y-o-y, a fall one tenth higher than that of the previous month. Within loans, those received by households increased by 2.2%, a rate identical to the one registered in the previous two months, and those received by non-financial corporations accelerated one tenth, up to 0.9% y-o-y.



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

	April 2016 Balance (Billions €)	% Year-on-year variation		
		February 2016	March 2016	April 2016
<b>Financing to the private sector</b>	<b>12,717</b>	<b>1.2</b>	<b>1.1</b>	<b>1.2</b>
<b>Loans</b>	<b>10,652</b>	<b>1.2</b>	<b>1.0</b>	<b>1.1</b>
<b>Households</b>	<b>5,344</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>
<i>House purchases</i>	3,980	2.3	2.3	2.3
<i>Consumer credit</i>	604	5.0	5.1	5.3
<i>Other lending</i>	759	-0.3	-0.5	-0.8
<b>Non-financial corporations</b>	<b>4,293</b>	<b>0.7</b>	<b>0.8</b>	<b>0.9</b>
<b>Insurance companies &amp; pension funds</b>	<b>114</b>	<b>-6.9</b>	<b>-19.1</b>	<b>-16.4</b>
<b>Other financial intermediaries</b>	<b>901</b>	<b>-1.4</b>	<b>-1.3</b>	<b>-1.7</b>
<b>Securities other than shares</b>	<b>1,317</b>	<b>2.9</b>	<b>3.3</b>	<b>4.1</b>
<b>Shares and other equities</b>	<b>748</b>	<b>-1.4</b>	<b>-2.3</b>	<b>-2.4</b>

(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 1<sup>st</sup> June 2016, the financing stock to the private non-financial sector decreased by 2.1% y-o-y in April, two tenths more than in the previous month. Financing received by firms registered a y-o-y rate of -1.8%, identical to the figure registered in the previous month, due to the fact that the higher drop in foreign loans was offset by the moderation in the pace of decline in bank loans and securities other than shares. On the other hand, financing received by households recorded a y-o-y rate of -2.4%, three tenths lower compared to the previous month, due to the slowdown in bank loans for purposes other than housing and the higher decrease of bank loans for housing.

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

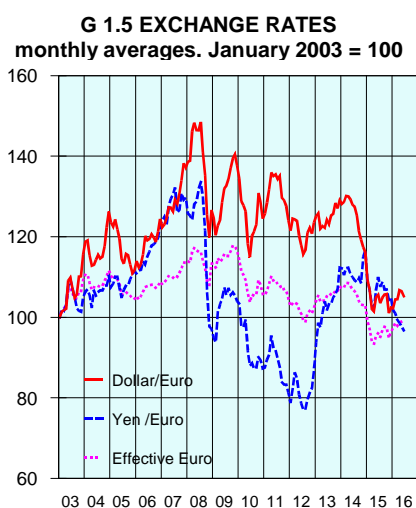
	April 2016 Balance (Billions €)	% Year-on-year variation		
		February 2016	March 2016	April 2016
<b>Non-financial corporations and households</b>	<b>1,626</b>	<b>-1.6</b>	<b>-1.9</b>	<b>-2.1</b>
<b>Non-financial corporations</b>	<b>908</b>	<b>-1.2</b>	<b>-1.8</b>	<b>-1.8</b>
<i>Bank loans</i>	541	-1.2	-2.0	-1.8
<i>Securities (1)</i>	82	-3.3	-4.8	-0.5
<i>External loans</i>	285	-0.5	-0.5	-2.3
<b>Households</b>	<b>718</b>	<b>-2.1</b>	<b>-2.1</b>	<b>-2.4</b>
<i>Bank loans. Housing</i>	554	-3.4	-3.6	-3.9
<i>Bank loans. Other</i>	164	2.6	3.4	3.0
<b>General Government</b>	-	<b>3.4</b>	<b>4.1</b>	-
<b>Total financing</b>	-	<b>0.3</b>	<b>0.4</b>	-

(1) Other than shares.

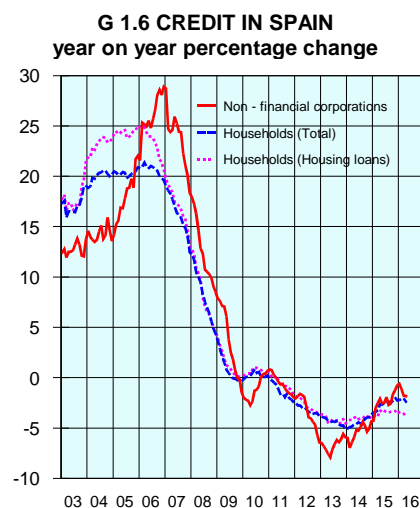
Source: Banco de España.

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

According to data published by the Bank of Spain on 31<sup>st</sup> May, the amount of new loan and credit operations to households, in cumulative terms for the last twelve months, increased by 25.5% y-o-y in April, seven tenths more compared to March. This acceleration is due to the higher increase of credits for house purchases and for consumption (38.9% and 25.9% y-o-y, 6.9 and 2.6 points higher than in March, respectively), partially offset by the slowdown of credits for other purposes (10.2 points, to 4.9% 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 April, by 0.1% y-o-y, an increase one tenth higher than the one recorded in the previous month. On the other hand, the amount of new loan and credit operations exceeding one million euros declined 2.4% y-o-y, compared to the 1.7% increase registered in March.



Source: European Central Bank (ECB).



Source: Banco de España (BE).

## **2. - DEMAND AND PRODUCTION**

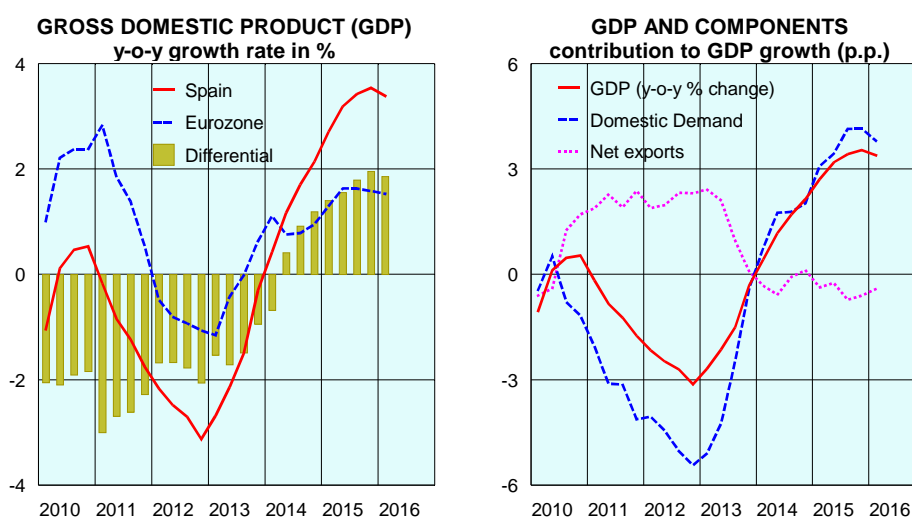
The recent international context has been influenced on the one hand, by the agreement on the disbursement of the second tranche of the financial assistance programme for Greece and on the other, by the rising oil prices linked to a series of production interruptions in several countries. In the financial area, the expectation of rising interest rates in the United States was maintained, so that the stock indices in the US and in the EU rebounded, the European public debt yields fell, especially peripheral European public debt yields, and the euro depreciated against the dollar.

As far as the real economy is concerned, the activity for advanced economies outside the Eurozone showed some weakening in the first quarter of 2016, while in emerging economies the latest data continue to show heterogeneity. The Eurozone GDP increased by 0.5% q-o-q in the first quarter, two tenths more than in the last quarter of 2015. In Spain, according to the Quarterly National Accounts data published by the INE, the economy grew by 0.8% q-o-q in the first quarter of 2016, as in the previous two quarters, and three tenths higher than in the Eurozone. This growth, intensive in employment as more than half a million jobs were created in the last twelve months, confirms the consolidation of the Spanish economy recovery process that began in mid-2013.

### *The OECD revised upwards the Spanish GDP growth forecast for 2016*

In the latest *Economic Outlook* update made in June, the OECD revised upwards by one tenth the GDP growth forecast for the Spanish economy for 2016, setting it at 2.8%. This improvement is based on the maintenance of both the job creation path, the low oil prices and the ECB expansionary monetary policy, positive factors tempered by the emerging economies slowdown and the political uncertainty. For 2017, the OECD predicts the depletion of some of these temporary momentum factors, downgrading by two tenths the GDP growth forecast for 2017, down to 2.3%.

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



Sources: INE (QNA-2010), seasonally and calendar adjusted data and Eurostat.

Similarly, the projections for the Spanish economy published by the Bank of Spain maintain the growth forecasts for 2016 and 2017 published in March, with real GDP growth rates reaching 2.7% and 2.3%, respectively. For 2018, it foresees an increase of 2.1%. This deceleration profile is due to the loss of momentum of some factors that boosted temporarily the activity, such as the drop in oil prices, the depreciation of the euro or some budgetary stimuli. The lower momentum of these factors would be partially and in the medium term offset with the gradual improvement of the export markets.

### *The solid progress of the Spanish economy keeps going in the first months of the year*

The consolidation of the Spanish economy recovery process that began in mid-2013, in a global and European context of moderate growth, is reflected in the Quarterly National Accounts results for the first quarter of 2016, published by the INE. According to these data, the GDP, in volume and with calendar and seasonally adjusted data, maintained the q-o-q growth rate at 0.8% for the third consecutive quarter, accumulating eleven quarters of positive growth rates, higher than those in the Eurozone. In y-o-y terms, the GDP slowed down to 3.4%, one tenth lower than the previous quarter.

By components, the economic growth continued to rely on domestic demand, with a contribution to the GDP y-o-y growth of 3.8 percentage points, three tenths lower than that of the

previous quarter. Conversely, the detraction of the net external demand moderated, from -0.6 percentage points in the fourth quarter of 2015 up to -0.4 points in the first quarter of 2016. In line with the GDP evolution, the rate of full-time equivalent employment creation, both on a y-o-y and q-o-q terms, increased by two and three tenths, respectively, in the first quarter, up to 3.2% y-o-y and 0.9% q-o-q. Thus, more than half a million full-time equivalent jobs were created last year (almost 533,000), 30% of them approximately in the first quarter of 2016 (more than 154,000). By activity branches, the full-time equivalent employment accelerated in services and industry, four and one tenth respectively, registering y-o-y growth rates of 3.4% and 2.4%, while job creation in construction lost dynamism and recorded a growth rate of 0.9%, more than two points lower than that registered in the previous quarter (3.1%). On the other hand, the total hours worked increased by 3.2%, seven tenths higher than in the previous quarter, being the largest increase since the third quarter of 2006 (3.9%).

Table 2.1. **Quarterly National Accounts**

Chain-linked volume base 2010; corrected data from seasonal and calendar effects

	2013	2014	2015	year-on-year change				q-o-q change	
				II-15	III-15	IV-15	I-16	IV-15	I-16
<b><u>DEMAND</u></b>									
Domestic consumption	-3.0	0.9	3.0	2.8	3.4	3.5	3.4	0.7	0.9
- Private consumption	-3.1	1.2	3.1	2.9	3.5	3.5	3.7	0.7	0.9
- Public consumption	-2.8	0.0	2.7	2.5	3.0	3.7	2.6	0.4	0.8
Gross fixed capital investment	-2.5	3.5	6.4	6.3	6.7	6.4	5.2	1.1	0.4
- Equipment (1)	3.9	10.5	10.2	10.1	11.2	10.9	9.8	1.9	1.3
- Construction	-7.1	-0.2	5.3	5.2	5.2	4.6	3.1	0.6	-0.2
- Intellectual Property Products	2.9	2.1	1.8	1.9	1.7	2.8	2.3	1.2	0.2
Change in inventories (2)	-0.2	0.2	0.1	0.0	0.2	0.2	0.1	0.2	0.1
Domestic demand (2)	-3.1	1.6	3.7	3.4	4.1	4.1	3.8	0.6	1.0
Exports of goods and services	4.3	5.1	5.4	6.0	4.5	5.3	3.7	0.9	-0.5
- Goods (fob)	6.4	4.5	4.9	5.6	4.2	4.4	3.6	-0.2	0.0
- Services	-0.6	6.4	6.7	7.2	5.3	7.5	3.9	3.6	-1.7
Imports of goods and services	-0.3	6.4	7.5	7.4	7.2	7.7	5.4	0.3	0.3
- Goods (fob)	0.8	6.7	7.4	7.6	7.5	6.6	3.3	-0.7	-0.8
- Services	-5.7	4.5	8.1	6.2	6.0	13.5	15.3	5.4	5.4
Net foreign balance (2)	1.4	-0.2	-0.5	-0.2	-0.7	-0.6	-0.4	0.2	-0.2
<b><u>GROSS VALUE ADDED</u></b>									
Agriculture (3)	16.5	-3.7	1.9	2.0	3.7	6.2	5.5	2.7	-1.0
Industry. Total	-5.2	1.2	3.4	3.6	3.8	3.4	2.6	0.3	0.7
- Manufacturing	-1.4	2.2	3.7	3.8	4.3	4.1	4.3	0.7	1.1
Construction	-9.8	-2.1	5.2	5.8	5.1	4.0	2.6	1.5	-0.1
Services	-0.6	1.9	3.1	3.0	3.3	3.4	3.5	0.6	0.9
<b>GDP m.p.</b>	<b>-1.7</b>	<b>1.4</b>	<b>3.2</b>	<b>3.2</b>	<b>3.4</b>	<b>3.5</b>	<b>3.4</b>	<b>0.8</b>	<b>0.8</b>
<b>GDP at current prices</b>	<b>-1.1</b>	<b>1.0</b>	<b>3.8</b>	<b>3.7</b>	<b>4.1</b>	<b>4.3</b>	<b>3.2</b>	<b>0.9</b>	<b>0.2</b>

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

Source: INE (CNE-2010).

Regarding the most recent global activity short-term qualitative indicators, in the current general context of global growth moderation and rising oil prices, it is worth noting the fall of the *Economic Sentiment Indicator* (ISE, by its Spanish abbreviation) published by the European Commission by four tenths in May, reaching the level of 105.7 (1990-2015 average=100). Retail components steered upwards, rising by 2.5 points, services by 2.6 points and consumer, which increased by 1.3, while construction fell by 2.3 points and industry lost two points. In the Eurozone, the Economic Sentiment Indicator rose by seven tenths in May, reaching the level of 104.7, with a one point differential still favourable to Spain.

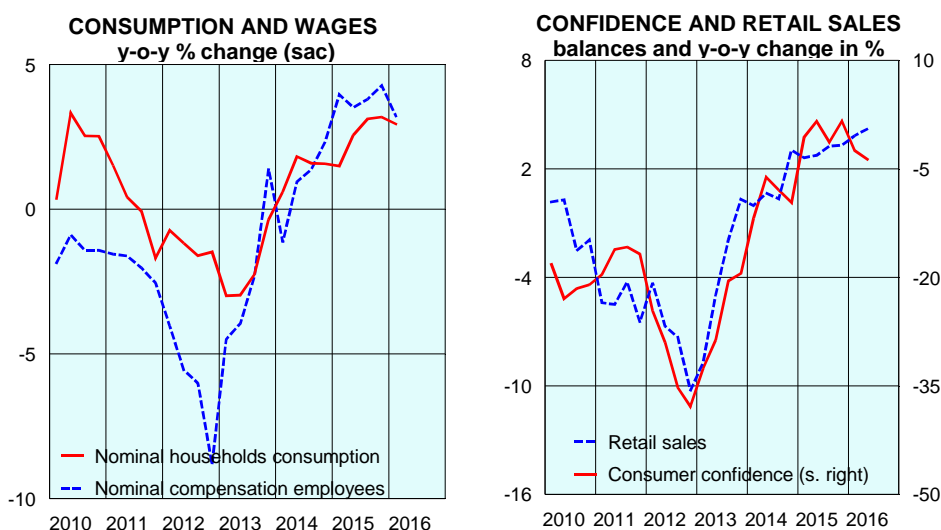
The *composite leading indicator*, published by the OECD, reached the level of 101 in April, above its long term average (101.3), thus keeping with the expansionary trend that began in late 2013 through the first four months of 2016. In addition, this level is above that registered, as average, in the OECD countries (99.6) and in the Eurozone (100.4). The Global Activity Composite PMI for Spain points in the same direction, standing at 54.8 in May, compared to the 53.1 registered by the Eurozone, and accumulating two and a half years of expansion.

## 2.1. - Domestic demand

### *Private consumption is evolves at 2006 growth rates*

Among the domestic demand components, the good performance of *private consumption* stands out, driven by the strong job creation. Households' real spending in final consumption grew by 3.7% y-o-y between January and March 2016, two tenths higher than in the previous quarter, contributing by 2.1 points to GDP growth, one tenth more than in the fourth quarter of 2015. This growth rate had not been reached since the third quarter of 2006. In q-o-q terms, the private consumption increase stood at 0.9%, two tenths higher compared to the same figure registered in the previous quarter.

### G 2.2 PRIVATE CONSUMPTION INDICATORS



Sources: INE and EC.

The most recent short-term indicators, both qualitative and quantitative, point towards the continuation of the expansionary path for private consumption in April and May, albeit at more moderate rates. Amongst the qualitative indicators, the *consumer confidence indicator* (CCI), published by the CIS, fell by almost five points in the two month period from April to May

compared to the first quarter of the year (90.9 versus 95.6 in the period from January to March), as a result of the worsening of its two components, current situation and, above all, expectations.

### *The most recent indicators point to the maintenance of consumption dynamism*

Among the quantitative indicators, *domestic sales in large companies of goods and consumption services* (with deflated, fixed-sample and calendar adjusted data) intensified the growth rate in April, up to 7.2% y-o-y, more than twice that in the previous month (3.5%). Likewise, according to the figures provided by the ANFAC (Spanish Association of Vehicles Manufacturers), *passenger car registrations* continued to grow above 20% in May, accumulating an annual increase of 21% in the two month period from April to May.

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

	2015	2016(1)	2015			2016		Latest Data
			II	III	IV	I	II(1)	
Households & bussiness financing (2)	-3.4	-3.0	-3.7	-3.6	-2.8	-3.0	-3.0	Apr.16
<b><u>Private Consumption</u></b>								
Composite Consumption Indicator (3)	4.7	4.0	3.9	5.0	4.7	4.0	-	Q.I.16
Consumer Goods. Apparent cons. (3)	6.7	7.0	5.6	7.9	7.7	7.0	-	Mar.16
IPI consumer goods (adjusted)	1.4	3.0	0.2	2.0	3.6	3.0	2.8	Apr.16
Consumer goods imports (vol.)	6.9	8.6	7.1	6.3	8.1	8.6	-	Mar.16
Retail sales index (4)	3.0	3.9	2.8	3.3	3.3	3.8	4.2	Apr.16
Passenger car registrations	20.9	12.5	13.9	23.1	16.6	6.9	21.0	May.16
Real wages (5)	4.5	4.0	3.9	4.2	4.7	4.0	-	Q.I.16
Consumer goods. Capacity utiliz. (%)	73.6	75.6	74.5	74.2	74.0	75.7	75.4	Q.II.16
Consumer confide. indicator (balances)	0.3	-2.9	1.6	-1.3	1.6	-2.5	-3.7	May.16
Large firms sales. Consumption (6)	6.0	5.8	4.5	7.0	6.7	5.3	7.2	Apr.16
Households financing (2)	-3.2	-2.4	-3.5	-3.2	-3.0	-2.5	-2.0	Apr.16
<b><u>Equipment Investment</u></b>								
Composite Equipment Indicator (3)	14.1	8.3	15.2	14.6	12.7	8.3	-	Q.I.16
Capital Goods. Apparent cons.(3)	7.7	5.7	9.0	10.6	6.8	5.7	-	Mar.16
IPI consumer goods (adjusted)	7.4	8.9	6.3	11.0	10.3	8.1	11.5	Apr.16
Capital goods imports (vol.)	14.4	1.6	10.6	18.9	11.9	1.6	-	Mar.16
Corporations financing (2)	-2.0	1.2	-2.8	-1.9	-0.2	1.2	1.4	Apr.16
Truck registrations	35.8	13.4	32.4	41.1	31.1	11.0	19.9	Apr.16
Capital goods. Capacity utilization (%)	79.9	80.8	81.0	77.2	80.8	81.5	80.2	Q.II.16
Large firms sales. Capital (6)	4.8	4.7	4.7	3.8	4.5	3.6	7.8	Apr.16

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

Likewise, the *retail general index*, with calendar adjusted data, recorded a real growth rate of 4.1% y-o-y in the first four-month period of 2016, three tenths higher compared to the figure recorded in the fourth quarter of 2015. By groups, a more dynamic trend of non-food vs. food can be observed during this period, with rates of 6% and 0.9%, respectively.

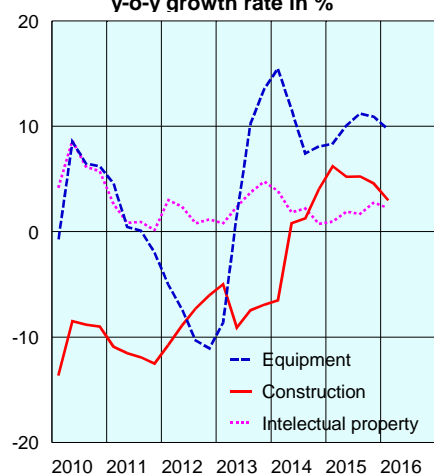
On the other hand, *the final consumption expenditure of Public Administrations*, in volume and in y-o-y terms, slowed down by more than one point in the first quarter of 2016, down to 2.6%. In q-o-q terms, it accelerated by four tenths, up to 0.8%.

### ***Strong increase in investment in equipment goods***

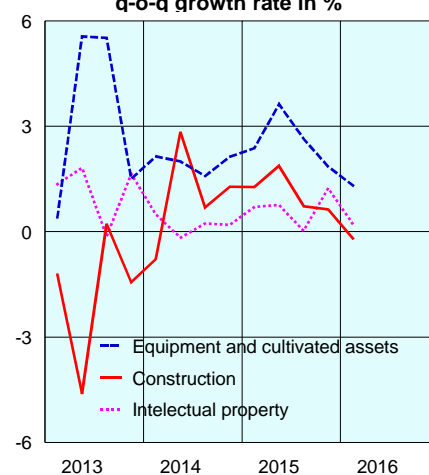
*Fixed capital investment* registered a y-o-y growth rate of 5.2% in the first three months of 2016, 1.2 points lower than that recorded in the period from September to December 2015. This moderation is explained by the evolution of its main components. Equipment investment continued to grow at a strong pace, (9.8% y-o-y), although lower by 1.1 points than that recorded in the previous quarter, construction investment decreased by 1.5 points the y-o-y variation rate, down to 3.1% and intellectual property products slowed down by five tenths, down to 2.3%.

In q-o-q terms, the gross fixed capital formation also slowed down the growth rate, by seven tenths, to 0.4%. This deceleration is due to the fall in construction investment, down to -0.2%, (registering negative rates for the first time since the first quarter of 2014), and to the six tenths deceleration of equipment goods (down to 1.3%) and intellectual property products, which grew by 0.2% q-o-q compared with the 1.2% recorded in the previous quarter. The slowdown in construction investment is due to the evolution of investment in other constructions, which went from growing by 0.7% in the last quarter of 2015 to fall by 1.2% in the first quarter of 2016, while housing investment accelerated six tenths, up to 1.2%.

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



**G 2.4 GROSS FIXED CAPITAL FORMATION**  
q-o-q growth rate in %



Source: INE (QNA-2010), seasonally and calendar adjusted data.

The most recent indicators of equipment investment showed positive signs. Domestic sales of large equipment and software companies (with deflated, fixed-sample and calendar adjusted data) grew by 7.8% y-o-y in April, 3.2 points more than in the previous month, and truck registrations, according to the figures provided by the DGT, grew at a strong pace in April this year (13.2% y-o-y), which contrasts with the similar decline recorded in the previous month (-13.3%).

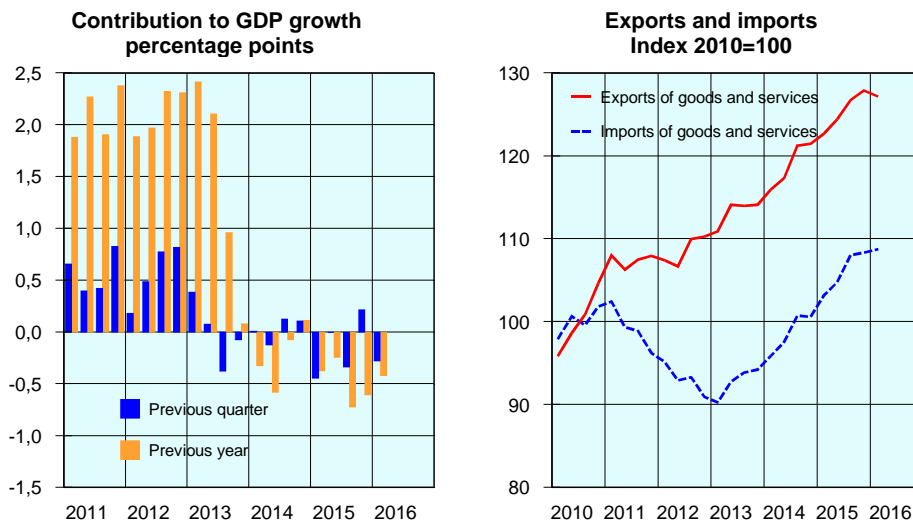
## 2.2. - Foreign demand

### *The foreign sector moderated its negative contribution to the GDP y-o-y growth*

In the first quarter of 2016, according to QNA figures, the foreign sector subtracted two tenths to the GDP q-o-q variation, after the positive contribution of two tenths in the previous quarter, as a result of a slowdown in goods and services exports (-0.5%, q-o-q rate) and a growth in imports (0.3%), after these flows increased by 0.9% and 0.3% respectively in the fourth quarter of 2015. In y-o-y terms, the net external demand subtracted four tenths from the GDP variation in the first quarter of 2016, two tenths less than in the previous period, because exports slowed down less than imports, 1.6 points (from 5.3% down to 3.7%) and 2.3 points (from 7.7% to 5.4%), respectively.

Compared to the major economies of the European Union, the q-o-q rate of Spanish real exports was lower than those of Germany, France and the UK (higher than that of Italy), while the y-o-y variation was higher: Spain (-0.5% and 3.7%, in quarterly and annual rate respectively), Germany (1% and 2.5%), France (-0.2% and 2.5%), Italy (-1.5% and -0.4%) and the UK (-0.3% and 2.1%).

### G 2.5 EXTERNAL SECTOR



Source: INE.

### *Reduced dynamism in real exports of goods and services*

Exports of goods and services continued the slowdown observed in the last months of 2015 through the first months of 2016, in line with the evolution of the activity of the main trading partners and of the major emerging economies, where a clear and widespread recovery has not been observed.

In the first quarter of 2016, the evolution of the activity of Spain's main trading partners was uneven. The GDP increased its q-o-q growth rate by four tenths in Germany (0.7%), two tenths in France (0.6%) and one tenth in Italy (0.3%); while it moderated two tenths in the United Kingdom (0.4%) and one tenth in the United States (0.2%). In the major emerging economies, different trends were observed: acceleration in Mexico (0.8) and Taiwan (0.8%), growth



moderation in China (1.1%), India (2%) and Korea (0.4%); and lower contraction in Brazil and Indonesia (-0.3% in both countries).

### ***Competitiveness improves against the countries of the European Union***

On the other hand, in the first quarter of 2016 the competitiveness index, generated at the Secretary of State for Trade and based on consumer prices compared to developed countries, reported a null variation, 0.0% y-o-y, after registering gains for six consecutive quarters, since a decline in relative prices (-1.5%) coincided with a 1.6% improvement of the nominal effective exchange rate. Regarding the European Union, a competitiveness gain of 0.6% was recorded due to the fall in the relative consumer prices index (-1.1%), higher than the 0.4% rise of the nominal effective exchange rate. Conversely, a competitiveness loss of 2.4% with regards to the BRICS countries was recorded, resulting from a significant appreciation of the nominal exchange rate index (7.5%), partially offset by the 4.7% fall of relative prices.

In the third quarter of 2015, real exports of goods and services culminated the acceleration trend that began earlier this year, registering a q-o-q growth of 1.8%, reduced by half in the fourth quarter (0.9% ) and with a negative rate (-0.5%) in the first quarter of 2016. This result indicated a stabilisation in exports of goods, after the slight decrease (-0.2%) recorded in the fourth quarter of 2015 and a fall of 1.7% in service exports, in comparison to the sharp rise observed in the last months of 2015 (3.6%). In comparison with the same period last year, goods and services exports increased by 3.7% in the first quarter of 2016, with similar rises in goods and services (3.6% and 3.9%, respectively).

### ***Real exports of goods gain market share***

In this context, the goods exports y-o-y growth (3.6%) in the first quarter of 2016 contrasts with the decline experienced by the world trade in goods (-0.6% according to the Central Planning Bureau of the Netherlands), resulting in a real market share gain of 4.3%, reaching 1.95%.

According to *Customs* figures, deflated by unit value indices, which are more volatile than the figures of the CNTR, the "momentum" of exports (variation in volume in the last three months compared to the previous three months) recorded a negative rate in March (-1.2%), due to the negative contribution of the non-EU countries, partially offset by the improvement of sales to the European Union (these account for two thirds of total exports). In y-o-y terms, real exports of goods grew by 2.5%.

By product type, the main developments in the first quarter of 2016 comprise the slowdown of the export volume of food consumer goods (2.8%, 1.6 points lower than in the fourth quarter of 2015), non-food consumer goods (6.9%, 8.6 points lower than in the previous quarter) and capital goods (2.8% versus 7.5% in the previous quarter), while exports of energy intermediate goods continued to register double-digit declines (-12.7%, following the previous -12.4%). Conversely, exports of non-energy intermediate goods recovered moderately (growing from -1.1%, up to 0.8%).

Within the non-food consumer goods group, car exports increased by 4.7% y-o-y, after the double-digit growths registered in the previous quarters. Its contribution to the growth of total exports was of 0.6 percentage points. According to ACEA, in April 2016 registrations in the European Union as a whole increased by 9.1%, with progress in most countries, including our

major trading partners: Portugal (6.4%), Italy (11.5 %), UK (2%), France (7.1%) and Germany (8.4%), suggesting that in the second quarter of 2016 car exports will continue.

### *Exports to the Eurozone accelerate and exports outside the European Union slowdown*

In the first quarter of 2016, exports in volume to the European Union and the Eurozone increased by 4.8% and 5.1% y-o-y, respectively, after the rates of 5.2% and 3.8% experienced in the fourth quarter respectively. The nominal sale growths to the UK and Benelux were particularly important. Exports to the rest of the world fell again (-2.2%), after the slight increase observed in the previous quarter. The breakdown by geographic destination outside the European Union reveals double-digit setbacks of the nominal sales to Japan, Sub-Saharan Africa, New Economies of Asia, India and Latin America, while the fall of exports to the United States moderates, those to Turkey become slightly positive and exports to China maintain their dynamism, although they slow down by five points. The growth of total exports was entirely due to the evolution of exports to the European Union, whose contribution to the increase in total exports was 3.1 points in the first quarter, three tenths less than in the fourth quarter of 2015, while the contribution of exports outside the European Union became negative again (-0.8%), following the slight improvement registered in the previous quarter.

Table 2.3 Foreign trade by category of goods, volume

	Weight in Total	Year-on-year change (%)					Contribution to growth			
		2015	2015				2016	2015		2016
			I	II	III	IV		III	IV	
<b>Total exports</b>	<b>100.0</b>	<b>3.7</b>	<b>3.9</b>	<b>3.4</b>	<b>3.7</b>	<b>2.5</b>	<b>3.4</b>	<b>3.7</b>	<b>2.5</b>	
<i>Consumer goods</i>	38.2	12.4	9.7	10.5	11.2	5.5	3.7	4.2	2.2	
Foods	13.7	6.4	6.0	9.0	4.4	2.8	1.3	0.6	0.4	
Others goods	24.5	16.2	11.9	11.1	15.5	6.9	2.5	3.8	1.8	
Cars	11.9	20.0	12.7	21.9	15.3	4.7	2.5	1.7	0.6	
<i>Capital goods</i>	8.6	-3.3	5.2	-1.3	7.5	2.8	-0.1	0.7	0.3	
Excl. heavy trans. equipment	8.4	-1.3	5.5	2.5	7.9	3.1	0.2	0.7	0.3	
<i>Intermediate goods</i>	53.2	-0.7	0.2	-0.1	-1.9	0.1	0.0	-1.0	0.1	
Energy	3.6	-16.8	-5.4	-14.0	-12.4	-12.7	-0.6	-0.5	-0.4	
Non-energy	49.6	0.3	0.6	1.2	-1.1	0.8	0.6	-0.5	0.4	
<b>Total imports</b>	<b>100.0</b>	<b>3.9</b>	<b>7.5</b>	<b>7.1</b>	<b>7.3</b>	<b>4.6</b>	<b>7.1</b>	<b>7.3</b>	<b>4.6</b>	
<i>Consumer goods</i>	27.0	6.1	7.1	6.3	8.1	8.6	1.6	2.2	2.4	
Foods	6.8	3.9	0.7	3.6	6.4	8.5	0.2	0.5	0.6	
Others goods	20.2	6.9	9.5	7.2	8.7	8.5	1.4	1.8	1.8	
Cars	5.3	25.4	23.9	16.5	12.5	8.0	0.9	0.6	0.5	
<i>Capital goods</i>	8.2	16.9	10.6	18.9	11.9	1.6	1.5	0.9	0.2	
Excl. heavy trans. equipment	8.2	16.8	10.3	19.1	11.5	1.3	1.5	0.9	0.1	
<i>Intermediate goods</i>	64.8	1.8	7.2	6.1	6.3	3.2	4.1	4.1	2.0	
Energy	14.1	-13.3	-2.7	-2.0	-7.0	-4.0	-0.3	-1.0	-0.5	
Non- energy	50.7	6.2	9.9	8.5	10.0	4.9	4.4	5.0	2.5	

Sources: Customs and SGACPE.

### ***Spending of non-residents in the economic territory grows at a lower y-o-y rate***

According to QNA figures, the *expenditure of non-resident households* in the economic territory, in volume, decreased by 1% q-o-q and increased by 4.6% y-o-y in the first quarter of 2016, indicating a deterioration in the first case and a slowdown in the second one, following the positive results of the previous quarter, influenced by the Easter Holidays effect. For the second quarter of 2016, the main indicators of foreign tourism- inbound tourists and foreign overnight stays in domestic hotels - show favourable signals as they maintain high y-o-y rates in April, of approximately 11%.

For the first quarter of the year, *real exports of non-tourism services* fell by 2.2% q-o-q, following the 3.2% increase registered in the fourth quarter of 2015; in y-o-y terms, the advance was of 3.4%, five points less than in the previous quarter. According to the International Trade in Services Survey published by the INE, referring to the fourth quarter of 2015, the services with greater contribution to the nominal growth of exports were insurance and pensions (1.4 p.p.), telecom, computer and information technology services (1.4 p.p.) and business services (1.3 p.p.), while construction services (-0.5 p.p.) and financial services (-0.3 p.p.) contributed negatively.

### ***Real imports of goods lose momentum***

Furthermore, *goods and services imports*, in real terms and according to QNA figures, grew by 0.3% in the first quarter of 2016, compared to the previous quarter, a rate equal to the one recorded in the fourth quarter of 2015. By components, goods imports fell by 0.8% versus the previous quarter and services imports increased by 5.4% (-0.7% and 5.4% in the previous quarter, respectively).

According to *Customs* figures, deflated by unit value indices, the "momentum" of goods imports (change in imports of goods in volume during the last three months versus the previous three months) became positive in March (1.6%), versus the negative rate recorded in December (-1.2%) reflecting a positive contribution of imports of all product groups, especially of non-food consumer goods, except for energy intermediate goods.

In y-o-y terms and according to Customs figures, *imports of goods* in volume rose by 4.6% in the first quarter, 2.7 points less than in the previous quarter.

By product type and in volume, in the first quarter of 2016 it is worth highlighting the acceleration in food imports (2.1 points, up to 8.5%), the maintenance of the purchase dynamism of non-food consumer goods (8.5%) and the import slowdown of non-energy intermediate goods (4.9%, compared with the 10% registered in the previous quarter) and especially capital goods (which fell from 11.9%, down to 1.6%). On the other hand, purchases of energy intermediates goods moderate their fall by three points, to -4%. Within imports of non-food consumption, the most important component is cars, which decreased its growth rate by 4.5 points, down to 8%, extending the moderating trend observed throughout 2015. On the other hand, in non-energy semi-finished goods imports, the dynamism of metal and material semi-finished products and electrical equipment stood out. In sum, the groups that contributed the most to the increase in imports were non-energy semi-finished goods, although their contribution decreased by half (2.5%) and non-food consumer goods, which maintained the same figure as in the previous quarter (1.8%); however, it should be noted that these are the groups with the highest relative weight within total imports, with 51% and 20%, respectively.

Table 2.4 Foreign trade by group of countries, volume

	Weight in Total	Year-on-year change (%)					Contribution to growth			
		2015	2015				2016	2015		2016
			I	II	III	IV		III	IV	
<b>Total exports</b>	<b>100.0</b>	<b>3.7</b>	<b>3.9</b>	<b>3.4</b>	<b>3.7</b>	<b>2.5</b>	<b>3.4</b>	<b>3.7</b>	<b>2.5</b>	
<i>EU</i>	64.8	4.8	6.2	5.3	5.2	4.8	3.4	3.4	3.1	
Euro-area	50.4	4.1	6.4	5.0	3.8	5.1	2.5	1.9	2.6	
<i>Non-EU</i>	35.2	1.5	-0.2	-0.2	0.9	-2.2	-0.1	0.3	-0.8	
USA	4.6	7.5	13.4	15.1	-2.4	7.0	0.7	-0.1	0.3	
Latin America	6.1	5.3	6.9	12.8	4.3	-10.2	0.8	0.3	-0.6	
China	1.8	0.2	6.7	11.6	17.0	13.9	0.2	0.3	0.3	
Other countries (1)	11.0	2.1	-2.8	-1.0	6.5	2.8	-0.1	0.7	0.3	
<b>Total imports</b>	<b>100.0</b>	<b>3.9</b>	<b>7.5</b>	<b>7.1</b>	<b>7.3</b>	<b>4.6</b>	<b>7.1</b>	<b>7.3</b>	<b>4.6</b>	
<i>EU</i>	56.0	6.0	11.2	7.0	8.9	2.7	3.9	4.9	1.6	
Euro-area	44.5	4.1	8.1	7.2	8.8	2.1	3.2	3.8	1.0	
<i>Non-EU</i>	44.0	1.0	2.4	7.2	4.9	7.2	3.2	2.2	3.0	
USA	4.7	6.0	25.9	23.5	14.3	5.3	1.1	0.7	0.2	
Latin America	5.6	-11.9	-6.0	-9.4	-13.1	-11.3	-0.6	-0.8	-0.6	
China	8.6	34.6	24.4	27.3	23.0	13.0	2.1	2.1	1.1	
Other countries (1)	10.3	-14.0	-12.3	-2.2	5.8	10.8	-0.2	0.6	1.1	

(1) Maghreb, Middle East and Russia.

Sources: Customs and SGACPE.

By geographical areas, real imports of goods from the European Union and the Eurozone slowed down more than six points in the first quarter of 2016, down to 2.7% and 2.1% y-o-y, respectively, whilst non-European Union countries imports accelerated more than two points, reaching 7.2%. In the breakdown by geographical origin, and in nominal terms, the growth of purchases from Japan, Turkey, India and Argentina, stand out. On the other hand, those from Russia, Sub-Saharan Africa, Mexico and Venezuela fell sharply.

According to QNA figures, in the first quarter of 2016, *real spending of households residents abroad* rose by 6.9% q-o-q, following the fall observed in the fourth quarter of the previous year. On the other hand, *imports of non-tourism services* (4.9% non-annualised q-o-q) increased at a rate 2.5 points lower than the previous quarter. According to the latest data released by the INE, in the fourth quarter of 2015, nominal imports of services recorded a y-o-y growth of 13.4%. The services with the highest positive contribution to this rate were business (5.2%), insurance and pensions (2.9%) and intellectual property (2.6%).

### *The balance of goods and services recorded surplus in the first quarter of the year*

In the first quarter of 2016, the surplus of the goods and services balance, calculated with gross data at current QNA prices, stood at 1.2% of GDP, five tenths less than in the previous year, since the goods deficit (-1.5% of GDP), two tenths lower than the same period of 2015, coincided with a surplus in services (2.6% of GDP) seven tenths less than that of the previous year. Within the services sector, the tourism net revenue surplus (1.8% of GDP) recorded a similar percentage to that registered in the first quarter of 2015, while the non-tourism services (1.9% of GDP) decreased six tenths.



Source: INE.

### 2.3. - Productive activity

#### *Activity in industry and services accelerated in the first quarter*

From the *supply* point of view, and in volume and y-o-y terms, there was a slight acceleration of the Gross Value Added (GVA) between January and March this year in the services (3.5% versus 3.4% in the fourth quarter) and manufacturing sectors (4.3% versus 4.1% in the previous period), while the GVA slowed down in construction (2.6%, compared with the 4% registered in the previous quarter) and in the primary sector (5.5% compared with the previous 6.2%).

Table 2.5 **Employment and productivity**

	Year-on-year change (%)								
	2013	2014	2015	2014	2015				2016
				IV	I	II	III	IV	I
<b>EMPLOYMENT (1)</b>									
Agriculture (2)	-1.0	-1.0	1.3	-4.6	-4.9	0.9	4.1	5.3	5.5
Industry total	-4.1	0.1	2.8	1.9	2.7	3.2	3.0	2.3	2.4
Manufacturing	-4.3	0.1	2.9	1.8	2.6	3.2	3.1	2.5	3.1
Construction	-14.0	-3.1	6.0	3.7	8.1	7.9	5.1	3.1	0.9
Services	-2.7	1.7	2.9	2.8	3.0	2.6	3.0	3.0	3.4
<b>Total</b>	-3.5	1.1	3.0	2.4	2.9	2.9	3.1	3.0	3.2
<b>PRODUCTIVITY (3)</b>									
Agriculture (2)	17.7	-2.8	0.6	-4.3	1.0	1.1	-0.4	0.9	0.1
Industry total	-1.1	1.0	0.6	0.6	0.3	0.3	0.7	1.1	0.3
Manufacturing	3.1	2.1	0.8	0.7	0.2	0.6	1.1	1.5	1.2
Construction	4.8	1.1	-0.8	-0.5	-2.1	-2.0	0.0	0.8	1.7
Services	2.1	0.2	0.2	-0.3	-0.3	0.4	0.3	0.4	0.1
<b>GDP per employee</b>	1.9	0.3	0.2	-0.3	-0.2	0.3	0.3	0.5	0.2

(1) Full-time equivalent jobs. National Accounts. (2) Agriculture, forestry and fishing. (3) GVA per employee (adjusted series and full-time equivalent jobs).

Source: INE (CNE-2010).

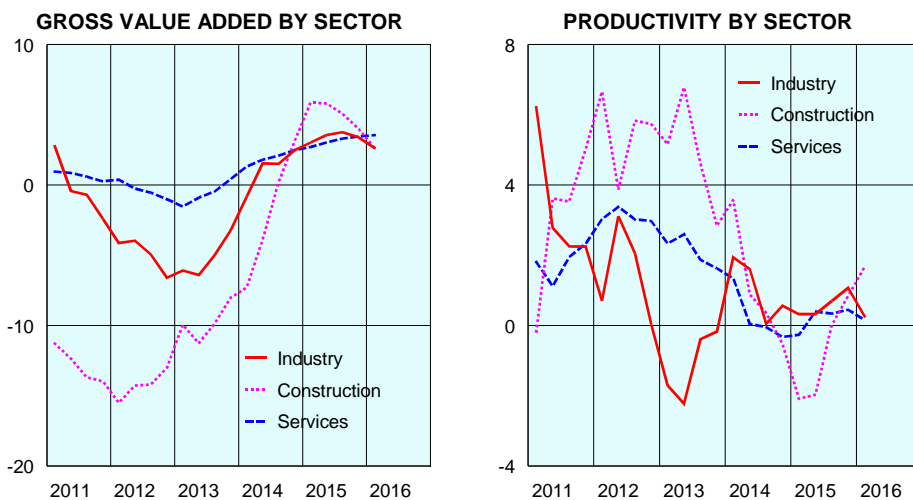
In q-o-q terms, the GVA of the agricultural and construction sectors fell by 1.0%, the first, and 0.1%, the second, after three and two quarters of increases, respectively, while it gained momentum in the manufacturing (it accelerated four tenths, up to 1.1%) and services sectors (it accelerated three tenths, up to 0.9%).

### ***Activity indicators in the industry remain dynamic, overall***

Amongst the indicators of the *industrial* sector, the *Industrial Production Index* (IPI) with calendar adjusted data, grew by 2.7% y-o-y in April, four tenths less than in the previous month (3.1%), accumulating an increase of 2.6% since the beginning of the financial year, compared to the 1.7% registered in the same period last year

By destination groups and with calendar adjusted data, the increase of the indicator is due to the growth of the non-durable consumer goods (3.4%), equipment goods (11.5%) and intermediate goods components (0.1%), compared to the fall of durable consumer goods (-6%) and energy (-1.2%).

### **G 2.7 GROSS VALUE ADDED AND PRODUCTIVITY BY SECTOR year-on-year growth rate in %**



Source: INE (QNA-2010), seasonally and calendar adjusted data.

On the other hand, the *Turnover Index in Industry* (ICNI), with calendar adjusted data, grew by 0.5% y-o-y in March, following the 0.8% fall registered in the previous month, with the strong expansion of the equipment goods component standing out, as it grew by 10.8% y-o-y, over twice as much as in February (5.1%).

The *manufacturing PMI* stood at 51.8 in May, 1.7 points lower than in April, although it remained above the level of 50, indicating expansion, and three tenths above the indicator for the Eurozone (51.5).

On the other hand, the *Industry New Orders Index* (INOI) recorded a y-o-y decrease of 3.2% in March, with calendar adjusted data, versus the 1% increase registered in February. This slowdown was largely due to the sharp decline in energy, (-25.4%).

Table 2.6 Activity and Production Indicators

Year-on-year change or balances in %

INDICATORS	2015	2016(1)	2015			2016		Latest data
			II	III	IV	I	II(1)	
Composite Activity Indicator (2)	2.9	2.9	2.9	2.8	3.2	2.9	-	Q.I.16
Electric power consumption (3)	1.6	0.0	-0.1	2.6	2.5	-0.7	1.3	May.16
Non energy imports (vol.)	8.6	5.9	9.2	8.7	9.6	5.9	-	Mar.16
Economic Sentiment Indicator (90-15=100)	108.8	106.8	109.3	109.1	109.6	107.3	105.9	May.16
Large Firms Sales (4)	5.0	2.3	4.9	5.2	3.9	1.6	4.6	Apr.16
Large Firms Sales. Domestic (4)	4.6	2.6	4.1	4.9	3.3	1.8	4.9	Apr.16
<b>Industry</b>								
Composite Industry Indicator (2)	3.2	2.2	3.2	3.3	3.4	2.2	-	Q.I.16
IPI calendar adjusted	3.4	2.6	3.5	4.2	4.2	2.6	2.7	Apr.16
Large Firms Sales. Industry (4)	4.5	3.3	2.7	4.0	3.9	2.2	6.7	Apr.16
Industry goods Exports (vol.)	9.5	5.6	9.4	6.5	12.7	5.6	-	Mar.16
Employment (LFS)	4.3	1.7	6.4	3.8	1.0	1.7	-	Q.I.16
Social Security covered workers (5)	2.2	2.8	2.2	2.4	2.7	2.8	2.7	May.16
Industry confidence indicator (balances)	-0.3	-2.4	0.9	0.7	0.3	-1.9	-3.2	May.16
Industry capacity utilization %	77.8	78.4	77.2	77.6	78.1	79.0	77.8	Q.I.16
<b>Construction</b>								
Composite Construction Indicator (2)	2.4	0.3	3.0	1.0	1.7	0.3	-	Q.I.16
Cement Apparent Consumption	5.8	-1.2	9.3	-0.5	5.8	-0.5	-3.3	Apr.16
Large Firms Sales. Construction (4)	1.2	-3.6	2.9	-1.9	2.0	-1.7	-9.0	Apr.16
Employment (LFS)	8.1	-2.7	11.6	5.9	2.7	-2.7	-	Q.I.16
Social Security covered workers (5)	4.7	2.3	5.6	4.6	4.1	2.6	1.9	May.16
Official bidding (at current prices)	-15.9	-2.8	35.6	-36.1	-31.4	-2.8	-	Mar.16
Floorage approvals: total	37.9	40.2	50.2	19.8	53.4	40.2	-	Mar.16
Floorage approvals: housing	42.6	60.2	37.3	31.9	85.9	60.2	-	Mar.16
Construction confidence indicator (balances)	-25.3	-34.5	-27.7	-28.5	-21.7	-31.7	-38.8	May.16
Mortgages. Amount borrowed	16.4	18.2	11.9	30.5	15.6	18.2	-	Mar.16
Housing: Prices per sq meter	1.1	2.4	1.2	1.4	1.8	2.4	-	Q.I.16
<b>Services</b>								
Composite Services Indicator (2)	3.9	3.9	4.0	3.9	4.0	3.9	-	Q.I.16
Large Firms Sales. Services (4)	4.5	2.7	4.5	4.7	3.9	1.9	4.8	Apr.16
Railway passengers	2.2	4.3	2.6	-2.1	4.4	5.1	2.2	Apr.16
Railway traffic goods (Tm per km)	-6.3	-4.9	-2.3	-7.0	-11.6	-5.8	-2.2	Apr.16
Air traffic passengers	6.0	12.1	4.7	5.1	8.6	14.4	7.0	Apr.16
Hotel overnight stays	4.4	9.3	3.2	4.4	6.7	13.3	1.3	Apr.16
Foreign tourists	4.9	13.0	4.0	3.4	9.4	13.9	11.3	Apr.16
Employment (LFS)	2.6	3.8	1.9	2.6	3.2	3.8	-	Q.I.16
Social Security covered workers (5)	3.5	3.0	3.7	3.5	3.4	3.1	2.9	May.16
Services confidence indicator (balances)	19.4	18.4	20.1	19.7	20.2	18.8	17.8	May.16
Retail trade confidence indicator (balances)	14.1	13.3	15.1	12.8	15.9	14.2	12.1	May.16

(1) Available period data. (2) Adjusted for seasonal, calendar and outliers effects. (3) Adjusted for calendar and temperature effects. (4) Calendar adjusted, deflated and fixed sample. (5) Total system. Monthly average.

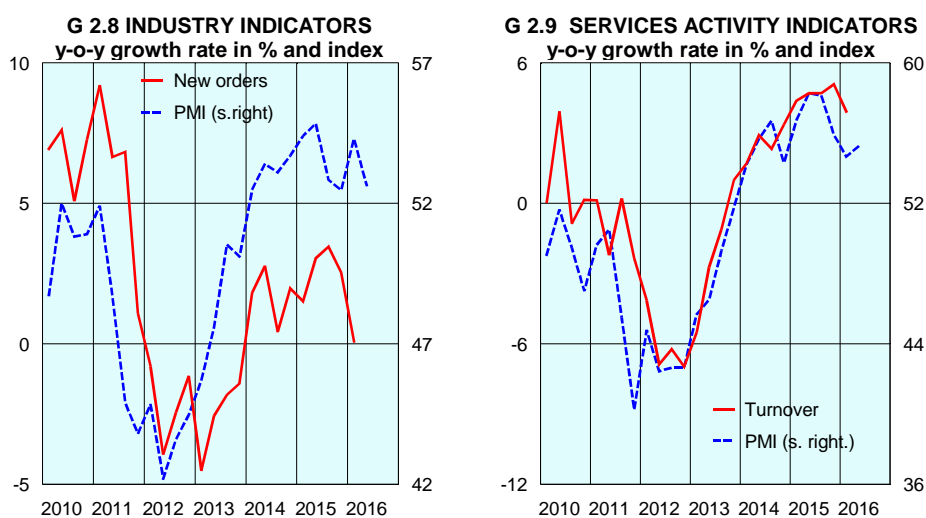
Sources: SGACPE (MECC), REE, DA, CE, AEAT, INE, MESS, OFICEMEN, MFOM, RENFE and AENA.

### ***The construction sector moderates its growth rate***

With regards to the *construction* sector, the Production Index in the Construction Industry (PICI) in Spain, published by Eurostat, rose by 0.4% in March, compared with the same month of 2015, following the 12% y-o-y recorded in the previous month (calendar adjusted data). This lower growth rate was due to the higher decrease of the civil works component (-6.2% y-o-y, compared to the -0.5% of February) and to the slowdown in construction (which increased by 1.5%, compared with the 14% recorded in February).

Cement apparent consumption recovered in April, recording a decrease of 3.3% y-o-y, compared to the 7.2% drop of the previous month. The less contractionary trend of this indicator is due to the lower drop in domestic sales (-3.1% compared to the -8.2% of March) and the lower dynamism in exports, whose increase (2.6%) was more than ten points lower than that of March, partially offset by the greater reduction in imports (-16.8% compared to the -1.3% registered in the previous month).

On the other hand, the *construction new permits* grew by almost 70% (69.9%) in March as a result of the residential component, whose y-o-y growth rate exceeded 100% (more than double the figure of the previous month 43.8 %) and of the non-residential component, which weakened the pace of decline nearly by 30 points, down to -4.6%.



Sources: INE and Markit Group.

### ***Activity in the services sector gains momentum***

With regards to the *services* sector, and in line with the recovery of employment and disposable income, the available short-term indicators show the momentum of the activity in the sector. The *Services Sector Turnover Index* (SSTI) after filtering off the effects of the work calendar, increased by 4.4% y-o-y in March, 1.2 points more than in the previous month. This acceleration affected the trade sector, which grew by 4.1% y-o-y, (two points higher than in February), while the other services sector moderated the growth rate by three tenths, down to 5.1% y-o-y.



On the other hand, the services PMI reached the 55.4 level in May, three tenths higher compared to the previous month and above that of the Eurozone (53.3). The improvement stems from the acceleration of new orders and production.

### ***Tourism expansionary trend continues in the first four-month period of the year***

In April 2016, the tourism-related indicators showed a somewhat more moderate growth rate over the previous month. However, these data are biased downwards due to the effect of the different timing of the Easter Holidays in 2015 and 2016. If the data for the first four months of the year are averaged, *tourist inflow* increased by 13% on an annual average rate, 3.6 points higher than in the fourth quarter of 2015. For the same period, the growth rate in tourist expenditure moderated by three tenths, to 6.4%, and *air passenger traffic* accelerated in the period from January to April, registering a y-o-y increase of 12.1%, compared to the 8.6% recorded in the fourth quarter of 2015. *Hotel overnight stays* gained dynamism in the first four months of 2016, the y-o-y growth rate standing at 9.3%, 2.6 points above that recorded in the fourth quarter of last year.

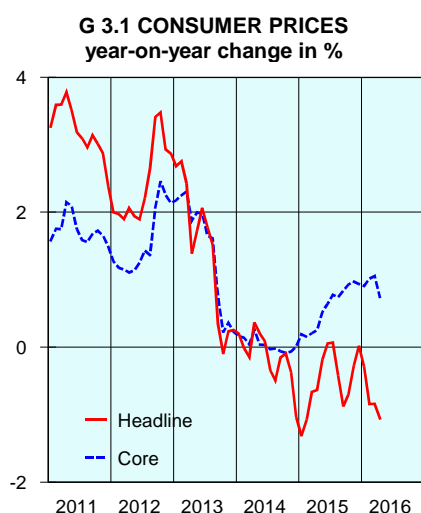
## **3. - PRICES**

Consumer prices sharpened the rate of decline in April. This evolution was influenced by the different timing of the Easter Holidays, which this year fell in March and last year in April, and by the larger drop in electricity prices.

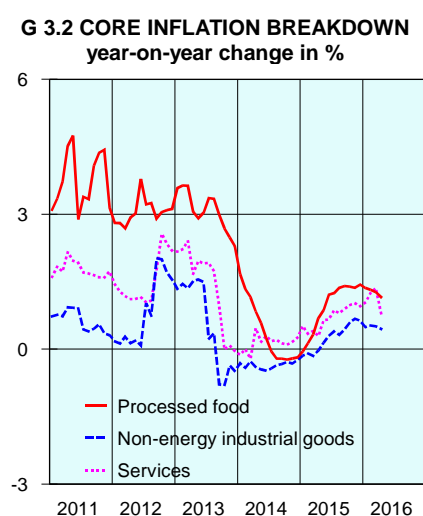
### ***The y-o-y variation rate of the CPI fell three tenths in April, down to -1.1%***

Between March and April 2016, the Consumer Price Index (CPI) rose by 0.7%, two tenths less than in the same month last year (0.9% m-o-m in April 2015).

In y-o-y terms, the CPI increased the downward pace, recording a rate of -1.1%, three tenths lower than in the previous month (-0.8%). At a NACE two-digit level, these three tenths of a greater decline in the general CPI were mainly explained by the package holidays and electricity item.



Source: INE.



Source: INE.

Table 3.1 Main price indicators

	Year-on-year change in %								
	Mean for the year			2015				2016	
	14	15	16(1)	Apr.	Jun.	Sep.	Dec.	Mar.	Apr.
<b>CPI: Total</b>	-0.2	-0.5	-0.8	-0.6	0.1	-0.9	0.0	-0.8	-1.1
<b>Core inflation (2)</b>	0.0	0.6	0.9	0.3	0.6	0.8	0.9	1.1	0.7
<b>CPI excl. food and energy</b>	0.0	0.5	0.9	0.2	0.5	0.7	0.8	1.0	0.7
<b>CPI excl. energy</b>	-0.1	0.7	1.0	0.3	0.8	1.0	1.1	1.1	0.9
<b>CPI food</b>	-0.1	1.2	1.6	0.5	1.8	1.8	1.7	1.5	1.8
- Non-processed	-1.2	1.8	2.3	0.2	3.2	2.6	2.5	2.2	3.2
- Processed	0.4	0.9	1.3	0.7	1.2	1.4	1.4	1.3	1.2
<b>CPI excl. food</b>	-0.2	-1.0	-1.4	-1.0	-0.4	-1.6	-0.5	-1.5	-1.8
- Industrial goods	-0.5	-2.7	-4.0	-2.3	-1.6	-4.2	-1.9	-4.5	-4.5
- Energy	-0.8	-9.0	-13.6	-7.2	-5.7	-13.6	-7.5	-14.8	-15.1
- Non-energy industrial goods	-0.4	0.3	0.5	0.0	0.3	0.4	0.6	0.5	0.5
- Total services	0.1	0.7	1.1	0.3	0.7	0.9	0.9	1.4	0.8
<b>CPI manufactured goods (3)</b>	-0.1	0.5	0.8	0.2	0.6	0.8	0.9	0.8	0.7
<b>Industrial Producer Prices: Total</b>	-1.3	-2.1	-5.4	-0.9	-1.4	-3.6	-2.2	-5.6	-6.1
<b>Energy</b>	-3.1	-8.8	-18.2	-5.4	-7.4	-14.3	-7.8	-18.3	-19.9
<b>Non-energy IPP</b>	-0.8	0.3	-0.8	0.6	0.7	0.3	-0.2	-1.0	-1.0
<b>Consumer goods</b>	-0.5	1.1	0.1	1.2	1.2	1.3	0.7	0.0	0.0
- Durable	0.5	0.2	1.0	0.3	0.0	0.2	0.3	1.0	1.0
- Non-durable	-0.5	1.2	0.1	1.2	1.3	1.4	0.7	-0.1	-0.1
- Food	-1.0	1.3	-0.2	1.4	1.5	1.7	0.6	-0.5	-0.5
- Non-food	0.4	0.7	0.8	0.9	0.5	0.7	0.9	0.8	0.9
<b>Capital goods</b>	0.2	0.8	0.7	0.6	1.0	0.9	0.9	0.7	0.7
<b>Intermediate goods</b>	-1.5	-0.7	-2.4	0.0	0.1	-0.9	-1.6	-2.7	-2.8
<b>Unit Value Indices (UVI):</b>									
<b>Imports</b>	-2.3	-2.5	-5.0	-1.5	-3.0	-4.2	-5.7	-9.0	-
- Consumer goods	1.1	7.0	3.0	6.1	6.1	4.7	3.6	0.9	-
- Consumer food	3.4	4.2	0.8	4.3	5.7	5.6	-0.1	-1.6	-
<b>Exports</b>	-0.9	0.6	-2.2	-0.1	1.5	-2.5	-0.5	-3.2	-
<b>Prices received by farmers (4)</b>	-	6.1	-	0.0	4.6	8.5	4.6	-	-
<b>GDP Deflator</b>	-0.4	0.6	-0.2	..	0.5	0.7	0.7	-0.2	..
<b>Private Consumption Deflator</b>	0.3	-0.5	-0.7	..	-0.3	-0.4	-0.4	-0.7	..

(1) Average value for the period for which figures are available over the same period the previous year.

(2) General CPI excluding non-processed food and energy.

(3) Processed food and non-energy industrial goods.

(4) MAAA only supply data from January 2014 (2010=100).

Sources: INE, DA, MAAA and SGACPE.

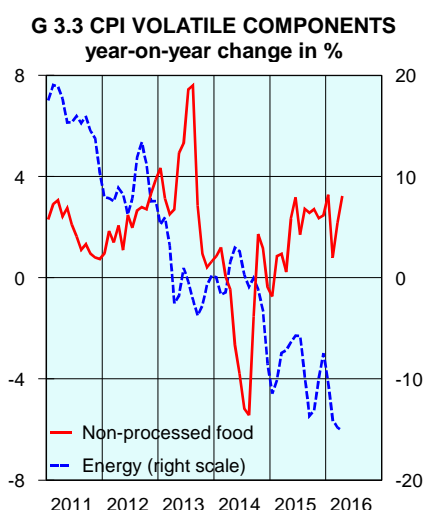
In the case of package holidays, prices fell by 9.9% (versus the 2.0% y-o-y rise registered in the previous month), a behaviour influenced by the calendar effect associated with the fact that the Easter Holidays were celebrated in March this year and in April the last one.

With regard to electricity prices, these fell by 18.2% (-14.2% in the previous month). This evolution is mainly associated to the high production of hydroelectric power, whose supply more than doubled that of the same month last year due to the rise in rainfall and, to a lesser extent, to the increase of wind energy production, close to 15%.

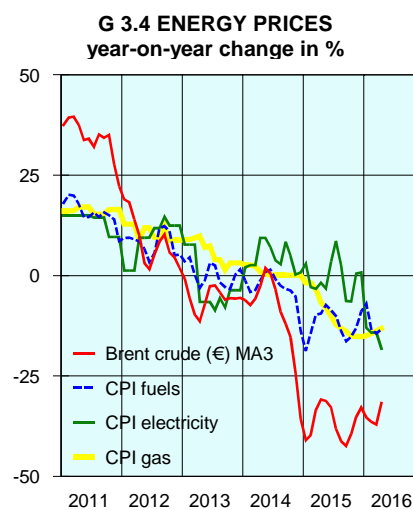
***Among the most volatile components of the CPI, energy accentuates the pace of decline and non-processed food prices accelerate***

By product groups, energy product prices in April maintained similar behaviour to the one observed in March, falling by 15.1% y-o-y (-14.8% in the previous month). This evolution was due to the bigger drop in electricity prices, which was offset by the moderation in the decline in fuel and gas prices (one point, to -14.2%).

On the other hand, non-processed food prices accelerated, from growing by 2.2% y-o-y in March up to 3.2% in April. In particular, the rebound in fresh fish (6.1%) and fresh fruits prices (8%) stands out.



Source: INE.



Sources: INE and Reuters.

***Core inflation fell four tenths, down to 0.7%***

Core inflation, which excludes energy and non-processed food from the general CPI, fell four tenths in April, down to 0.7%.

On the other hand, the price of processed food slowed down one tenth, to 1.2%, mainly due to the evolution of oil prices, which grew by 17.0% y-o-y (20.6% in March). Considering the processed and non-processed food jointly, their prices rose by 1.8% y-o-y, three tenths more than in the previous month.

The prices of non-energy industrial goods (BINE) stabilised in April, registering a y-o-y increase of 0.5%, the same as in the previous month, without any significant changes in its components.

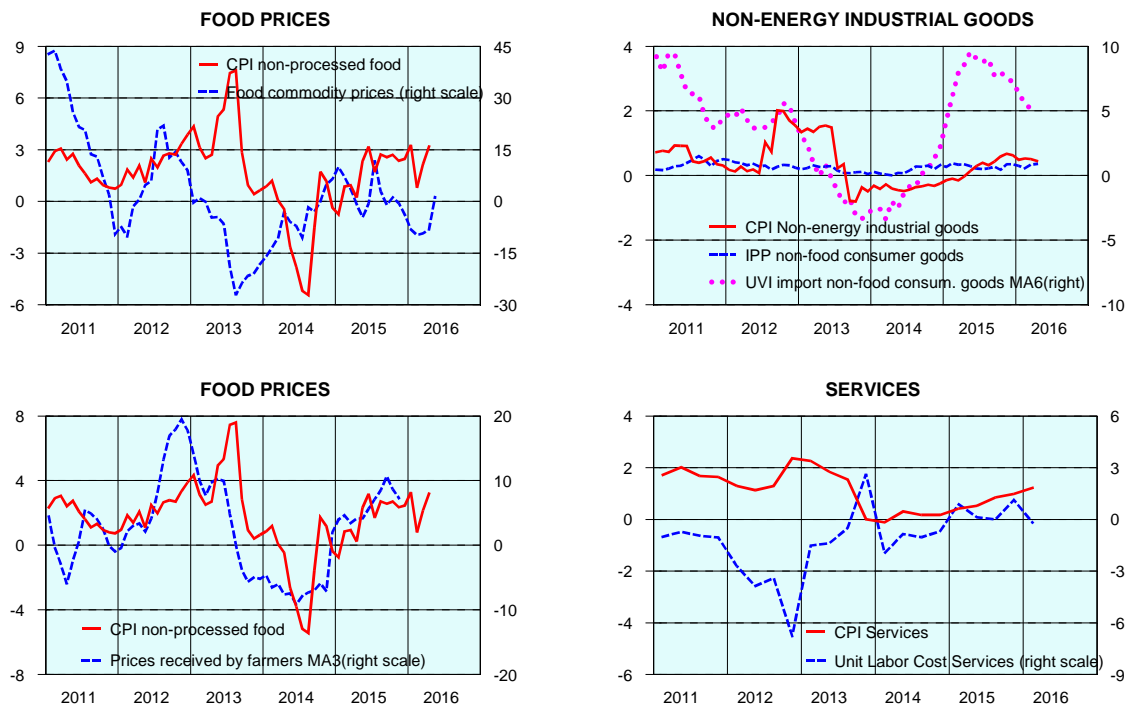
Finally, the services sector prices rose by 0.8% y-o-y, six tenths less than in March (1.4%). This result was mainly due to the effect that the different timing of the Easter Holidays in 2015 and 2016 had on package holidays prices, as explained above. The slowdown in hotels and other accommodation prices also contributed, although to a lesser extent, as they went from growing by 11.2% in March, to 2.2% in April. Among the services that recorded an acceleration in their prices, telephone services stand out, as they continued the upward trend and rose from 3% in March to 3.7% in April.

### **Flash estimate sets the CPI annual rate to -1% in May**

According to INE's flash estimate, the y-o-y rate of the national CPI rose one tenth in May in comparison to the previous month, reaching -1%. The INE points that this behaviour was influenced by the rise in electricity prices and the smaller decline in package holidays prices.

## **G. 3.5 COMPONENTS AND MAIN LEADING INDICATORS**

Year-on-year change in %



Sources: INE, MAAA, Customs and SGACPE.

### **The inflation differential favourable to Spain against the Eurozone remains at 1 pp**

The y-o-y rates of Spain's and euro area's HICP (harmonised index of consumer prices) decreased two tenths each in April, down to -1.2% and -0.2% respectively. As a result, the inflation differential against the Eurozone, which has been favourable to Spain since September 2013, remained at 1 pp.

On the other hand, Spain's harmonised core inflation fell three tenths, as did that of the euro area, reaching 0.6% and 0.7%, respectively, so that the core inflation differential favourable to Spain against the Eurozone remained at 0.1 percentage points.

Table 3.2 Inflation differential against main competitors (1)

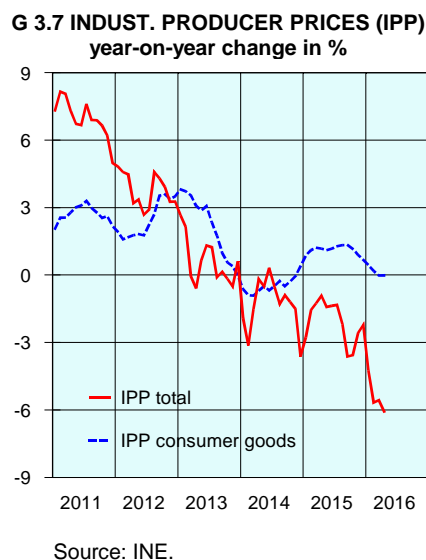
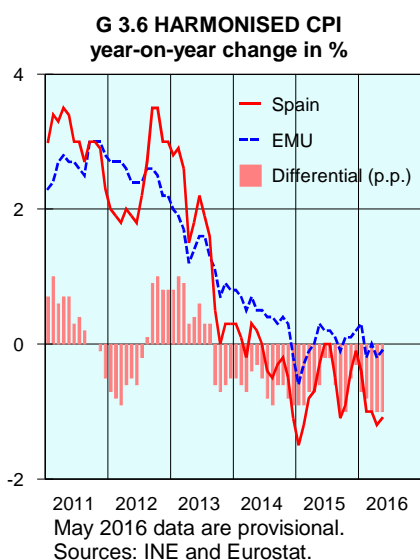
	2014	2015	2016(2)	2015				2016	
				Apr.	Jun.	Sep.	Dec.	Mar.	Apr.
<b>Eurozone</b>	-0.6	-0.6	-0.9	-0.7	-0.2	-1.0	-0.3	-1.0	-1.0
Core inflation	-1.0	-0.4	-0.1	-0.6	-0.3	-0.3	-0.1	-0.1	-0.1
- Proc. food.	-1.3	0.4	0.7	-0.1	0.6	0.9	0.9	0.8	0.6
- Non-energy industrial goods	-0.4	-0.2	-0.3	-0.2	-0.1	-0.5	-0.1	-0.3	-0.1
- Services	-1.2	-0.7	-0.2	-0.9	-0.6	-0.5	-0.3	-0.2	-0.3
Non-proc. food.	0.7	-0.1	0.9	-0.9	0.5	-0.7	0.0	0.6	1.3
Energy	1.1	-2.2	-5.9	-1.3	-0.6	-4.7	-1.6	-6.1	-6.4
<b>EU</b>	-0.7	-0.6	-0.9	-0.7	-0.2	-1.0	-0.3	-1.0	-1.0
<b>OECD</b>	-1.9	-1.2	-1.8	-1.2	-0.6	-1.6	-1.0	-1.8	-
<b>USA</b>	-1.8	-0.7	-2.0	-0.5	-0.2	-1.1	-0.9	-1.8	-2.3

(1) Differences in percentage points between the annual variation in the CPI for Spain and other areas or countries. For Spain and the EU countries, these rates have been calculated with harmonised price indices.

(2) Average value for the period for which figures are available over the same period the previous year.

Sources: Eurostat and OECD.

The y-o-y rate of the Spain's HICP, according to INE's flash estimate, stood at -1.1% in May, which is one tenth higher in comparison to the figure of April. The fall in the euro area's HICP also moderated one tenth, to -0.1%, according to Eurostat's flash estimate, so the inflation differential favourable to Spain against the Eurozone would remain at 1 percentage point if final May CPI data confirm the estimate.



### *The PPI annual pace of decline increases in April*

The Producer Price Index (PPI) recorded a slight m-o-m 0.1% decline in April versus the 0.5% increase registered in the same month last year. In y-o-y terms, the IPI fell by 6.1%, a drop five tenths higher to that registered in the previous month.

The sharper decline in the general index is explained by energy prices, which recorded a 19.9% y-o-y fall, 1.6 points higher than the previous month, mainly due to electricity production and trade prices, a component that, taking into account its weight in the IPI, explains five tenths of the larger decline in the general index.

On the other hand, the non-energy PPI maintained its y-o-y rate at -1%, as a result of the relative stability of its components. Producer prices of durable consumer goods grew by 1%, prices of non-durable consumer goods decreased by 0.1%, prices of intermediate goods registered a y-o-y rate of -2.8% and equipment goods increased by 0.7%.

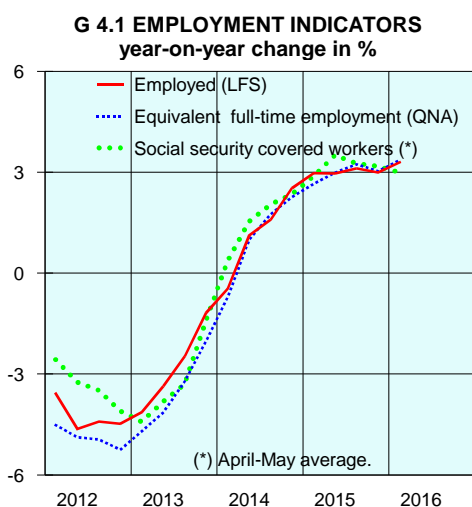
#### 4. - LABOUR MARKET

The labour market remained robust in the first quarter of 2016, recording a y-o-y growth in employment close to 3%. In the second quarter, according to the available social security covered workers data, some slowdown is observed linked to agriculture and, to a lesser extent, to the celebration of the Easter Holidays that this year fell in March (first quarter) unlike in 2015, when it was celebrated in April.

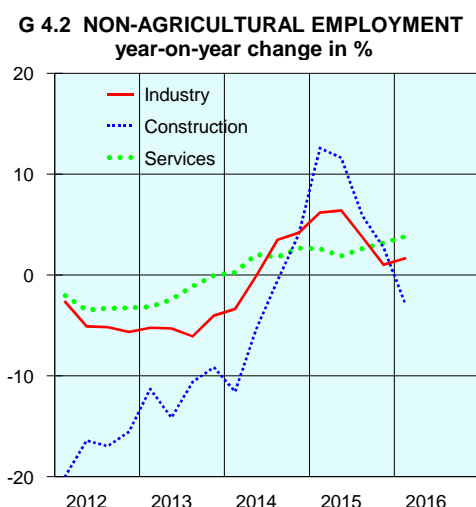
##### *LFS employment accelerated up to 3.3% y-o-y in the first quarter of 2016*

According to LFS data, in the first quarter of 2016 the number of employed people decreased by 64,600, (114,300 in the same period of last year), the total number of employed reaching 18,029,600. The first quarter is traditionally negative for employment due to seasonal factors, particularly in trade and accommodation services, sectors that together lost 65,800 employed people in that period. Thus, with seasonally adjusted data by the INE, the number of employed accelerated one tenth in q-o-q terms in the first quarter, recording a rate of 0.9%.

This evolution is consistent with the information published by the Ministry of Employment and Social Security on social security covered workers, which increased by almost 125,000 during the first quarter of 2016, with seasonally adjusted data. This represents a q-o-q rate of 0.7%, equal to the one registered in the previous quarter.



Sources: INE (LFS and QNA) and MESS.



Source: INE (QNA).

Table 4.1 Summary of employment market indicators

	Latest figures (1)		Year-on-year change in %					
	Thousands	Annual Δ	2014-IV	2015-I	2015-II	2015-III	2015-IV	2016-I
<b>Labour Force Survey</b>								
In work	22821.0	-78.4	-0.2	0.1	0.2	-0.1	-0.7	-0.3
- Men	12225.3	-97.1	-0.3	0.3	-0.2	-0.4	-1.1	-0.8
- Women	10595.7	18.7	-0.1	-0.2	0.6	0.1	-0.2	0.2
Rate of employment (2)(*)	59.3	-	-0.1	0.0	0.2	0.0	-0.3	-0.2
- Men	65.2	-	-0.1	0.2	0.0	-0.1	-0.6	-0.4
- Women	53.6	-	-0.1	-0.2	0.3	0.1	-0.1	0.1
In work	18029.6	574.8	2.5	3.0	3.0	3.1	3.0	3.3
- Non-agricultural sector	17252.3	514.9	2.9	3.7	3.1	3.0	2.8	3.1
- Industry	2481.4	40.3	4.2	6.2	6.4	3.8	1.0	1.7
- Construction	1031.7	-28.9	4.0	12.6	11.6	5.9	2.7	-2.7
- Services	13739.2	503.5	2.6	2.6	1.9	2.6	3.2	3.8
- Men	9847.3	327.2	2.7	3.9	3.4	3.0	3.2	3.4
- Women	8182.2	247.6	2.3	1.9	2.4	3.2	2.7	3.1
- Foreign nationals	1919.3	82.2	0.2	3.4	2.2	3.7	4.5	4.5
- Full time	15198.8	580.6	2.6	2.9	3.7	2.8	3.4	4.0
- Part time	2830.8	-5.8	2.4	3.3	-0.9	4.8	0.8	-0.2
Rate of part-time employment (3)(*)	15.7	-	0.0	0.1	-0.6	0.2	-0.3	-0.6
Wage earners	14935.1	541.2	2.8	3.3	3.1	3.7	3.5	3.8
- Private Sector	11916.8	479.6	3.3	3.9	3.7	4.1	3.7	4.2
- Public Sector	3018.3	61.6	0.6	1.2	0.9	2.1	2.5	2.1
- On a permanent contract	11194.9	197.6	2.0	2.7	1.6	1.6	1.6	1.8
- On a temporary contract	3740.2	343.6	5.3	5.4	8.0	10.1	9.5	10.1
Rate of workers on temporary contracts (4)(*)	25.0	-	0.6	0.5	1.1	1.5	1.4	1.4
Self-employed	3094.5	33.6	1.5	1.3	2.3	0.3	0.6	1.1
Unemployed	4791.4	-653.2	-8.1	-8.2	-8.4	-10.6	-12.4	-12.0
- Men	2378.0	-424.3	-9.2	-10.1	-11.7	-12.0	-15.4	-15.1
- Women	2413.5	-228.9	-6.8	-6.2	-4.8	-9.2	-9.2	-8.7
- Under the age of 25	670.1	-112.0	-10.3	-11.3	-8.7	-11.6	-15.5	-14.3
- Having no previous job	431.9	-107.2	-2.0	2.7	4.1	-2.1	-16.4	-19.9
Rate of unemployment (5)(*)	21.0	-	-2.0	-2.2	-2.1	-2.5	-2.8	-2.8
- Men	19.5	-	-2.2	-2.6	-2.7	-2.6	-3.3	-3.3
- Women	22.8	-	-1.8	-1.6	-1.4	-2.3	-2.2	-2.2
- Young people (aged 16-24)	46.5	-	-3.1	-4.1	-3.9	-5.8	-5.6	-4.9
<b>MEMBERSHIP OF THE S.S.</b>								
Total no. workers covered	17661.8	440.5	2.3	2.9	3.5	3.3	3.2	3.0
Wage earners	14449.7	408.7	2.3	3.0	3.8	3.6	3.6	3.4
Self-employed	3212.2	31.8	2.5	2.4	2.2	1.7	1.4	1.2
- Foreign nationals	1731.0	67.8	-0.2	0.8	3.3	3.9	4.6	5.4
<b>EMPLOYMENT OFFICES</b>								
Registered unemployment	3891.4	-323.6	-5.8	-6.5	-7.6	-8.2	-7.9	-8.1
Registered contracts	1748.4	175.2	8.7	13.2	10.9	9.6	10.9	6.1
- Permanent (6)(*)	8.3	-	0.9	0.8	0.0	0.0	-0.2	0.3
- Part time (6)(*)	36.3	-	-0.5	0.9	0.0	-0.2	-0.2	0.5

(1) First quarter for the Labour Force Survey and the month of May for Membership of the S.S. and Spanish Public Employment Service figures.

(2) Percentage of people in work, over the population aged 16 or over.

(3) Percentage of people in part-time employment over the total number of people in employment.

(4) Percentage of wage earners on temporary contracts.

(5) Percentage of unemployed over total labour force.

(6) Percentage over the total number of contracts.

(\*) The end columns show the change over the previous year in percentage points.

Sources: INE (LFS) and MESS.

On the other hand, the full-time equivalent employment, estimated by INE in the Quarterly National Accounts (QNA), grew by 0.9% q-o-q in the first quarter, with seasonally and calendar adjusted data. This is three tenths more than in the previous quarter.

In annual terms, LFS employment increased by 574,800 people in the first quarter of 2016, representing a variation rate of 3.3%, three tenths higher than the figure registered in the fourth quarter of 2015. QNA full-time equivalent employment pointed in the same direction, growing by 3.2% y-o-y in that period, two tenths more than in the previous quarter. Conversely, social security covered workers show a slowdown of two tenths, recording a rate of 3% in the first quarter.

The employment rate of the population over 16 years old fell one point and a half in the first quarter of 2016, in comparison to the same period of 2015, reaching 46.8%.

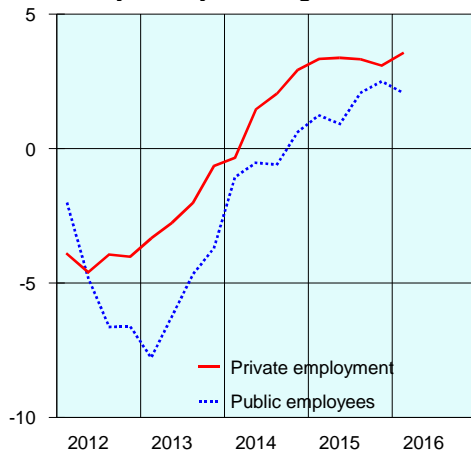
### ***Job creation takes place mainly in the services sector***

By activity branches, and in LFS terms, the favourable performance of employment in the services sector stands out, with a y-o-y variation rate increase of six tenths, up to 3.8%, followed by industry, where employment grew by 1.7% (1% in the previous quarter) and agriculture, which recorded an increase of 8.4% (7% in the previous quarter). On the other hand, employment in construction fell at a y-o-y rate of 2.7%, following the identical increase of the fourth quarter of 2015.

Within the services sector, the education branches stand out, with a 10.1% y-o-y employment creation rate, almost double that recorded in the fourth quarter of 2015 (5.2%) and accommodation services, where employment rose from 14.2% in the fourth quarter of 2015 to 24.4% in the first quarter this year. The employment evolution in the latter branch was influenced by the celebration of the Easter Holidays in March (first quarter), while last year it fell in April (second quarter).

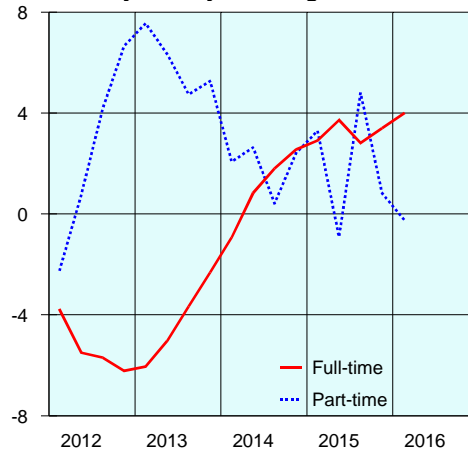
According to LFS figures, private employment increased by 513,300 people in the first quarter of the year and public employment by 61,500, with y-o-y rates of 3.5% and 2.1%, respectively. This represents an acceleration of four tenths in the first case and a slowdown also of four tenths in the second.

**G 4.3 PRIVATE AND PUBLIC EMPLOYMENT**  
year-on-year change in %



Source: INE (LFS).

**G 4.4 EMPLOYMENT BY WORKING HOURS**  
year-on-year change in %



Source: INE (LFS).



### ***The partiality rate drops***

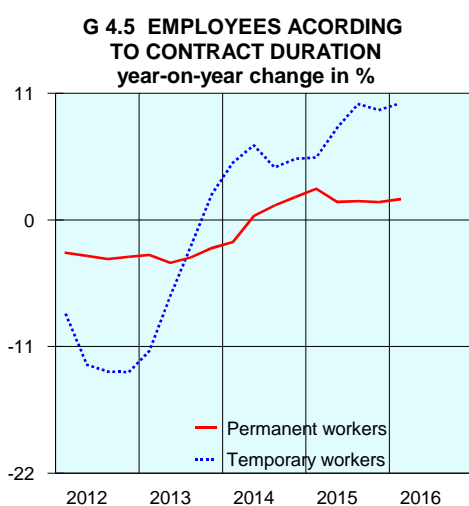
Regarding the type of working hours per day, last year the employment increase was entirely in full-time employment, which rose by 4% y-o-y, while part-time employment remained virtually stable (-0.2%). As a result, the partiality rate in the first quarter of 2016 fell six tenths in comparison to the same period of 2015, reaching 15.7% of the total workers.

It should be noted that the majority of the partiality decline corresponds to a reduction in the number of people working part-time because they have not found full-time employment. Their proportion on the total workers fell three tenths down to 9.7% in the first quarter in comparison to the same period of last year.

In the same vein, the decrease of underemployment should be mentioned (employed people working fewer hours than usual in their sector, who would like to work more hours and are available to do so). In the first quarter of 2016 underemployment stood at 11.3 % of total employment, one point and a half lower than the same period last year.

Considering the professional status of the worker, there was an acceleration in the first quarter both of contracted employees, three tenths, up to 3.8% y-o-y, and self-employed, five tenths, up to 1.1%, remaining the salaried workers rate at 82.8%.

Considering the duration of contracts, 63% of the y-o-y job creation in the first quarter of 2016 was of temporary nature (66% in the previous quarter), and the rest was permanent. Temporary employees grew at a 10.1% y-o-y rate (9.5% in the previous quarter) and employees with permanent contracts by 1.8% (1.6% in the previous quarter), the temporary rate reaching 25%.



Source: INE (LFS).



Source: INE (LFS).

### ***Unemployment drops at a y-o-y rate of 12%***

According to LFS figures, unemployment rose by 11,900 people in the first quarter of 2016, (-13,100 in the same period last year), the total number of unemployed people reaching 4,791,400. This increase was largely due to the unfavourable seasonality for the labour market, typical of the first quarters of each year. Thus, with seasonally adjusted data by the INE,

unemployment fell 2.7% q-o-q (-3.5% in the previous quarter), linking twelve consecutive quarters of declines.

In y-o-y terms, the LFS shows a fall in unemployment of 653,200 people in the first quarter of the year, representing a variation rate of -12.0%, four tenths higher than the previous quarter.

The unemployment rate fell 2.8 percentage points in the first quarter compared to the same period of 2015, reaching 21% of the labour force.

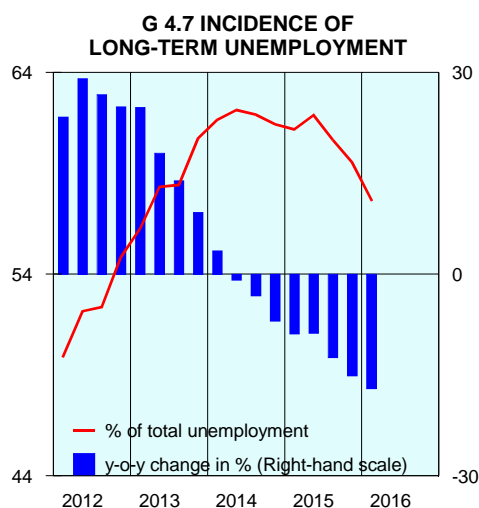
### ***Youth unemployment and long-term unemployment continue to fall***

By ages, the segment that contributed the most to decrease the unemployment rate in the last year was that for people aged between 30 and 34 years, a group in which the unemployment rate fell by almost four percentage points to 20.4% in the first quarter compared to the figure registered a year earlier.

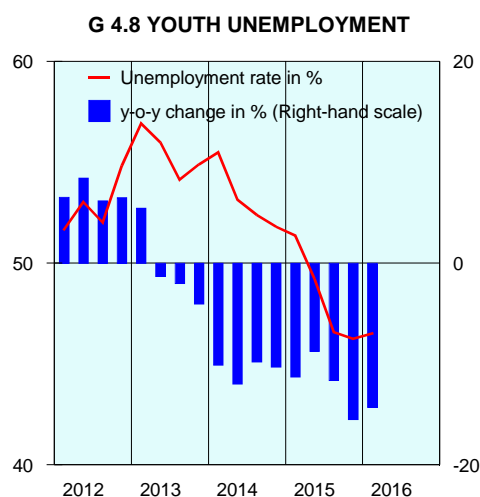
The youth unemployment rate (16-24 years) reached 46.5% in the first quarter, almost five percentage points lower than the same period last year (51.4%).

According to unemployment duration, most of the unemployment rate decline is explained by the long-term component (people unemployed for over one year), whose unemployment rate fell 2.4 percentage points, down to 12.1% of the labour force. The reduction was divided almost equally between those that had been unemployed between 1-2 years and those who had been unemployed for over 2 years.

The activity rate fell by two tenths, down to 59.3% in the first quarter compared with the same period last year. This was due to the slight decreases of the labour force over 16 years old (-0.3% y-o-y) and the total population over 16 years (-0.1%).



Source: INE (LFS).

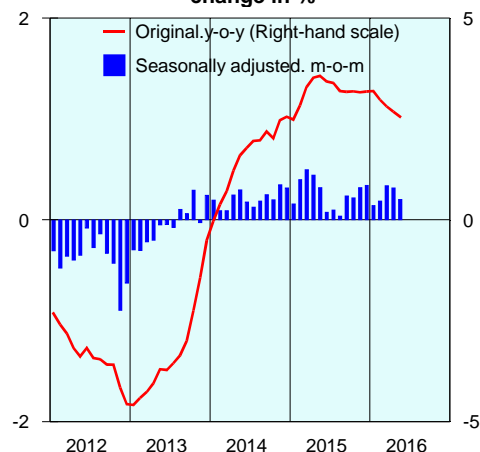


Source: INE (LFS).

### The labour market dynamism continues in the second quarter of the year

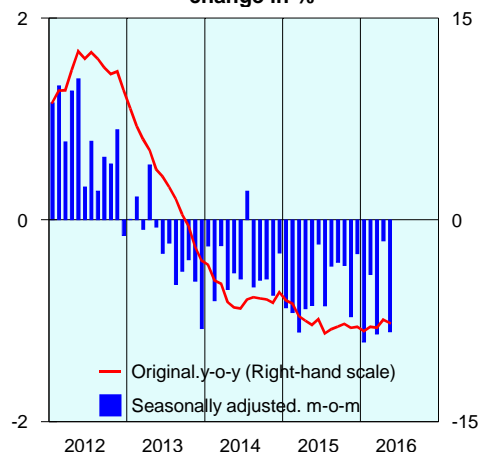
According to the latest labour market information, as shown by the Social Security (SS) covered workers records, employment slowed down slightly in the months elapsed in the second quarter. It grew at a rate of 2.6% y-o-y in the two month period from April to May, four tenths less than in the first quarter.

**G 4.9 SOCIAL SECURITY COVERED WORKERS**  
change in %



Source: MESS.

**G 4.10 REGISTERED UNEMPLOYMENT**  
change in %



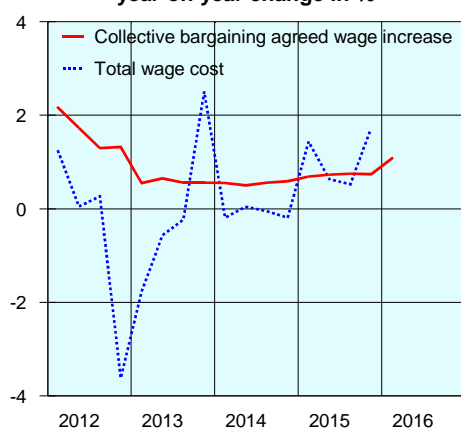
Source: MESS.

This slowdown was largely influenced by the agricultural sector, whose Social Security covered workers fell by 0.3% y-o-y in the period from April to May, compared with the 2.3% growth registered in the first quarter. Excluding agriculture, Social Security covered workers grew by 2.8% in that two month period compared to the same period of 2015.

The calendar effect provoked by the Easter Holidays also contributed to this slowdown in employment, as this year it was held completely in March, while in 2015 it was celebrated in April. This affected employment in accommodation services, particularly in restoration, which went from growing by 5.8% y-o-y in the first quarter to 5% in the period from April to May.

### G 4.11 WAGE INDICATORS

**COLLECTIVE BARGAINING AGREED WAGE INCREASE AND TOTAL WAGE COSTS**  
year-on-year change in %



Sources: INE (ETCL and QNA) and MESS.

**UNIT LABOUR COST AND COMPONENTS**  
year-on-year change in %

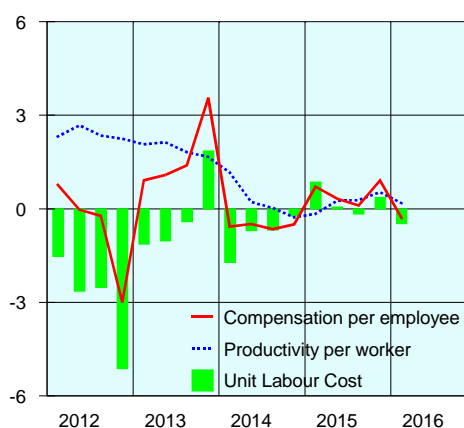


Table 4.2 **Wage indicators**  
(year-on-year change in %)

	2013	2014	2015	2014	2015				2016
				IV	I	II	III	IV	I
<b><u>WAGES FROM COLLECTIVE BARGAINING (1)</u></b>									
All sectors	0.5	0.5	0.8	0.5	0.7	0.7	0.8	0.8	1.1
- Agriculture	0.6	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.9
- Industry	0.6	0.6	0.8	0.6	0.7	0.7	0.7	0.8	1.1
- Construction	0.6	0.1	0.8	0.1	0.5	1.1	0.9	0.8	0.7
- Services	0.5	0.5	0.9	0.5	0.6	0.7	0.7	0.8	1.2
<b><u>TOTAL LABOUR COSTS PER WORKER</u></b>									
All sectors	0.2	-0.3	0.6	-0.5	0.5	0.4	0.3	1.2	-
- Industry	1.8	1.3	-0.4	1.4	-0.3	-0.4	-0.4	-0.4	-
- Construction	0.5	-0.2	-1.1	-0.2	-1.1	-0.8	-0.3	-2.1	-
- Services	-0.1	-0.6	1.0	-0.9	0.9	0.8	0.5	1.9	-
<b><u>WAGE COSTS PER WORKER</u></b>									
All sectors	0.0	-0.1	1.1	-0.2	1.4	0.6	0.5	1.7	-
- Industry	1.9	1.5	0.4	0.9	0.6	0.2	0.2	0.6	-
- Construction	0.5	0.7	-0.7	1.1	1.0	-1.4	-0.1	-1.9	-
- Services	-0.4	-0.5	1.4	-0.5	1.7	0.9	0.7	2.3	-
<b><u>NON-WAGE COSTS PER WORKER</u></b>									
All sectors	0.6	-1.0	-0.7	-1.5	-1.9	-0.2	-0.5	-0.3	-
- Industry	1.4	0.7	-2.6	3.0	-2.6	-2.2	-2.1	-3.4	-
- Construction	0.4	-2.3	-2.0	-3.5	-5.4	0.9	-0.7	-2.5	-
- Services	0.8	-1.0	-0.1	-2.2	-1.4	0.2	0.0	0.7	-
<b><u>COMPENSATION PER EMPLOYEE (2)</u></b>									
All sectors	1.7	-0.6	0.5	-0.5	0.7	0.3	0.1	0.9	-0.3
- Agriculture	2.4	-3.7	0.7	-3.7	-0.3	-0.5	0.8	2.7	1.8
- Industry	1.5	1.2	-0.1	1.3	0.5	0.1	-0.2	-0.7	-0.3
- Construction	0.9	0.2	-0.5	-0.1	-0.7	-0.6	0.4	-1.2	-1.6
- Services	1.9	-0.9	0.8	-1.0	0.6	0.5	0.3	1.6	0.0
<b><u>LABOUR COST PER UNIT OF PRODUCT (3)</u></b>									
All sectors	-0.2	-0.8	0.3	-0.2	0.9	0.1	-0.2	0.4	-0.5
- Agriculture	-12.9	-1.0	0.0	0.6	-1.2	-1.6	1.3	1.8	1.7
- Industry	2.6	0.1	-0.7	0.7	0.2	-0.3	-0.9	-1.7	-0.5
- Construction	-3.8	-0.8	0.3	0.4	1.4	1.4	0.4	-2.1	-3.2
- Services	-0.2	-1.1	0.5	-0.7	0.9	0.1	0.0	1.1	-0.2

(1) Aggregate figures. The years include the reviews from wage revision clauses.

(2) Equivalent full-time employment. Figures corrected for seasonal factors.

(3) Compensation per employee/labour productivity. Figures corrected for seasonal factors.

Sources: MESS and INE (Quarterly survey of labour costs and National Accounts Base 2010).

With regard to registered unemployment, the rate of decline also moderated, from -8.1% y-o-y in the first quarter to -7.6% in the period from April to May. Again, the main branch responsible for this evolution is agriculture, whose y-o-y rate rose from -9% in the first quarter up to -4.1% in the two month period from April to May.

### ***The wages and unit labour costs moderation continue***

Compensation per employee fell by 0.3% y-o-y in the first quarter, after four quarters of continued increases (0.9% in the fourth quarter of 2015). As a result of this evolution, and the 0.2% growth in productivity per employee, unit labour costs decreased by 0.5% y-o-y, after rising 0.4% the previous quarter.

By main activity branches, construction is the branch in which compensation per employee declined the most (-1.6%, a drop four tenths higher than the previous quarter), while it remained stable in services, it declined by 0.3% in industry and grew in agriculture by 1.8%.

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%. It should be noted that, according to the III Agreement for Employment and Collective Bargaining, the maximum rise set for 2016 is 1.5%. By sectors, wage increases occurred in services (1.14%), industry (1.11%), agriculture (0.89%) and construction (0.67%).

With cumulative data up to April, 600 opt-outs were registered, 12% less than in the same period last year. As usual, most of the opt-outs submitted (almost 93%) related to salaries.

## **5. - PUBLIC SECTOR**

On 31<sup>st</sup> May 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 March 2016. It also published the State monthly budget execution data, both in terms of National Accounts and Cash, for April.

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 April.

### ***The General Government consolidated deficit, excluding Local Governments, stands at 0.80% of GDP in the first quarter of the year***

On a consolidated basis and in National Accounts, the Central Government, the Regional Governments and the Social Security Funds recorded up to March 2016 a deficit of € 8.9 billion (0.80% of GDP), 1.4% higher in comparison to the same period of 2015 (0.81% of GDP). This deficit increase is explained by a y-o-y increase of non-financial resources (0.1%) lower than that of non-financial uses (0.2%).

The slight increase in revenues is largely explained by the rises in social contributions (1.9%) and in taxes on production and imports (1.6%), partially offset by the fall of current taxes on income and wealth (-10.3%, largely affected by the reduction of the withholdings resulting from the tax reform and the fact that 2015 figures include extraordinary revenues of the Central Government for the Corporate Tax inspection reports). Regarding non-financial uses, these

mainly increased due to the rise in social benefits other than transfers in kind (1.4%), social transfers in kind of market producers (4%), compensation of employees (0.1%), intermediate consumption (0.9%) and gross fixed capital formation (3.8%).

Table 5.1. **State Budget Outturn**  
Accumulated amounts in millions euros. Year-on-year in %

	2015 Outturn	2016 Budget	% Change	Outturn January-April		
				2015	2016	% Change
<b>1. NON-FINANCIAL RECEIPTS</b>	<b>144,375</b>	<b>134,773</b>	<b>-6.7</b>	<b>55,869</b>	<b>44,564</b>	<b>-20.2</b>
TAXES	107,354	112,880	5.1	38,405	35,022	-8.8
Direct	64,174	69,404	8.1	19,784	15,961	-19.3
Personal income tax	38,731	39,610	2.3	17,074	15,622	-8.5
Corporate income tax	20,649	24,868	20.4	1,610	-1,077	-166.9
Others	4,795	4,926	2.7	1,101	1,415	28.5
Indirect	43,180	43,476	0.7	18,621	19,061	2.4
Value added tax	32,565	31,334	-3.8	15,455	15,738	1.8
Excise duties	7,340	7,923	7.9	2,100	2,179	3.7
Others	3,275	4,219	28.8	1,065	1,145	7.5
OTHER RECEIPTS	37,021	21,893	-40.9	17,464	9,542	-45.4
<b>2. NON-FINANCIAL PAYMENTS</b>	<b>158,055</b>	<b>157,189</b>	<b>-0.5</b>	<b>58,406</b>	<b>46,924</b>	<b>-19.7</b>
Wages and salaries	16,406	16,808	2.5	5,165	4,717	-8.7
Goods and services	3,537	3,082	-12.9	792	916	15.6
Interest payments	31,750	33,514	5.6	14,760	8,822	-40.2
Current transfers	90,374	88,812	-1.7	32,521	28,675	-11.8
Contingency fund	-	2,468	-	-	-	-
Real investment	5,680	3,632	-36.1	1,728	1,231	-28.8
Capital transfers	10,308	8,873	-13.9	3,439	2,563	-25.5
<b>CASH BALANCE (1-2)</b>	<b>-13,679</b>	<b>-22,416</b>	<b>63.9</b>	<b>-2,536</b>	<b>-2,360</b>	<b>-6.9</b>
<b>Memorandum item (National Accounts):</b>						
Non-financial resources	174,521			55,970	52,483	-6.2
Non-financial uses (EDP)	214,181			68,059	66,464	-2.3
<b>NET LENDING (+) OR BORROWING (-)</b>	<b>-39,660</b>			<b>-12,089</b>	<b>-13,981</b>	<b>15.7</b>
As % of GDP	-3.67			-1.12	-1.25	

Source: Ministerio de Hacienda y Administraciones Públicas.

The Central Government ended the first quarter of 2016 with a deficit of € 9.2 billion (0.82% of GDP), 3.5% lower than the figure registered in the same period of 2015 (€ 9.6 billion, equivalent to 0.89% of GDP). This deficit reduction is explained by a fall of non-financial resources (-2.3%) lower than the one recorded by non-financial uses (-2.5%). The expenditure of the Central Government eligible to be included in the calculation of the expenditure rule increased by 5.8% y-o-y, with an amount of € 26.4 billion in comparison to the € 24.9 billion registered in the first quarter of 2015.

The Regional Governments accumulated a deficit of €1.5 billion (equivalent to 0.13% of GDP) up to March this year, 24.7% lower than in the same period of 2015 (€ 2 billion, equivalent to 0.18% of GDP). This lower deficit is explained by an increase of non-financial resources (2.6% y-o-y) higher than the one registered by non-financial uses (1.2%). The Regional Governments

received advances on account from the financing system amounting to € 1.0 billion, while in the first quarter of 2015 the advances amounted to € 12 billion. If this effect is removed in both periods, the accumulated deficit in March this year amounted to € 2.5 billion, 21.3% 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 0.8% y-o-y, with an amount of € 32.2 billion.

As for Social Security Funds, these ended the first quarter of 2016 with a surplus of € 1.8 billion (0.16% of GDP), 34.2% lower than the figure registered in the same period of 2015 (€ 2.8 billion). This balance reduction is explained by a fall of non-financial resources (-1.3%), due in turn to the decline of transfers received (-13.2%), and to an increase in non-financial uses (1.3%). This evolution is mainly due to the result of the State Public Employment Service, which went from recording a surplus of € 1.2 billion in the first three months of 2015 to a surplus of € 450 million in the same period of 2016, mainly due to the lower transfers received from the State because of the fact that the credits in the State budget in 2016 used to finance the budget of this agent decreased by 61.2% in comparison to the previous year.

### ***The State's deficit stands at 1.25% of GDP up to April in terms of National Accounts***

Up to April 2016, the budget execution of the State ended with a deficit, in terms of National Accounts, of € 14 billion (1.25% of GDP), 15.7% higher than the deficit accumulated in the same period of 2015 (1.12% of GDP). This higher deficit was due to a y-o-y decrease in non-financial resources (-6.2%) higher than the one registered by non-financial uses (-2.3%).

In terms of Cash, the State recorded a deficit of €2.4 billion up to April 2016, lower by 6.9% to the figure recorded in the same period of 2015 (€ 2.5 billion). Non-financial revenues decreased by 20.2% y-o-y, reaching € 44.6 billion, while non-financial payments decreased by 19.7%, down to € 46.9 billion.

### ***Tax revenues decrease by 3.9% y-o-y in the first four-month period of the year, in homogeneous terms***

Total tax revenues (including the Regional and Local Governments' share) recorded an annual decrease of 3.9% up to April. 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 3.9%. Without including the Regional and Local Governments, and in non-homogeneous terms, they decreased by 8.8%.

Within total taxes, revenues from personal income tax, including the Regional and Local Governments' share, decreased by 4.2% up to April, mainly due to the reform impact in labour and capital withholdings (-4% and -8.8%, respectively), which, according to the information provided by the Central Tax Agency, has reduced personal income tax revenues by € 2.0 billion. In homogeneous terms, the reduction stands at 2.6%.

Revenues from corporate tax recorded a negative figure of € 1.1 billion up to April, mainly due to the fall of revenues from the first payment in instalments (-48.7%). In large companies and groups, with a profit growth of 12.4%, the payment in instalments reduction (-56.5%) was mainly due to legal changes such as the tax base definition change (it decreased approximately 32.5%) and to the reduction of the average tax rate. In the case of SMEs, which are taxed according to the last annual total quota submitted and whose rate has not changed compared to 2015, payment in instalments increased by 11.1%. It should also be noted that last year

AENA's privatisation generated an additional increase in the tax base without correspondence in the first payment of 2016.

**Table 5.2. State tax collection**  
Accumulated amounts in millions euros. Year-on-year in %

	2014	2015	% Annual Change	January-April		% Annual Change
				2015	2016	
<b>Direct taxes</b>	<b>95,571</b>	<b>97,789</b>	<b>2.3</b>	<b>30,916</b>	<b>27,367</b>	<b>-11.5</b>
Personal income tax	72,655	72,346	-0.4	28,205	27,029	-4.2
Corporate income tax	18,694	20,649	10.5	1,610	-1,077	-166.9
Non-resident income	1,420	1,639	15.5	307	637	107.3
Other direct taxes	2,802	3,156	12.6	794	778	-2.0
<b>Indirect taxes</b>	<b>78,225</b>	<b>82,726</b>	<b>5.8</b>	<b>32,213</b>	<b>33,272</b>	<b>3.3</b>
Value added tax	56,166	60,305	7.4	24,978	25,758	3.1
Excise duties	19,104	19,147	0.2	6,170	6,369	3.2
Tobacco	6,661	6,280	-5.7	2,076	2,001	-3.6
Hydrocarbons	9,724	9,783	0.6	3,142	3,481	10.8
Others	2,719	3,084	13.4	952	887	-6.9
Other indirect taxes	2,956	3,275	10.8	1,065	1,145	7.5
<b>TOTAL TAXES</b>	<b>173,796</b>	<b>180,516</b>	<b>3.9</b>	<b>63,129</b>	<b>60,639</b>	<b>-3.9</b>

Source: IGAE, Ministerio de Hacienda y Administraciones Públicas.

VAT revenues, including the Regional and Local Governments' share, increased by 3.1% y-o-y up to April, favoured by the evolution in consumption. In homogeneous terms, adjusted by the different tax rebates rate, the increase stands at 3.2%.

Excise duties collection, including the Regional and Local Governments' share, was 3.2% higher compared to the figure registered in the same period of 2015, due to the increase in the Duty on Hydrocarbons (10.8%, which in homogeneous terms and once the health cent refunds are corrected, stands at 2.9%). On the other hand, the Excise on Tobacco Products fell by 3.6% y-o-y.

#### ***Non-financial payments decrease by 19.7% up to April***

With regard to expenses, total non-financial payments decreased by 19.7% up to April, compared to the figure recorded in the same period of 2015, due to the fall of staff expenses (-8.7%), current transfers (-11.8%), real investments (-28.8%), capital transfers (-25.5%) and financial expenses (-40.2%). On the other hand, current expenses on goods and services increased by 15.6%.

#### ***The borrowing requirement of the State rises in the first four-month period of 2016***

The borrowing requirement of the State recorded in the first four-month period of 2016 amounted to € 31.8 billion, compared to the € 6.3 billion recorded in the same period of 2015. This increase is due to the higher net increase of financial assets (€ 29.4 billion, compared to the € 3.8 billion recorded in the same period of 2015), which in turn is due to the rise in the positions in the Bank of Spain current account, partially offset by the lower cash deficit (€ 2.4 billion, compared to the € 2.5 billion recorded a year earlier). The borrowing requirement was mainly financed through mid and long term domestic debt (€26 billion). On the other hand, the State's



debt, according to the methodology of the Excessive Deficit Procedure (EDP), stood at € 922.2 billion at the end of April, compared to € 872.9 billion registered a year earlier.

### *The Social Security records surplus up to April*

On the other hand, up to April 2016, the Social Security System (Managing Entities, General Treasury and Mutual Insurers) recorded a surplus of € 3 billion in terms of Cash, 22% below the figure recorded in the same period of 2015 (€ 3.8 billion). Revenues increased by 0.9% mainly due to the momentum of social contributions, which rose by 2.3%, to other revenues, which increased by 1% and to the current transfers, which increased by 0.3% due to the higher State's current transfers (0.1%). Payments increased by 3.2%, mainly boosted by pensions increase (2.9%), temporary disability (10.9%) and other benefits (0.9%). Finally, regarding Social Security's management expenses, staff expenses fell by 2.6% and current expenses on goods and services decreased by 7.4%.

**Table 5.3. Social Security System Budget Outturn**

Accumulated amounts in millions euros. Year-on-year in %

	2015	2016	%	2015	2016	%
	Outturn	Budget	Change	April	April	Change
<b>1. REVENUE</b>	<b>119,343</b>	<b>137,522</b>	<b>15.2</b>	<b>41,899</b>	<b>42,274</b>	<b>0.9</b>
Social Security contributions	99,156	117,243	18.2	33,553	34,309	2.3
Current transfers	15,714	16,732	6.5	7,041	7,064	0.3
<i>of which: from the State</i>	13,094	13,143	0.4	6,103	6,107	0.1
Property income	2,632	1,634	-37.9	839	429	-48.9
Other revenue (1)	1,842	1,914	3.9	467	472	1.0
<b>2. EXPENDITURE</b>	<b>133,297</b>	<b>141,266</b>	<b>6.0</b>	<b>38,116</b>	<b>39,324</b>	<b>3.2</b>
Contributory pensions	114,421	121,233	6.0	33,583	34,543	2.9
Sickness benefits	5,488	5,398	-1.6	1,151	1,277	10.9
Maternity benefits	2,142	2,204	2.9	696	690	-0.9
Other benefits	2,285	2,107	-7.8	725	731	0.9
Wages and salaries	2,250	2,358	4.8	671	653	-2.6
Goods and services purchases	1,414	1,478	4.5	387	359	-7.4
Other revenue (2)	5,298	6,489	22.5	904	1,070	18.5
<b>3. CASH BALANCE (1-2)</b>	<b>-13,954</b>	<b>-3,745</b>	<b>-73.2</b>	<b>3,783</b>	<b>2,950</b>	<b>-22.0</b>
As % of GDP	-1.3	-0.4		0.35	0.26	

(1) Fees and other current revenues, disposal of real investments and capital transfers. (2) Interest payments, real investments, other current transfers and capital transfers.

Source: Intervención General de la Seguridad Social, Ministerio de Empleo y Seguridad Social.

### *The General Government EDP debt accelerates slightly in March*

The Bank of Spain published the General Government Debt data for March 2016, according to the EDP methodology. According to the Bank of Spain, the General Government EDP Debt accelerated 0.8 points in March compared to February, to 4.1% year on year, reaching € 1,095.4 billion.

By subsectors, the State EDP Debt stood at € 938.3 billion, recording a 6.2% increase compared to the figure registered in the same period of 2015. On the other hand, the Regional Government EDP Debt reached € 264.4 billion, 10% 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 March 2015. Finally, Local Corporations registered in March an EDP Debt of € 35.1 billion, 8.3% lower compared to that of a year earlier.

## 6. - BALANCE OF PAYMENTS

### *The Balance of Payments generated net borrowing from the rest of the world*

According to the available Balance of Payments data, in the first quarter of 2016, the Spanish economy generated net borrowing from the rest of the world of € 783 million (€ 0.3% of GDP), versus a net borrowing of € 764 million (0.3% of GDP) in the same period last year.

The current account balance accumulated a deficit (after three quarters in positive) of € 1.3 billion, 19.2% lower than the figure recorded in the first quarter of 2015 (€ 1.6 billion). This result includes a decrease in the surplus of goods and services and a moderation of the deficit of primary and secondary incomes. On the other hand, the capital surplus fell by 39.4%.

In parallel, the financial balance registered net capital inflows amounting to € 15.3 billion, versus net inflows of € 579 million a year earlier, due to a € 7.4 billion increase in the net position of the Bank of Spain, and € 7.9 billion net capital inflows excluding the Bank of Spain.

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

	€ millions					
	January-March 2015			January-March 2016		
	Credit	Debit	Net	Credit	Debit	Net
<b>Current and capital accounts</b>	<b>97,815</b>	<b>98,580</b>	<b>-764</b>	<b>100,831</b>	<b>101,616</b>	<b>-783</b>
<b>Current account</b>	<b>96,884</b>	<b>98,472</b>	<b>-1,588</b>	<b>99,405</b>	<b>100,689</b>	<b>-1,283</b>
Goods and services	82,696	78,599	4,098	84,191	80,759	3,433
<i>Tourism</i>	8,730	2,919	5,811	9,234	3,481	5,753
Primary and secondary income	14,188	19,873	-5,685	15,214	19,930	-4,715
<b>Capital account</b>	<b>931</b>	<b>108</b>	<b>823</b>	<b>1,426</b>	<b>927</b>	<b>499</b>

(1) The sum of the items does not always match the total due to rounding.

Source: Banco de España.

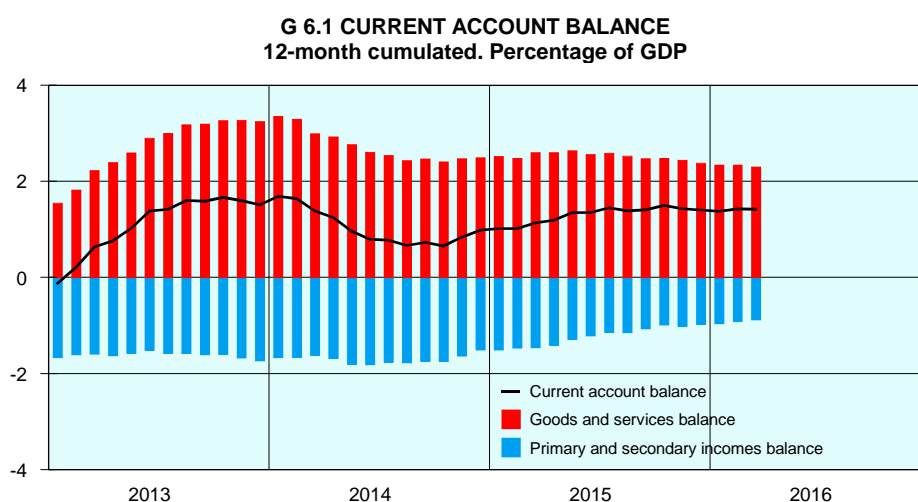
### *The surplus of goods and services fell*

The exchanges of goods and services with the rest of the world between January and March 2016 resulted in a surplus of € 3.4 billion, 16.2% lower compared to the figure recorded in the same period last year. In nominal terms, exports increased by 1.8% and imports by 2.7%, representing a slowdown of 2.5 percentage points in exports and of 2.9 in imports in comparison to the previous quarter.

### *The trade balance improved due to the reduction of the energy deficit*

The Balance of Payments only provides differentiated data between the balances of goods and services up to the end of 2015. According to Customs data, which show a similar evolution, in the first quarter of 2016, the energy goods trade deficit decreased by 33.1%, in line with the

evolution of the price of imported oil which, measured in euros, became 38.7% cheaper on average during the period, while the non-energy balance became negative. As a result, a trade deficit reduction of 10.5% took place. Using the unit value indices of the Ministry of Economy and Competitiveness, the terms of trade improved by 2.9%, contributing to the trade deficit reduction.



Sources: Banco de España and SGACPE.

### ***Tourism revenues slow down...***

The *balance of tourism services* accumulated in the first quarter of the year a surplus of € 5.8 billion, 1% lower than in the same period of 2015. This result reflects an increase of 5.8% of tourism revenue, lower to the one registered in the previous quarter (7.6%). Spending by foreign tourists collected by the Tourist Expenditure Survey (EGATUR) increased by 7.4% y-o-y in the first quarter (7.2% in the previous quarter). On the other hand, tourist arrivals, an indicator of the evolution of tourism in real terms, increased by 13.9%, 4.5 points more than in the fourth quarter last year.

### ***...while tourism payments accelerate***

Tourism payments, as a result of Spanish residents travelling abroad, grew by 19.3% in the first quarter compared to a year earlier. This rate is over one point higher than the one recorded in the fourth quarter of 2015.

### ***The deficit of primary and secondary income falls***

The *balance of primary and secondary income* accumulated a deficit of € 4.7 billion up to March 2016, 17.1% lower than that recorded in the same months of 2015, since there is a revenue increase (7.2%) much higher than that of payments (0.3%), rates that in both cases represent an acceleration compared to those recorded in the last quarter of last year. There are only data available split into primary and secondary income up to December 2015. The only available data for the first quarter of 2016 are included in the secondary income and, in particular, are provided by the Directorate General of the Treasury and Financial Policy corresponding to financial flows with the European Union, which show a contraction of the balance in net current transfers received from the EU of 6.7%, to € 1.0 billion, with a fall in revenues (-16.1%) lower than that of

payments (-18.6%). With regards to income, public transfers received from the European Social Fund, aimed at promoting employment, rose by 98.7%, while in the transfers for the private sector, the subsidies received by farmers as refunds of the Common Agricultural Policy fell by 20.9%. On the payments side, within public payments for the EU, the Traditional Own Resources grew (16.2%) and those related to the VAT Resource fell (-26.1%) and to the GNI Resource (-22.6%) although it should be noted that these payments are not divided in the same way through all financial years.

### ***The surplus of the capital balance decreases***

In the first quarter of 2016 the *capital balance* generated a surplus of € 499 million, 39.4% lower than the year before, recording significant increases in revenues (53.2%) and above all, payments, which are multiplied by nine. Capital transfers increased by 106.4% to € 812 million over the same period last year. Within revenues, the most important quantitatively were public transfers from the structural funds of the EU Budget, aimed at infrastructure, rural development and environment. In this regard, the decline of those received by the Cohesion Fund and the growth of those corresponding to the ERDF (168.6%) stand out. However, it is important to note that these revenues are very erratic, due to the multiannual nature of many of the actions they fund.

### ***Net capital inflows in financial transactions with the rest of the world, excluding the Bank of Spain***

In the first three months of 2016, the *financial account* recorded net capital inflows amounting to € 15.3 billion, versus the net inflows of € 579 registered a year earlier. *Excluding the Bank of Spain*, the *financial account* recorded net capital inflows worth € 7.9 billion (3% of GDP) up to March, compared to the net outflows of € 14.2 billion registered a year earlier. This result includes positive balances (investments) in asset and liability transactions.

### ***Foreign investment in Spain moderates...***

The change in net liabilities generated net capital inflows up to March worth € 18.8 billion, 55.2% lower than the net inflows registered a year earlier. The direct investment balance fell by 30.2% y-o-y, reaching net inflows of € 4.4 billion, which were channelled toward other resident sectors (the breakdown by instrument for 2016 is not available). On the other hand, portfolio investment recorded net outflows amounting to € 3.4 billion (net inflows of € 37.2 billion in the first quarter of 2015) due to the results of the private sector, while the General Government recorded net inflows. Finally, other investments (loans, deposits and repos) recorded net inflows of € 17.8 billion, compared to the net outflows seen in the same period of 2015, being the financial private sector the leading party.

### ***...as well as Spain's investment abroad***

The change in net assets with the rest of the world, excluding the Bank of Spain, accumulated in the first three months of 2016 net capital outflows (investments) of € 10.8 billion, 80.7% below compared to last year. Direct investment accumulated capital outflows amounting to € 9.9 billion, 24.7% higher than a year earlier, coming mainly from other resident sectors. The portfolio investment balance fell by 87.8%, registering net outflows of € 4.4 billion, focused on the private sector, mostly on other resident sectors. Conversely, other investment changed sign recording net inflows amounting to € 2.3 billion, as a result of the divestments of other resident

sectors and, to a lesser extent, of the General Government. Finally, financial derivatives registered net inflows of € 1.2 billion (€ 794 million a year earlier).

### *The net position of the Bank of Spain vis-à-vis the Eurosystem increases*

Current, capital and financial transactions generated a decrease of € 7.4 billion of net assets for the Bank of Spain, a figure that includes a decrease (increase of the net position) of € 10.2 billion assets vis-à-vis the Eurosystem and increases of € 40 million in reserves and of € 2.8 billion in other net assets.

Table 6.2. **Balance of payments. Financial operations (1)**

	Millions of euros					
	January-March 2015			January-March 2016		
	Assets change	Liabilities change	Balance	Assets change	Liabilities change	Balance
<b>Financial account</b>	<b>41,330</b>	<b>41,907</b>	<b>-579</b>	<b>3,448</b>	<b>18,779</b>	<b>-15,329</b>
- Excluding Bank of Spain	<b>56,124</b>	<b>41,907</b>	<b>14,216</b>	<b>10,833</b>	<b>18,779</b>	<b>-7,945</b>
<i>Direct investment</i>	<b>7,976</b>	<b>6,277</b>	<b>1,699</b>	<b>9,943</b>	<b>4,384</b>	<b>5,560</b>
Monetary financial institutions	1,111	-169	1,280	2,063	-95	2,158
Other resident sectors	6,864	6,446	418	7,881	4,478	3,403
<i>Portfolio investment</i>	<b>36,070</b>	<b>37,163</b>	<b>-1,093</b>	<b>4,404</b>	<b>-3,394</b>	<b>7,799</b>
General Government	-522	30,252	-30,774	57	4,142	-4,085
Monetary financial institutions	9,155	8,851	304	1,670	-5,981	7,651
Other resident sectors	27,437	-1,942	29,379	2,677	-1,556	4,233
<i>Other investment</i>	<b>12,872</b>	<b>-1,533</b>	<b>14,405</b>	<b>-2,313</b>	<b>17,789</b>	<b>-20,102</b>
General Government	-1,911	-4,140	2,229	-790	1	-791
Monetary financial institutions	10,018	2,012	8,006	1,566	16,361	-14,795
Other resident sectors	4,765	595	4,170	-3,089	1,427	-4,516
<i>Financial derivatives</i>	-794	-	-794	-1,201	-	-1,201
- Bank of Spain	<b>-14,794</b>	-	<b>-14,794</b>	<b>-7,385</b>	-	<b>-7,385</b>
Reserves	4,657	-	4,657	40	-	40
Claims on the Eurosystem	-20,503	-	-20,503	-10,198	-	-10,198
Other net assets	1,052	-	1,052	2,772	-	2,772
- Net errors and omissions	187	-	187	-14,546	-	-14,546

(1) The sum of the items sometimes does not match the total due to rounding.

Source: Banco de España.

### *The NIIP improves in the fourth quarter of 2015*

The *Net International Investment Position* (NIIP) decreased its debit balance in the fourth quarter of 2015 by € 16.9 billion, reaching € 978 billion. This improvement is due to the fact that the accumulation of net foreign assets (€ 33.4 billion) was higher than the negative valuation effect (€ 16.7 billion) observed in this period. The debit NIIP accounted for 90.5% of GDP in the fourth quarter of 2015, 5.1 points less than in the previous year. Assets amounted to € 1.6 trillion, up 7.5% from a year earlier, and liabilities € 2.6 trillion, 3.9% more compared to a year earlier. Furthermore, the gross external debt rose in the last quarter of last year compared to € 1.8 trillion (167.9% of GDP), versus the € 1.7 trillion registered in the same period of 2014 (166.6% of GDP).

The NIIP debit balance, excluding the Bank of Spain, reached an amount of € 864 billion in the fourth quarter of 2015, 5.9% less than a year earlier. A 7.7% increase of the direct investment debit balance was recorded, up to € 56 billion. On the other hand, a 2.9% decrease of debit balance was recorded in portfolio investment, to € 614 billion, and of other investment debit balance of 17%, to € 192 billion.

The Bank of Spain increased its debit balance by € 37.5 billion in the fourth quarter of 2015 compared to a year earlier, up to € 114.3 billion, equivalent to 10.6% of GDP. This increase is explained by the expansion of the Bank of Spain debit balance vis-à-vis the Eurosystem (€ 50.9 billion), well above the increase in reserves (€ 8.1 billion) and other net assets (€ 5.3 billion).

June 2016