June 2016

SPANISH ECONOMY REPORT

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MINISTERIO DE ECONOMÍA Y COMPETITIVIDAD

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RECENT EVOLUTION OF THE ECONOMIC INDICATORS

Financial markets

The financial markets in June were mainly conditioned by the British referendum, whose result in favour of the United Kingdom leaving the European Union has caused strong tensions, raising the expectations of further easing of the European Central Bank (ECB) monetary policy and a delay of the interest rates increase in the United States. As a result, the major European stock indices registered sharp losses, peripheral European public debt yields fell and the euro against the dollar depreciated.

The Fed keeps the interest rates unchanged

The Federal Open Market Committee (FOMC) of the Federal Reserve (Fed), in its two day meeting held on 14th and 15th June, decided to maintain the target range for the Federal Funds rate at 0.25% and 0.50%, set on 17th December 2015, in a context in which the US growth forecasts for 2016 and 2017 have been revised downward, and the pace of job creation has moderated. The FOMC 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 strengthen, although the international economic and financial uncertainty will continue to condition the pace of normalisation of the monetary policy.

The BoJ does not to change its monetary policy,…

On the other hand, in the meeting held on 15th and 16th June, 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.

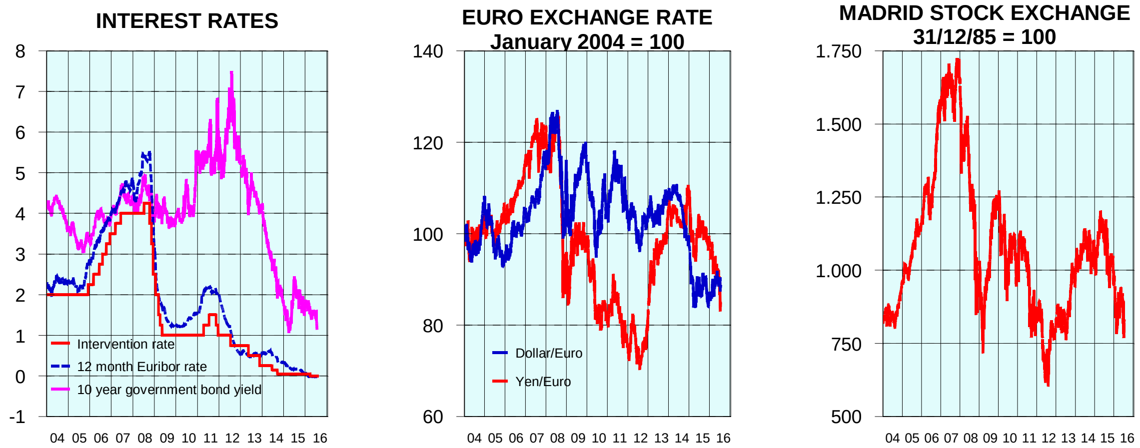
…as did the BoE, warning the latter about the risks associated to the Brexit

The Monetary Policy Committee of the Bank of England (BoE), in the meeting held on 15th June, decided to keep the Official Bank Rate at 0.5% (in force since 5th March 2009) and to continue with the asset purchase programme, which currently stands at £ 375 billion. In the statement that followed the meeting, the BoE warned about the possible adverse effects that a potential exit of the UK from the European Union would have on the economy, and expressed its willingness to act, if necessary, to ensure the inflation return to its medium-term objective.

The 12 month Euribor remains close to zero

In the interbank market of the Eurozone, interest rates continued the slightly downward trend during most of June, and recorded a slightly sharper fall after knowing the results of the British referendum in favour of the United Kingdom leaving the European Union. More specifically, the 12-month Euribor evolution is explained by the expectations of the interest rates decline, as the Overnight Index Swap (OIS), which indicates the rates expectations, stood at -0.46% in the 12-month Euribor, 8 basis points (b.p.) below the level recorded at the end of May, partially offset by the slight increase in risk premiums required in this market, since the Euribor-OIS differential stood at 41 b.p., 4 b.p. above the level registered on 31st May.

G1. MONETARY AND FINANCIAL INDICATORS (1)



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

Peripheral European public debt yields fall in June

In the secondary public debt market, the greater risk aversion due to the referendum on the UK remaining in the European Union pushed peripheral debt yields upwards and increased the demand for safe haven assets, such as the German bund, whose yield became negative for the first time in its history. However, during the last days of June, the expectations of further easing of the ECB monetary policy caused a sharp drop in the peripheral debt yields, more than offsetting the accumulated increases. Thus, the 10-year Spanish bond yield fell down to historical lows at the end of June, standing on 4th July at 1.16%, 33 b.p. below the figure recorded on 31st May. On the other hand, the German bond yield fell 28 b.p. over the same period, down to -0.14%, the Spain-Germany differential standing at 130 b.p., 5 b.p. below the level recorded in late May. Meanwhile, the Spain-Italy differential stood at -10 b.p., compared to 12 b.p. recorded on 31st May.

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

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-31-15	May-31-16	Jun-04-16	Variation in spreads		Dec-31-15	May-31-16	Jun-04-16	Variation in spreads	
	(1)	(2)	(3)	Period (3)-(2)	Annual (3)-(1)	(4)	(5)	(6)	Period (6)-(5)	Annual (6)-(4)
Germany	0.63	0.14	-0.14	-28	-77					
Holland	0.79	0.35	0.06	-29	-73	16	21	20	-1	4
Finland	0.92	0.41	0.13	-28	-79	29	27	27	0	-2
France	0.99	0.48	0.16	-32	-83	36	34	30	-4	-6
Austria	0.91	0.32	0.18	-14	-73	28	18	32	14	4
Belgium	0.97	0.52	0.20	-32	-77	34	38	34	-4	0
Ireland	1.15	0.77	0.44	-33	-71	52	63	58	-5	6
Spain	1.80	1.49	1.16	-33	-64	117	135	130	-5	13
Italy	1.61	1.37	1.26	-11	-35	98	123	140	17	42
Portugal	2.54	3.07	2.99	-8	45	191	293	313	20	122
Greece	8.35	7.27	7.92	65	-43	772	713	806	93	34

Source: Financial Times.

The stock indices fall sharply after the British referendum

In the stock markets, the main indices on both sides of the Atlantic registered sharp falls in June due to the result of the British referendum and, to a lesser extent, to the negative impact of the oil price fall on energy stocks. In Europe, the Eurostoxx 50 index decreased by 6.6% up to 4th July (-12.4% compared to late last year), in a context of increased risk aversion and high volatility, although it edged upwards during the last days of the month due to the expectations of a possible further easing of the ECB monetary policy. In Spain, the IBEX 35 recorded in that period a 8.6% decrease in comparison to late May, dropping by 13.5% compared to late last year. In the US market, the S&P 500 index rose by 0.3% between 31st May and 4th July (2.9% compared to the end of 2015), also affected by the result of the British referendum, which partly offset the momentum recorded by the index due to the expectations of a possible delay of the interest rates increase in the United States.

T 2. International stock exchange

Countries	Index	Level Jun-04-16	% Variation May-31-16	% Variation Dec-31-15
Germany	DAX	9,709.09	-5.4	-9.6
France	CAC 40	4,234.86	-6.0	-8.7
Italy	FTSE MIB	16,012.31	-11.2	-25.2
Spain	IBEX 35	8,255.90	-8.6	-13.5
Eurozone	EUROSTOXX 50	2,862.21	-6.6	-12.4
United Kingdom	FTSE 100	6,522.26	4.7	4.5
United States	S&P 500	2,102.95	0.3	2.9
Japan	NIKKEI 225	15,755.80	-8.6	-17.2
China	SHANGHAI COMP	2,988.60	2.5	-15.6
Mexico	IPC	46,201.33	1.6	7.5
Brazil	BOVESPA	52,568.66	8.5	21.3
Argentina	MERVAL	15,229.31	20.1	30.4

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

The euro depreciates against the dollar in a context of high volatility

With respect to the currency market, the uncertainty associated with the British referendum pushed downwards the exchange rate of the euro against the dollar, especially after knowing the result in favour of the exit from the European Union, in a context of high volatility. Thus, despite the expectations of a possible delay of the interest rates increase in the United States, which had been pushing upwards the euro exchange rate against the dollar until the referendum was held, in the period between 31th May and 4th July the euro depreciated by 0.1% and 7.7% against the dollar and the yen, respectively, and appreciated by 10.1% against the pound, trading at the end of the 4th July session at 1.1138 dollars, 114.29 yen and 0.8391 pounds. In that same period, the euro appreciated by 0.7% in nominal effective terms.

The M3 broad monetary aggregate increases the y-o-y growth rate in May

On 27th June, the ECB published the evolution of the monetary and credit aggregates in the Eurozone in May 2016. The M3 broad aggregate rose by 4.9% y-o-y, three tenths more than in April, due to the increase of marketable instruments (2.8%), after the fall registered in the previous month (-2.1%), as well as to the moderation in the pace of decline of other short-term deposits (from -2.8% to -2%). On the other hand, currency in circulation and overnight deposits slowed down one and three tenths, respectively, to 4.5% and 10% y-o-y.

T 3. Eurozone monetary aggregates

Monetary aggregates	May 2016 Balance (Billion €)	% Year-on-year variation		
		March 2016	April 2016	May 2016
1. Currency in circulation	1,051	5.9	4.6	4.5
2. Overnight deposits	5,786	11.0	10.7	10.0
M1 (= 1 + 2)	**6,837**	**10.1**	**9.7**	**9.1**
3. Other short-term deposits (= 3.1. + 3.2.)	3,579	-2.4	-2.8	-2.0
3.1. Term deposits up to two years	1,407	-6.8	-7.3	-5.8
3.2. Deposits redeemable at notice up to three months	2,172	0.6	0.4	0.7
M2 (= M1 + 3)	**10,416**	**5.4**	**5.1**	**5.0**
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	653	-0.9	-2.1	2.8
4.1. Repurchase agreements	88	-28.9	-28.4	-16.7
4.2. Money market funds shares/units	476	7.6	6.1	8.9
4.3. Securities other than shares up to two years	88	-2.1	-4.1	-2.3
M3 (= M2 + 4)	**11,069**	**5.0**	**4.6**	**4.9**

Source: European Central Bank.

Financing to the private sector in the Eurozone accelerates in May

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, grew by 1.3% y-o-y in May, two tenths more than in April, 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 (5.1%, a rate one point higher than in April). Furthermore, shares and other equity decreased 2.4% y-o-y, a fall identical to the one registered in the previous month. Within loans, those received by households increased by 2.1%, one tenth less than that of the previous month, and those received by non-financial corporations accelerated three tenths, up to 1.2% y-o-y.

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

	May 2016 Balance (Billion €)	% Year-on-year variation		
		March 2016	April 2016	May 2016
Credit to the private sector	**12,741**	**1.1**	**1.1**	**1.3**
Loans	**10,657**	**1.0**	**1.0**	**1.1**
Households	**5,347**	**2.2**	**2.2**	**2.1**
House purchases	*3,986*	*2.3*	*2.3*	*2.3*
Consumer credit	*601*	*5.1*	*5.3*	*4.4*
Other lending	*759*	*-0.5*	*-0.8*	*-0.7*
Non-financial corporations	**4,308**	**0.8**	**0.9**	**1.2**
Insurance companies & pension funds	**111**	**-19.1**	**-16.4**	**-21.0**
Other financial intermediaries	**892**	**-1.3**	**-2.2**	**-1.3**
Securities other than shares	**1,331**	**3.3**	**4.1**	**5.1**
Shares and other equities	**754**	**-2.4**	**-2.4**	**-2.4**

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

The financing stock to the private sector in Spain moderates 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 1st July 2016, the financing stock to the private non-financial sector decreased by 1.7% y-o-y in May, four tenths less than in the previous month. Financing received by firms moderated its rate of decline by 6 tenths, down to 1.3%, due to the lower drop in foreign loans and to the acceleration of securities other than shares, while the pace of decline in bank loans remained at 2%. On the other hand, financing received by households recorded a y-o-y rate of -2.3%, one tenth higher compared to the previous month, due to the lower decline in bank loans for housing, despite the slowdown of bank loans for purposes other than housing.

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

	May 2016 Balance (Billion €)	% Year-on-year variation		
		March 2016	April 2016	May 2016
Non-financial corporations and Households	**1,620**	**-1.9**	**-2.1**	**-1.7**
Non-financial corporations	**903**	**-1.7**	**-1.9**	**-1.3**
Bank loans	*532*	*-2.0*	*-2.0*	*-2.0*
Securities(1)	*85*	*-4.2*	*0.1*	*3.5*
External loans	*286*	*-0.5*	*-2.1*	*-1.4*
Households	**717**	**-2.1**	**-2.4**	**-2.3**
Bank loans. Housing	*553*	*-3.6*	*-3.9*	*-3.7*
Bank loans. Other	*164*	*3.4*	*3.0*	*2.9*
General Government	**-**	**4.1**	**3.9**	**-**
Total financing	**-**	**0.4**	**0.2**	**-**

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

New loan and credit operations to households and SMEs grow sharply

According to data published by the Bank of Spain on 30th June, the amount of new loan and credit operations to households, in cumulative terms for the last twelve months, increased by 25.6% y-o-y in May, three tenths more compared to April. This slight acceleration is due to the higher increase of credits for house purchases and for consumption (39.5% and 27.8% y-o-y, rates 0.7 and 2.3 points higher than in April, respectively), partially offset by the slowdown of credits for other purposes (2.1 points, to 2.4% 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 May, by 10% y-o-y, an increase nine tenths lower than the one recorded in the previous month. On the other hand, the amount of new loan and credit operations exceeding one million euros declined 7.1% y-o-y, 4.7 points more than in April.

Spanish economy

Domestic demand and production

Demand and production

In June, the international context was affected by the persistence of vulnerability elements in the global economy due to the uncertainty and subsequent confirmation of the UK referendum results on its exit from the European Union. Consequently, a period of financial turmoil has started and the major global banks are facing it with extraordinary liquidity provision measures in order to offset the volatility of financial markets. This scenario of financial volatility has taken place in a context of a sluggish economic recovery, both in China and in the major developed economies, inside and outside the Eurozone. In the latter, its possible association with temporary factors has not led to revisions in the mid-term growth forecasts.

The Bank of Spain maintains its growth prospects for the Spanish economy

In this general context of financial volatility on the one hand and possible loss of momentum in some favourable short-term factors on the other (oil prices drop, depreciation of the euro or some budgetary stimuli), the Bank of Spain published the Macroeconomic Projections of the Spanish economy for the period 2016-2018, a half-yearly contribution of the institution to the joint Eurosystem macroeconomic projection exercise that allows obtaining the projections for the Eurozone. The Bank of Spain, like all the Eurozone forecasting bodies as a whole, maintains the Spanish real DGP growth forecasts for 2016 and 2017 at 2.7% and 2.3%, respectively. It foresees a 2.1% increase for 2018.

In its June Economic Bulletin, the Bank of Spain expected the q-o-q real GDP growth rate for the second quarter of the year to be maintained, estimating a q-o-q rate of 0.7%, slightly lower than the one in the last three quarters (0.8%), with a domestic demand contribution of six tenths (four tenths less than in the first quarter) and a net external demand contribution of one tenth (-0.3 points in the first quarter). On the other hand, the product composition did not undergo substantial changes on the demand side, recording a private consumption growth rate similar to that registered in previous quarters, a less expansionary trend in business investment and a y-o-y employment growth rate of 2.9%, three tenths below that of the first quarter.

The economic sentiment indicator increases in June

Available qualitative indicators point to the pace of activity growth being kept for this financial year. Amongst them, the behaviour of the Economic Sentiment Indicator (ISE, by its Spanish abbreviation) of the European Commission stands out, as it rose eight tenths in June versus the previous month, after five months of declines, reaching 106.5 (average 1990-2015 = 100). The ISE was driven by the strong growth both in industry confidence (it rose by 2.1 points) and consumer confidence (increasing by six tenths) in comparison to the confidence decline in services (by 2.1 points), retail trade (by 3.4 points) and construction (by 3.8 points).

With April data, the OECD composite leading indicator for Spain, designed to anticipate the turning points in the economic activity with regards to its trend, was somewhat less expansionary, although within a stability trend. Thus, it fell by one tenth compared to March, down to 101, above its long term average (100). The indicator for the Eurozone reached 100.4, identical to the previous month, maintaining the positive differential for Spain observed since December 2013.

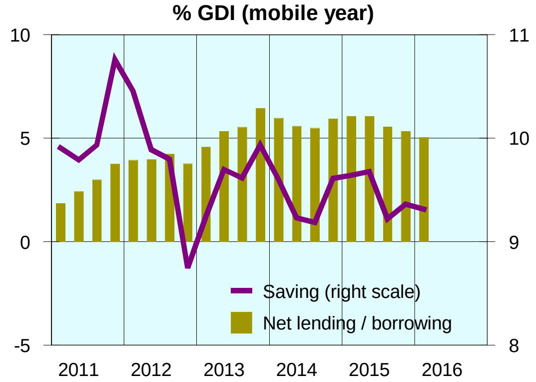
Non-financial accounts of institutional sectors for the first quarter of 2016, reflect a net borrowing of the Spanish economy vis a vis the rest of the world of €1.1 billion, representing 0.4% of the quarterly GDP. This net borrowing is €293 million higher than that for the same quarter of 2015 (€784 million, 0.3% of GDP) as a result of the net borrowing increase of households and NPISH (which grows from 2.8% of GDP in the first quarter of 2015 up to 3.4% in the first quarter of 2016) and, to a lesser extent, by non-financial corporations, which slightly reduced their net lending (4.9% vs. 5% a year earlier), partially offset by the lower net borrowing of the General Government (3.1% versus 3.2% recorded in the previous year) and the increased capacity of financial institutions (1.2% vs. 0.6% a year earlier).

Private consumption dynamism persists

Amongst the GDP components on the demand side and, in particular, with regard to private consumption, the signals from available indicators point to a dynamic performance in the second quarter of 2016, although at a more moderate pace than in the first quarter.

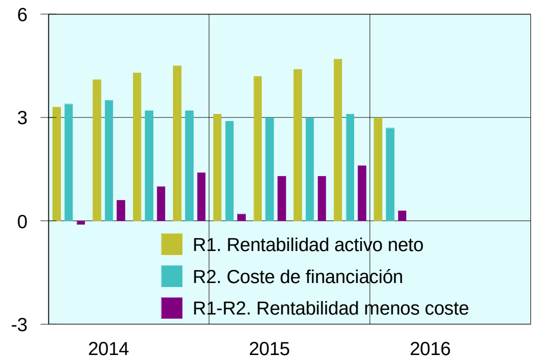
Retail sales, with work calendar and price adjusted data and excluding petrol stations, rose by 2.2% in May compared to the 4.2% in April, the noticeable slowdown of the large retail outlets component standing out, as it recorded a 0.2% y-o-y growth rate in comparison to the 6.3% registered in the previous month. Likewise, domestic sales of consumer goods and services rose by 5% in May, compared to the 7.2% in the previous month. Also, domestic availability of consumer goods moderated the y-o-y growth pace in the second quarter of 2016, as a result of the sharp increase experienced by exports (10.7%, almost two points more than in the previous quarter) and imports slowdown (8.7% in the second quarter compared to the 10% in the first one), partially offset by the acceleration of production (it grew 8.4% in the second quarter, compared to the 5% in the first one).

G 2. HOUSEHOLD SECTOR
% GDI (mobile year)



Source: INE.

G 3. RATIOS DE RENTABILIDADES (%)



Fuente: BE (CBT).

This slight moderation in the private consumption performance is also reflected in the synthetic consumption indicator, which increased by 4.2% y-o-y in the first half of 2016, compared with the 4.7% in 2015 as a whole.

It should be noted that consumption growth continues to be based, on the one hand, on the good performance of the labour market (Social Security covered workers increased by 2.9% y-o-y in June, three tenths more than in the previous month, and accumulate a 2.9% increase in the first six months of the year) and, on the other hand, on the households' Gross Disposable Income (GDI) rise which, according to the Non-Financial Accounts of the Institutional Sectors, grew by 2.1% y-o-y in the first quarter of 2016. The households' GDI increase is the result of the wage income growth (3.2%), the non-wage income growth (0.9%) and to the taxes decrease (1.9%), which more than offset the received transfers decline (-2.1%) and the paid transfers increase (0.7%).

Confidence indicators recover

Based on the qualitative indicators, the Consumer Confidence Indicator (CCI), published by the CIS, reached 96.3 in June, the highest figure in the last five months, standing 5.6 points above the level recorded in May. This increase is due to the rise in its two components, particularly the expectations component. Thus, the current situation indicator rose by 4.5 points in June, up to 87.4, and the expectations component rose by 6.5 points, up to 105.1, standing again above the 100 threshold. The strong progress of the general economic situation assessment (current and expected) and the best expectations on the labour market situation deserve special mention. On the other hand, the consumer confidence index published by the European Commission for the same month also improved its balance, by six tenths, compared to May.

The dynamism of domestic demand, supported by employment and the households' disposable income recovery had a positive impact on Spanish industry use of the production capacity , placing it at 78.2% in the second quarter of 2016, that is, six tenths above the previous quarter.

According to the Quarterly Central Balance Sheet data published by the Bank of Spain, for the first quarter of 2016, the same expansive signal is observed in the productive sector, although with a delay. Non-financial companies' gross value added (GVA) to factor cost increased by 0.7% y-o-y in the first quarter. This figure is lower than that in the fourth quarter of 2015, (when an increase greater than 10% took place), but it would be biased downwards by the negative evolution of the surplus in the oil refining companies. Excluding these companies, the GVA increased by 2.1%.

The increase in overall production activity (0.7%), together with the largest increase in personnel expenses (2.2% versus 2% in the previous quarter), resulted in a 0.8% y-o-y decline of the gross operating profit (GOP). Excluding the refining industry, the GOP grew by 2.1% y-o-y. Despite the increased decline pace in financial expenses, which went from falling 3.4% in the fourth quarter of 2015 to falling 10.4% in the first quarter of 2016, the sharp drop in financial income (-19.3%) together with the GVA timid increase resulted in a net ordinary profit decline of 5.9%, in y-o-y terms, compared to the 3.6% increase registered in the previous quarter. The ordinary return on net assets for all the companies in the sample grew by 3% in the first quarter, 1.7 points less than in the previous quarter. On the other hand, the ratio that measures the financial cost (financial expenses over liabilities) moderated by four tenths versus the last quarter of 2015, down to 2.7%, so the differential between them (which is an indicator of companies' economic incentives,) fell by 1.3 points, down to 0.3 percentage points.

The equipment investment remains strong

The Industrial Climate Index for investment goods grew strongly in June, reaching 7.3 (3.5 in May). This rebound was possible thanks to the strong drive of production forecasts, which reached 18.4 (19.5 points above its level in the previous month), partially offset by the decline in the order portfolio, which became negative again (-5.1) after the rise experienced in the previous two months. On the other hand, stocks fell for the third consecutive month. In the same vein, *domestic availability of equipment goods* increased by 6.7% y-o-y in the second quarter, two tenths more than in the first quarter. Furthermore, the *synthetic indicator of equipment investment* showed an expansionary trend in the second quarter of 2016, with a q-o-q increase of 3.6% compared to the 1.2% fall registered in the first quarter, particularly driven, among other factors, by truck registrations, which maintain a strong expansion (double digit growths), with an increase of 17.3% in May (19.9% in April).

The indicators related to *residential investment* show signs of acceleration. According to the INE Statistics, based on the properties recorded in the Property Registers, housing sales experienced a 29% y-o-y growth in April, 12.2 points more than in the previous month. Contrary to what happened in previous months, the expansionary trend was due to the strong increase of both new housing purchases, which grew a 17.6% from a year earlier (-6.6% in March), and used housing purchases (32.3% compared to the 24.2% increase of the previous month).

On the other hand, the *number of mortgages* on housing rose again strongly in April, registering a y-o-y growth rate of 24.6%, more than ten points higher than the one in March (14.5%). The average amount per mortgaged property grew by 5.1% y-o-y (4.8% in March), so the borrowed capital increased by 30.9%, almost 11 points more than in the previous month (20%). This dynamism was also reflected in the evolution of the private housing price in real terms, deflated by the CPI, both according to statistics of the Ministry of Public Works and Transport (from assessment values), which increased by 3% in the first quarter of 2016 (2.2% in the fourth quarter of 2015), and according to the INE statistics (based on deeds of sale), which grew from 4.6% in the last quarter of 2015 to 7% in the first quarter of 2016.

Industrial activity slows down

Amongst the *industrial activity* indicators, the Industrial Production Index (IPI), with calendar and seasonally adjusted data, increased by 1% in May, 1.6 points less than in April, as a result of the performance of the energy component, which fell by 3.8%, as well as due to the slowdown of the other groups of the index. The growth moderation in the equipment goods group stands out particularly, as it grew by 5.6%, half the growth registered in April. Intermediate goods increased by 0.2% and consumer goods by 1.2% (0.3% and 2.6% respectively in the previous month).

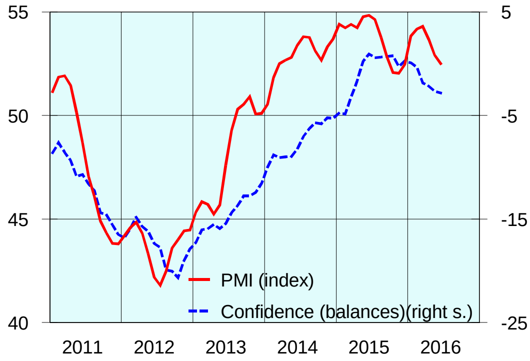
On the other hand, the *Turnover Index in Industry (ICNI)* was less dynamic in April, with a 0.9% y-o-y decrease, with calendar adjusted data, compared to the 0.3% increase registered in March. The increase of equipment goods stands out, growing by 12.9%, two points more than in March. With seasonally adjusted data, the general ICNI fell by 1.3% m-o-m in April compared with the increase of the same magnitude registered in the previous month. Conversely, the *Industry New Orders Index (INOI)* showed a less contractionary trend in April, registering a y-o-y decrease of 0.9%, with calendar-adjusted data, 2.4 points down in comparison to March. The lower drop was due to the strong dynamism of equipment goods, which increased by 9.2% (9.6 points more than in the previous month) and the acceleration of consumer goods (1.4 points), up to 2.3%, while intermediate goods and energy accentuated the rate of decline by 3.5 points (down to -5.5%) and 3.7 points (down to -29.6%) points, respectively. With seasonally adjusted data, the general INOI grew by 1.4% in April compared to the previous month, 3.9 points more than in March, due to the sharp rise registered by the equipment component, with a m-o-m increase close to 10%.

Despite the activity moderation in the sector, the steady growth pace of Social Security covered workers in the industry continues, as it accelerated by one tenth in June, up to 2.6% y-o-y. Non-financial corporations’ net lending capacity also grew in the first quarter of 2016, by 0.3% y-o-y. Non-financial corporations’ gross disposable income rose by 5.7% y-o-y as a result of the increase in gross operating surplus, which rose by 2.7%, and the lower amount of property income and net current paid transfers, which fell by 4.4% and 32.7%, respectively. All this, together with the sharp decline (-67.3% y-o-y) in the amount paid as a result of the corporate tax and the positive balance of other received net capital income was enough to finance investment in the sector, which grew by 8% compared to the first quarter of 2015.

Business confidence improves

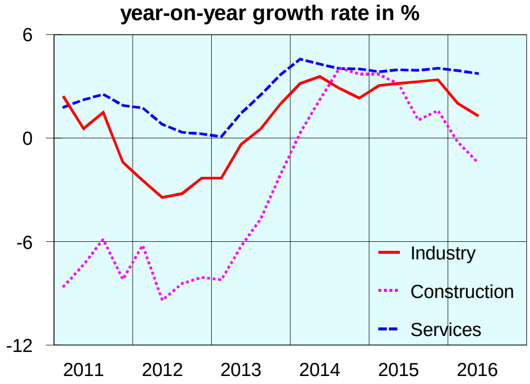
The *Business Confidence Index*, published by the INE, rose by 0.5% in the third quarter of 2016 versus the previous month, following the 0.6% increase registered in the second quarter. The PMI of the manufacturing sector pointed in the same direction, rising by four tenths in June compared to May, up to 52.2, driven by the higher pace of increase of production.

G 4. INDUSTRY: CONFIDENCE INDICATOR AND PMI
Moving average (3 months)



Sources: European Commission and Markit Group.

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



Source: SGACPE.

Activity in the construction sector moderates

Concerning the construction sector activity, the indicators published point to a less expansionary trend in the second quarter of the year. The Production Index in the Construction Industry (PICI) in Spain, published by Eurostat, fell by 6% y-o-y in April, after seven months of continued growth (7.4% increase in March). This PICI behaviour was reflected on both the building component, which fell by 7.2% y-o-y versus the 7.1% rise registered in the previous month, and the civil works component, whose growth rate moderated more than three points, from 8.2% in March to 5.1% in April.

Regarding the construction activity leading indicators, according to construction new permits of the Ministry of Public Works and Transport, floorage approvals in new construction moderated the y-o-y growth rate significantly in April (by over 66 points), to 3.7%. This strong slowdown was due both to the residential component smaller increase (11.3% versus 100.1% in March) and the non-residential component pace of decline intensification (-15.2% compared to the -4.6% registered in March).

This evolution was also reflected in the Synthetic Indicator for Construction Activity, which fell by 1.3% in the period from April to June in comparison to the previous quarter, more than twice the first quarter of the year (-0.6%).

According to the latest data, the activity slowdown in the sector probably moderated in June. Thus, the covered workers of the construction sector accelerated eight tenths y-o-y compared to May, reaching 2.4%.

The services sector expansion keeps going

With regard to the services sector, the Services Sector Turnover Index (SSTI) after filtering off the effects of the work calendar, increased by 3.5% y-o-y in April, nine tenths less than in the previous month. This moderation affected the trade sector and, to a lower extent, other services whose y-o-y growth rates stood at 2.8% and 4.9%, respectively (4.1% and 5% in the previous month). Filtering off the seasonal effects, the general SSTI dropped by 0.2% m-o-m in April, after the 1.3% increase observed in March.

Social Security covered workers in the services sector showed a more expansionary trend, which accelerated in June compared to May, registering a y-o-y increase of 3.2% compared with the 2.9% registered in the previous month. On the other hand, the Synthetic Services Indicator maintained the quarterly pace in the second quarter at 0.9% q-o-q, as in the first quarter.

Strong dynamism in the tourism sector

The tourism sector continues to show a high dynamism. Thus, among the indicators published, the arrival of 7.1 million visitors to Spain in May is striking. According to the Survey of Tourist Movements on Border (Frontur) this figure is a 7.4% higher than that of the same month in 2015. This increase was almost four points lower than in April, maintaining the expansionary trend that began in early 2013.

The total expenditure by tourists who visited Spain in May was 7.8% higher than in the same month of 2015 and almost 3.5 points higher than in April (4.3%). The average spending per person stood at 0.4% in that period.

On the other hand, overnight stays in hotels grew by 9.9% y-o-y in May, 8.6 points more than in the previous month. This acceleration was due to the good performance of overnight stays for foreigners, which experienced a 11.6% increase, compared with the previous year (two tenths more than in April). This trend is also observed in air traffic, which grew by 11.3% in May (7% in April), due to both the increase in domestic traffic (12%, 4.1% in April), and to the international traffic, which rose by 11% y-o-y (8.3% in April).

Prices

Consumer prices slightly moderated the rate of decline in May due to the smaller decrease in energy prices and, in particular, fuel and gas and electricity prices. In June, the evolution seen in May sharpens, according to INE's flash estimate.

The y-o-y variation rate of the CPI rose one tenth in May, up to -1.0%

In May 2016, the Consumer Price Index (CPI) rose by 0.5%, compared to the previous month, as in the same month of 2015. In y-o-y terms, the CPI moderated the pace of decline, recording a rate of -1%, one tenth higher than in the previous month.

The decline rate moderates for energy and increases for non-processed food

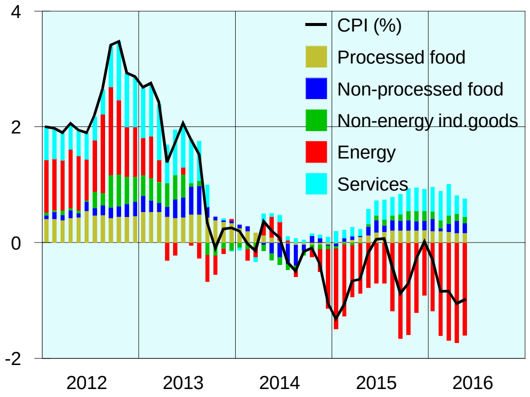
The lower y-o-y decline of the general CPI in May is explained by the energy products prices, whose rate stood at -14%, a figure 1.1 pp higher than in April, mainly due to the moderation of almost two points in the fall of electricity prices (-16.4% compared to the -18.2% registered in the previous month). Fuel and lubricant prices also helped to moderate the fall in energy products registering a y-o-y rate of -12.6%, almost one point higher than the previous month, in line with the evolution of oil prices. Thus, the reduction of the Brent barrel price in euros reached 28% y-o-y in May, a drop six points lower than April.

Prices of non-processed food acted on the opposite direction, rising by 2.6% y-o-y in May, six tenths less than in the previous month. Such slowdown was primarily due to the evolution of fresh fruits prices, which went from an 8% increase in April to a 6.8% in May.

Core inflation remains at 0.7%

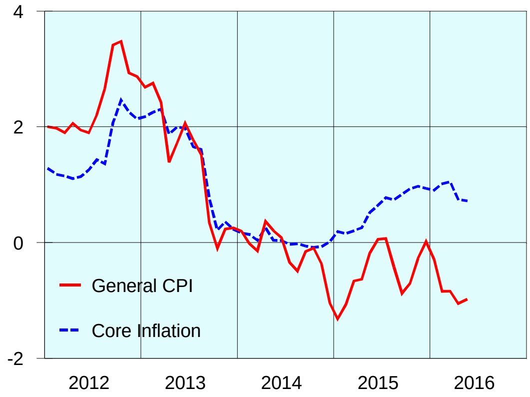
Core inflation (which excludes the most volatile elements from the general index, non-processed food and energy) remained at 0.7% in May.

G 6. CPI GROWTH CONTRIBUTION BY SECTORS
in percentage points



Sources: INE and SGACPE.

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



Source: INE.

Prices of processed food, beverages and tobacco slowed down by one tenth, registering a y-o-y rate of 1.1%, without significant changes between the components of this group being observed. Globally, the prices of food, beverages and tobacco decelerated by a tenth, to 1.6% y-o-y.

The prices of non-energy industrial goods (BINE) moderated the y-o-y growth rate by one tenth, registering a rate of 0.4% in May, being car prices the ones that contributed the most to moderation, since their variation rate fell two tenths, down to 3.3%.

Finally, in the services sector, the prices y-o-y growth remained at 0.8%, the same as in the previous month, with a different behaviour depending on components. In particular, package holidays prices moderated the intensity of their fall by almost four points, registering a y-o-y rate of -6.1%, while telephone services prices reduced their growth rate by almost two points, down to 2 %.

Flash estimate sets the CPI y-o-y rate to -0.8% in June

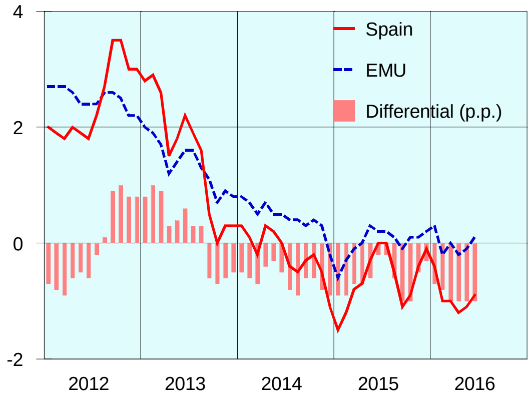
According to INE's flash estimate, the y-o-y rate of the national CPI rose 2 tenths in June in comparison to the previous month, reaching -0.8%. The INE points that this behaviour influenced the rise in fuel and electricity prices.

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) increased one tenth each in May, up to -1.1% and -0.1% respectively. As a result, the inflation differential against the Eurozone, which has been favourable to Spain since September 2013, remained at 1 pp.

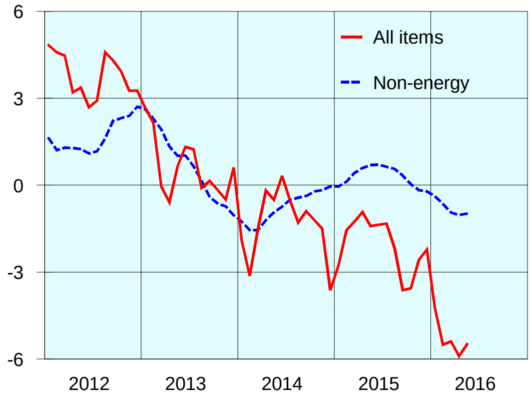
For its part, Spain's harmonised core inflation remained constant in Spain, at 0.6%, while that of the EMU rose one tenth in May, up to 0.8%, so that the core inflation differential favourable to Spain against the Eurozone improved one tenth, up to 0.2 percentage points.

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



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

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



Source: INE.

The y-o-y rate of the Spain's HICP, according to INE's flash estimate, stood at -0.9% in June, which is two tenths higher in comparison to the figure of May. In the Eurozone as a whole, the harmonised CPI recorded a y-o-y rate of 0.1% in June, according to Eurostat's flash estimate, two tenths higher compared to the previous month, so the inflation differential favourable to Spain against the Eurozone would remain at 1 percentage point if final June CPI data confirm the estimate.

The PPI y-o-y pace of decline moderated in May

The Producer Price Index (PPI) recorded a m-o-m 0.8% increase in May 2016 following the 0.3% increase registered in the same month last year. Its y-o-y rate stood at -5.5%, a drop four tenths lower to that registered in the previous month.

The lower y-o-y decline in the general index is explained by energy prices, which recorded a 17.8% y-o-y fall, almost one and a half points lower than the previous month (-19.2%). In turn, this was mainly due to the prices of oil refining branch prices (-27.3%, a rate almost three points higher than that registered in the previous month) and electricity production from conventional thermal sources (-38.9%, five points higher than the previous month), two components that, taking into account their weight in the PPI, explain three of the four tenths of the smallest decline in the general index.

On the other hand, the non-energy PPI maintained its y-o-y rate at -1% in May, as the slight decline of consumer goods prices and the slowdown in equipment goods prices was offset by the lower fall registered in intermediate goods prices.

Labour market

The y-o-y variation rate of covered workers in June rose three tenths, up to 2.9%, after twelve months of gradual and moderate slowdown. In y-o-y terms, the number of covered workers registered the largest increase in a month of June since 2006. With regard to costs, even though wages agreed in the labour agreement in May maintained their growth at 1.1%, according to the

Quarterly Survey of Labour Costs, the labour cost per worker and month fell in the first quarter of 2016.

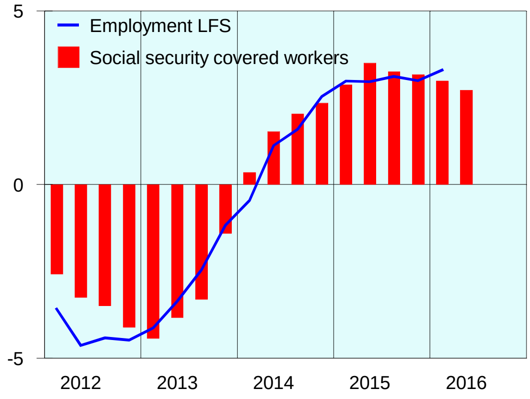
Social Security covered workers accelerated three tenths in June, up to 2.9%

Covered workers rose by 98,432 people in June compared to May (35,085 in the same period last year), the average number of covered workers reaching 17,760,271. It is the largest increase in a month of June since 2006 (111,144).

By activity branches, most of the covered workers increase was focused on the services sector (79,833), followed by industry (17,970) and construction (13,592), while it fell by 12,964 in agriculture. Within services, at a NACE two-digit level, retail (26,467 more covered workers, 27% of the total increase) and accommodation services (25,712, 26% of the total) stand out.

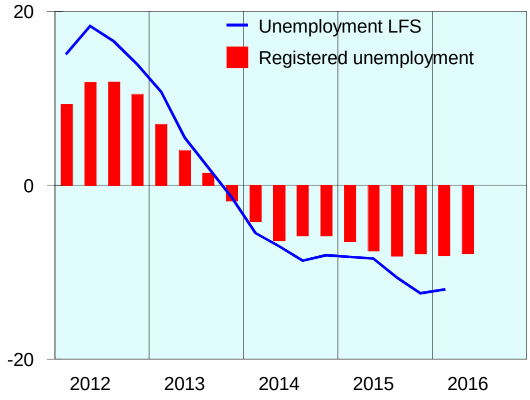
With seasonally adjusted data, job creation amounted to more than 75,509 covered workers in June (35,658 in May), which implies a m-o-m rate of 0.43% (0.20% in May).

G 10. EMPLOYMENT
year-on-year change in %



Sources: INE (LFS) and MESS.

G 11. UNEMPLOYED
year-on-year change in %



Sources: INE (LFS) and MESS.

In y-o-y terms, total covered workers rose by 503,876 people in June, 2.92%, a rate 0.36 points higher than in the previous month. Therefore, part of the gradual slowdown recorded since the pace of covered workers reached 3.6% in May 2015 is reversed. However, it should be noted that this slowdown was heavily concentrated in agriculture and public administration, defence and compulsory Social Security. Excluding these two branches, the growth rate moderation between May 2015 and 2016 was only of half a percentage point.

The y-o-y acceleration registered in June 2016 is mainly explained by the services sector, where covered workers grew at a rate of 3.2%, three tenths more than in May, followed by agriculture (0.4%, after the 0.8% fall recorded in May), construction (2.4%, eight tenths more than in May) and industry (2.7%, one tenth more than in May).

The employment evolution in construction is noteworthy, as it shows some stabilisation at a growth rate of approximately 2% in the past four months, after having slowed down continuously from the 6% registered in May 2015.

Finally, with regard to the analysis by branch, it should be noted that non-agricultural covered workers grew at a rate of 3.09% in June, 0.30 points higher than in the previous month.

According to the professional situation, the covered workers acceleration comes from contracted employees, which increased by 3.4% y-o-y (2.9% in the previous month), while self-employed continued the downward path, one tenth, down to 0.9 %.

According to the nationality, covered workers in June accelerated both among foreigners (seven tenths, up to 4.8%) and Spaniards (three tenths, up to 2.9%).

Finally, it should be highlighted that 49.9% of the covered workers y-o-y increase in June was of a permanent nature (53.2% in May), with a 2.9% growth registered by permanent workers and 5.9% by temporary ones.

With these figures, the average covered workers for the second quarter of 2016 grew by 0.89% q-o-q with seasonally and calendar adjusted data (0.17 points more than in the first quarter) and by 2.72% y-o-y with gross data (0.27 points less than in the previous quarter).

Registered unemployment recorded the second largest m-o-m reduction in the time series

Registered unemployment fell by 124,349 people in June compared to May. This unemployment reduction is the second largest of the time series and unemployment is at its lowest figure since September 2009, totalling 3,767,054. With seasonally adjusted data, the reduction in registered unemployment in June reached 48,579 people, representing a m-o-m rate of -1.2% (-1.1% in May).

By branch, and with unadjusted data, unemployment fell in June in non-agricultural sectors, the following standing out: services (-84,760), followed by construction (-14,545) and industry (-13,614). In the agricultural sector unemployment experienced a slight increase, 410 unemployed people. On the other hand, in the group without previous employment, unemployment fell by 11,840 people.

In y-o-y terms, registered unemployment fell by 353,250 people in June, 8.6%, a fall nine tenths higher than in the previous month. This was mainly due to the greater decline in unemployment in the service sector (-7.1%, a drop one percentage point higher than that recorded in May).

Finally, it should be noted that registered unemployment among young people under 25 decreased by 12.8% y-o-y in June, a fall four tenths higher than the figure registered in May, standing close to 300,000 unemployed.

In the second quarter as a whole, registered unemployment recorded a y-o-y decline of 2.28%, with seasonally and calendar adjusted data (a fall 0.19 points less pronounced than in the first quarter) and of 7.88% y-o-y, with gross data (a drop 0.21 points more moderate than in the previous quarter).

The agreed wage increase in collective bargaining agreements remained at 1.1%

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 May 2016 remained 1.1%, which is within the limits agreed in the III Agreement for Employment and Collective Bargaining (1.5%).

Of the 4.8 million workers affected by the agreements signed up to May, 92.1% correspond to wage revisions of multi-year agreements with economic effects in 2016 and the remaining 7.9% to new agreements signed in 2016, with a wage increase of 1.1% in both cases.

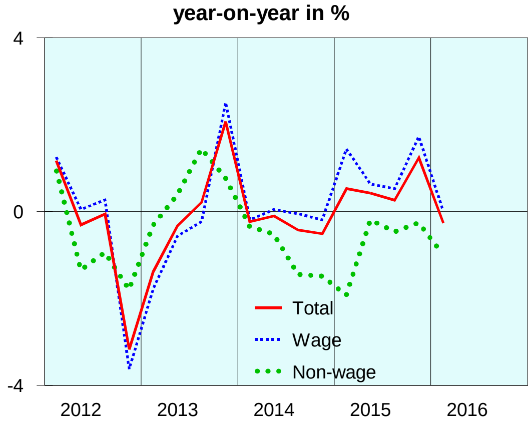
With regards to the coverage, the rate agreed in company agreements (0.7%) was lower than that signed in other areas (1.2%). By sector, wage increases remain higher in services (1.2%) and industry (1.1%), than in agriculture (0.9%) and construction (0.9%).

With cumulative data up to May, 725 opt-outs were registered, 10.8% less than in the same period last year. As usual, most of the opt-outs submitted (92.1%) related to salaries.

The wage cost per worker and month stabilises in y-o-y terms in the first quarter

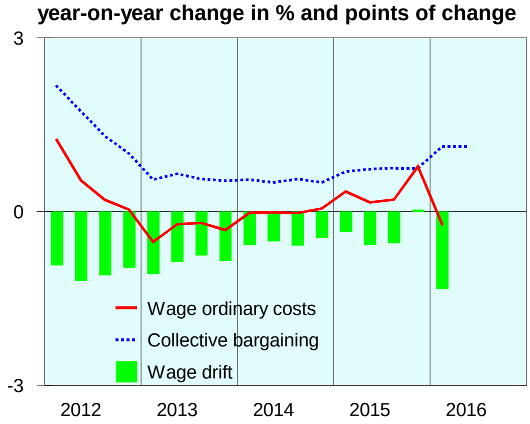
According to the Quarterly Labour Cost Survey, in the first quarter of 2015 the average labour cost per worker and month fell by 0.2% in comparison to the same quarter of 2015, after four consecutive quarters of increases (1.2% in the previous quarter).

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



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

G13. WAGE DRIFT
year-on-year change in % and points of change



Sources: INE and MESS.

This virtual stabilisation is mainly explained by wage costs, which remained constant in comparison to the first quarter of 2015, while the item for other costs increased the pace of decline by seven tenths, to -1%, due to lower severance payments and direct social benefits, as a result of the labour market improvement.

Within the wage cost, its main component, the ordinary salary (represents 89% and excludes extra pays and arrears), is the largest contributor to the slowdown, as it registered a y-o-y fall of 0.2%, against the 0.8% increase registered in the previous quarter. With regards to the other two components, the extraordinary wage cost slows down one point, down to 3.7% y-o-y, and the arrear payments cost falls from 22.2% in the fourth quarter of 2015 down to 5.6 % in the first quarter of 2016, due to the refund of part of the 2012 extra pay to public employees in the last quarter of last year.

The difference between the ordinary wage increase and the one agreed in the collective bargaining agreements, considered as an estimate of the wage drift, stood at -1.3 pp, after becoming null in the previous quarter.

From a sector point of view, it can be seen that the slight y-o-y decrease of total labour costs (-0.2%) was due to the service sector (-0.2%) and construction (-2.2%), while it grew in industry (0.5%). With regards to the wage costs, its stabilisation in y-o-y terms is explained by the service sector (0%), while in construction, the wage cost fell by 1.7% and it increased in industry by 1%. The other costs component fell both in the industrial sector (-0.7%) and in the services (-0.8%) and construction (-3.5%) sectors.

Adjusted for seasonal and work calendar effects, the y-o-y rate of labour cost per worker and month was null in the first quarter of the year, almost one point lower in comparison to the figure of the previous quarter (0.9%). This evolution is similar to that of the compensation per employee of the Quarterly National Accounts in that period (-0.3% with seasonally and calendar adjusted data). On the other hand, wage cost grew by 0.3%, one point less than in the previous quarter (1.3%), and other costs fell by 0.9% (-0.3 in the fourth quarter of 2015) .

In q-o-q terms, the total labour cost fell by 0.4% with seasonally and calendar adjusted data compared to the slight increase (0.2%) registered in the previous quarter. The wage cost fell by 0.2%, after rising 0.4% in the previous quarter and other costs fell by 1.1% (-0.4% in the previous quarter).

External sector

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

According to the Balance of Payments data, in April 2016, the Spanish economy generated net lending to the rest of the world of € 2.7 billion, for the second consecutive month, a figure much higher in comparison to the one recorded one year earlier (€ 432 million)

The current account balance recorded a € 2.6 billion surplus in April, in contrast with the € 290 million deficit registered in the same month of 2015, given that a 145.7% y-o-y increase in the surplus of goods and services coincided with a 67% decrease of primary and secondary deficit. Meanwhile, the surplus in the capital account amounted to € 35 million, versus the € 722 million registered in April last year.

Significant reduction in the trade deficit in April

According to Customs data, the trade balance recorded a deficit of € 637 million in April 2016, versus the deficit of € 2.3 billion registered a year earlier. The correction of the external imbalance (of 71.7%) was due to the energy component, which registered a deficit decrease of 32.2%, and the non-energy balance, which registered a surplus 4.4 times higher than a year earlier

In cumulative terms for the last twelve months, the trade balance recorded a deficit of € 22 billion up to April 2016, compared with the € 23.6 billion deficit accumulated in the twelve months up to April 2015. The 6.9% improvement in the external balance is exclusively due to the energy balance, which recorded a cumulative deficit of € 24.2 billion, € 10.4 billion less than that registered a year earlier (€ 34.7 billion). The energy deficit contraction more than offset the deterioration of the non-energy balance, which registered a surplus of € 2.2 billion, lower by € 8.8 billion than the one recorded in the previous year (€ 11.1 billion).

Exports accelerate

According to Customs figures, goods exports increased in April by 6.3% y-o-y, and their prices, approximated by unit value indices, fell by 1.3% (-3.2% in March), resulting in a 7.7% increase in real terms, after the 0.2% fall registered in March. Both rates were affected by the Easter Holidays, which was celebrated in different months in 2015 (April) and 2016 (March). The analysis by product groups in real terms and in y-o-y rates, shows an overall improvement, offsetting the decline recorded in March, except for exports of energy intermediate goods, which went from growing 3.5% in March to fall 35.6% in April. Sales of non-food consumer goods accelerated more than 16 points (up to 20.1%) and food (6.5%), capital goods (22.8%) and non-energy intermediate goods (3.1%) registered positive rates (negative in March)

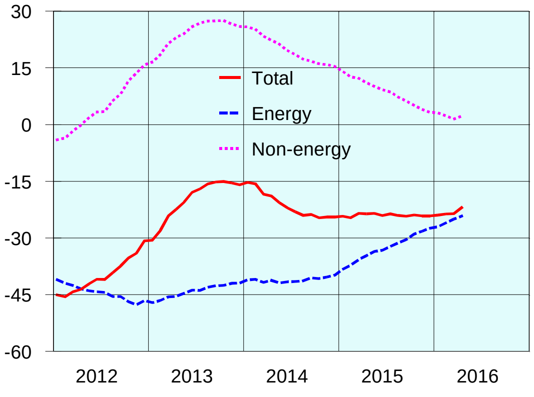
By geographical areas, exports in volume to the European Union increased by 8.5% in April, 4.8 points more than in March, and exports to the rest of the world changed sign, from the 7% decline registered in March, to a 6.1% increase in April.

Goods imports fell by 1.2% y-o-y in nominal terms in April, after the sharp fall registered in March (-3.6%), and their prices fell by 5.6% (-9% in March). This evolution reflects a price fall in energy intermediate goods of 26.9% and of 1.8% in the other products. As a result, imports in real terms, experienced a y-o-y increase of 4.6%, following the 5.9% registered in the previous month. The analysis by products in real terms and in y-o-y rates reflects an acceleration in purchases of food (7.7 p.p., up to 11.8%), non-food consumer goods (2.7 p.p., to 8.8%), and capital goods (from 5.6% in March to 12.8% in April), a slowdown in imports of non-energy intermediate goods (2.3 percentage points, to 4.6), and a change of sign in energy intermediate goods (from 0.7% to -9.5%)

By geographical areas and in real terms, imports from the European Union grew by 6% y-o-y in April, versus the 2.9% registered in March, and those from the rest of the world went from recording an increase of 10.2% in March to 2.6% in April.

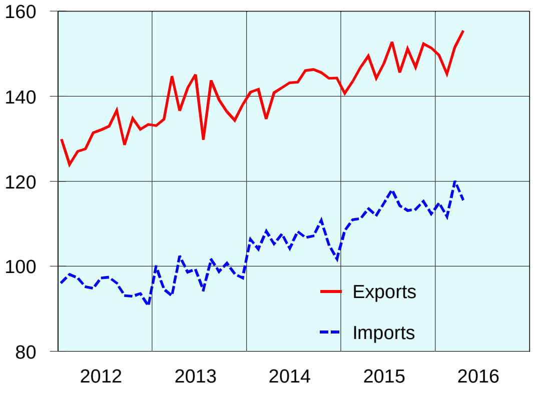
The "momentum" (change during the last three months in comparison to the previous three months) of exports in real terms was slightly negative in April (-0.3%), due to the negative contribution of the non-EU countries, especially OECD countries and by products, to the negative contribution of food and energy intermediate goods. The "momentum" of imports remained positive (1.5%) due to the positive contribution of purchases to all areas, particularly to the EU

G 14. TRADE BALANCE
accumulated 12 months, billion euros



Sources: DA and SGACPE.

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



Sources: DA and SGACPE.

member countries and by product, to the positive contribution of non-food consumer goods and, to a lesser extent, of food and capital goods.

The financial account generated net capital outflows in April

According to the Balance of Payments, in April 2016 the financial account, excluding the Bank of Spain assets, recorded net capital outflows of € 597 million, versus the net inflows of € 11.6 billion recorded a year earlier. This result is explained by the net outflows registered in portfolio investment (€ 5.7 billion), as a result of the divestments of the non-residents in Spain and, to a lesser extent, of the investments abroad by residents, and in financial derivatives (€ 135 million) which offset the net inflows from direct investment (€ 796 million) and other investment (€ 4.5 billion).

The assets net variation recorded net capital inflows (disinvestments) of € 4.3 billion in April, versus the net outflows of € 2.8 billion registered in the same month of 2015. On the other hand, the liabilities net variation generated net outflows (disinvestments) of € 4.9 billion, versus the net inflows of € 14.4 billion recorded a year earlier.

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

The net position of the Bank of Spain vis-à-vis the rest of the world decreased by € 10.2 billion in April, an amount that includes an increase of € 12.9 billion in the net position vis-à-vis the Eurosystem and improvements of € 36 million in the reserves and a decrease of € 2.8 billion in the remaining net assets.

The Net International Investment Position decreases its debit balance

On the other hand, the Bank of Spain published the Net International Investment Position figures for the first quarter of 2016. This quarter ended with a debit balance standing at € 989.8 billion (90.9% of GDP), compared with the € 1.025.2 billion (97.7% of GDP) registered in the same period of 2015.

This is the result of the expansion of the net position of the Bank of Spain against the rest of the world, with € 34.6 billion, being largely offset by the reduction of the net position of the other groups, with € 70.1 billion. In turn, the latter is due to the decrease of the net debit position of the investment portfolio and, to a lesser extent, other investment, which more than offset the expansion of the direct investment net debit position and derivatives.

Furthermore, the gross external debt rose in the first quarter of 2016 by 0.8% y-o-y, reaching € 1.8 trillion. The ratio of gross external debt to GDP fell by more than 5 p.p., down to 168.8% of GDP.

Public sector

On 28th June 2016, the Ministry of Finance and Public Administrations published the data of non-financial transactions of the General Government and its subsectors, in terms of National Accounts, for the first quarter of 2016, and the 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 April. It also published the State monthly Budget execution data, both in terms of National Accounts and Cash, for May.

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 May.

The General Government deficit in the first quarter of 2016 stands at 0.74% of GDP

In the first quarter of 2016, the General Government recorded a deficit, in terms of National Accounts, of € 8.3 billion (0.74% of GDP), 5.8% higher compared to the figure registered in the same period last year (€ 7.8 billion). This deficit increase is explained by a rise in non-financial uses (0.3% y-o-y) and by a decrease of non-financial resources (-0.1% y-o-y).

The General Government consolidated deficit, excluding Local Governments, stands at 1.24% of GDP up to April

On a consolidated basis, the Central Government, the Regional Governments and the Social Security Funds recorded up to April 2016 a deficit of € 13.9 billion (1.24% of GDP), 18.6% higher in comparison to the same period of 2015 (1.08% of GDP). This deficit increase is explained by a y-o-y decrease of non-financial resources (-0.7%) and by an increase of non-financial uses (1%).

The decrease in non-financial resources is due to the fall of current taxes on income and wealth (-15.6%, largely affected by the impact of the tax reform and the end in 2016 of the transitional measures affecting payment in instalments of the Corporate Tax; moreover, 2015 revenues include several inspection reports that were appealed, without correspondence in this financial year), partially offset by the increases of taxes on production and imports (2.8%) and of social contributions (2.9%).

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 (3.2%), compensation of employees (0.5%), intermediate consumption (0.9%) and gross fixed capital formation (0.3%).

The Central Government ended the first four-month period of the year with a deficit of € 12.9 billion (1.15% of GDP), 15.5% higher than the figure registered in the same period of 2015 (€ 11.1 billion, equivalent to 1.03% of GDP). This deficit increase is explained by a fall of non-financial resources (-5.1%) higher than the one recorded by non-financial uses (-1.9%). The expenditure of the Central Government eligible to be included in the calculation of the expenditure rule increased by 5.6% y-o-y, up to € 33 billion.

The Regional Governments accumulated a deficit of € 2.6 billion (equivalent to 0.23% of GDP) up to April this year, 29.5% lower than in the same period of 2015 (€ 3.7 billion, equivalent to 0.34% of GDP). This lower deficit is explained by an increase of non-financial resources (3.7% 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 € 1.1 billion, while in the same period of 2015 the advances amounted to € 1.2 billion. If this effect is removed in both periods, the accumulated deficit in April this year amounts to € 3.7 billion, 24.3% 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 € 43.5 billion.

As for Social Security Funds, these ended the first four months of the year with a surplus of € 1.6 billion (0.15% of GDP), 48.5% lower than the figure registered in the same period of

2015 (€ 3.2 billion). This balance reduction is explained by a fall of non-financial resources (-1.8%), due in turn to the decline of transfers received (-21%), and to an increase in non-financial uses (1.4%). This evolution is mainly due to the result of the State Public Employment Service, which reduced its surplus by 57.9%, to € 715 million, 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 rises by 5.5% y-o-y up to May in terms of National Accounts

Up to May 2016, the budget execution of the State ended with a deficit, in terms of National Accounts, of € 23.3 billion (2.08% of GDP), 5.5% higher than the deficit accumulated in the same period of 2015. This higher deficit was due to a y-o-y decrease in non-financial resources (-5.8%) higher than the one registered by non-financial uses (-2.9%).

In terms of Cash, the State recorded a deficit of € 14.3 billion up to May 2016, higher by 60.8% to the figure recorded in the same period of 2015 (€ 8.9 billion). Non-financial revenues decreased by 18% y-o-y, reaching € 47.3 billion, while non-financial payments decreased by 7.5%, down to € 61.6 billion.

Tax revenues decrease by 3.1% in homogeneous terms

Total tax revenues (including the Regional and Local Governments' share) recorded a y-o-y decrease of 2.8% up to May. 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 3.1%. Without including the Regional and Local Governments, and in non-homogeneous terms, they decreased by 7.8%.

Within total taxes, revenues from personal income tax, including the Regional and Local Governments' share, decreased by 4.1% up to May, mainly due to the reform impact in labour and capital withholdings (-2.8% and -10.6%, respectively), which, according to the information provided by the Central Tax Agency, has reduced personal income tax revenues by € 2.2 billion. In homogeneous terms, the reduction stands at 2.9%.

Revenues from Corporate Tax up to May went from a positive figure of € 1.8 billion in 2015 to a negative amount of € 537 million in 2016 mainly due to revenues of the first instalment falling by 48.7%.

VAT revenues, including the Regional and Local Governments' share, increased by 3.4% y-o-y up to May, favoured by the evolution in households' final consumption, despite the sharp decline in energy prices. In homogeneous terms, adjusted by the different tax rebates rate, the increase stands at 3%.

Excise duties collection, including the Regional and Local Governments' share, was 4% higher compared to the figure registered in the same period of 2015, mainly due to the increase in the Duty on Hydrocarbons (10.8%, which in homogeneous terms, corrected for the health cent refunds, stands at 3.2%, due to the increase of petrol and diesel consumption). On the other hand, the Excise on Tobacco Products fell by 2%.

Non-financial payments of the State decrease

With regard to expenses, total non-financial payments of the State decreased by 7.5% up to May, compared to the figure recorded in the same period of 2015, due to the fall of staff expenses (-1.9%), current transfers (-8.8%), real investments (-27.4%), capital transfers (-25.4%) and financial expenses (-0.3%). On the other hand, current expenses on goods and services increased by 6.2%.

The borrowing requirement of the State rises up to May 2016

The borrowing requirement of the State recorded up to May 2016 amounted to € 13.5 billion, compared to the € 13.1 billion recorded in the same period of 2015. This increase is due to the higher cash deficit (€ 14.3 billion, compared to the € 8.9 billion recorded a year earlier), partially offset by a net decrease of financial assets (€ 826 million), following the net increase recorded in the same period of 2015 (€ 4.2 billion). The evolution of the financial assets net variation is mainly due to the lower increase of capital contributions. The borrowing requirement was mainly financed through mid and long term domestic debt (€ 13.2 billion). On the other hand, the State's debt, according to the methodology of the Excessive Deficit Procedure (EDP), stood at € 926.5 billion at the end of May, compared to € 881.9 billion registered a year earlier.

The Social Security records surplus

On the other hand, up to May 2016, the Social Security System (Managing Entities, General Treasury and Mutual Insurers) recorded a surplus of € 2.9 billion in terms of Cash, 18.5% below the figure recorded in the same period of 2015 (€ 3.5 billion). Revenues increased by 1.7% mainly due to the momentum of social contributions, which rose by 2.4%, to other revenues, which increased by 1.4% and to the current transfers, which increased by 0.8% despite the decrease in the State's current transfers (-0.2%). Payments increased by 3.2%, mainly boosted by temporary disability, pensions, other benefits and maternity. Finally, regarding Social Security's management expenses, staff expenses rose by 1.1% and current expenses on goods and services decreased by 8.7%.

The Debt/GDP ratio increases slightly in the first quarter

According to the Bank of Spain, the General Government Debt, following the EDP methodology, reached 100.5% of GDP in the first quarter of 2016 (€ 1.095.1 billion), a percentage three tenths higher compared to the same quarter last year.

By subsectors, the Central Government EDP Debt stood at 88.3% of GDP (€ 962.1 billion), registering an increase of 1.3 points of GDP compared to the first quarter of 2015 (87% of GDP). On the other hand, the Regional Government EDP Debt reached 24.3% of GDP (€ 264.2 billion, a percentage 1.3 points higher than that recorded in the period between January and March of last year. Regarding the Social Security Administrations, the EDP Debt stood at 1.6% of GDP (€ 17.2 billion), a figure identical to the one registered in the first quarter of 2015. Finally, Local Corporations registered in the period between January and March this year an EDP Debt equivalent to 3.2% (€ 35.1 billion), four tenths lower compared to the figure recorded in the same period of 2015.

The General Government EDP debt slows down in April

The General Government EDP debt slowed down 0.2 points in April in comparison to March, registering a y-o-y rate of 3.9%, reaching the figure of € 1.078.8 billion. By subsectors, the State EDP Debt stood at € 922.2 billion, recording a 5.6% increase compared to the figure registered in the same period of 2015. On the other hand, the Regional Government EDP Debt reached € 263.5 billion, 7% 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 April 2015 (€ 17.2 billion). Finally, Local Corporations registered in April an EDP Debt of € 35.8 billion, 6.4% lower compared to that of a year earlier.

July 2016