

**QUARTERLY BULLETIN**

**July-August 2016**

**SPANISH  
ECONOMY  
REPORT**



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The Spanish Economy: recent developments and prospects: July-August 2016

Elaboración y coordinación: Dirección General de Análisis Macroeconómico y Economía Internacional  
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## **RECENT EVOLUTION OF THE ECONOMIC INDICATORS**

### **1.- FINANCIAL MARKETS**

The financial markets in July and August were mainly conditioned by the expectation of further monetary easing by the Bank of England (BoE), confirmed after the meeting it held on 3<sup>rd</sup> August, and by the European Central Bank (ECB), following the results of the British referendum in late June in favour of the United Kingdom leaving the European Union, as well as by the growing expectations of a possible interest rate increase in the US this year. As a result, the major European stock indices edged upwards, European public debt yields registered mixed results and the euro appreciated slightly against the dollar.

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

The Federal Open Market Committee (FOMC) of the Federal Reserve (Fed), in its two day meeting held on 26<sup>th</sup> and 27<sup>th</sup> July, 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. The FOMC believes that with a gradual adjustment in the stance of monetary policy, economic activity will continue to expand at a moderate pace and labour market indicators will strengthen. Moreover, although the international economic and financial uncertainty will continue to condition the pace of normalisation of the monetary policy, it estimates that short-term risks for the economic outlook have diminished.

#### ***The BoJ expands its exchange-traded funds purchase programme***

On the other hand, in the meeting held on 28<sup>th</sup> and 29<sup>th</sup> July, the Bank of Japan (BoJ) decided to keep the interest rates unchanged 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 80 trillion yen. However, in the context of the result of the British referendum, it decided to expand the exchange-traded funds programme (ETFs) to an annual increase rate in its outstanding balance of 6 trillion yen, in comparison to the previous 3.3 trillion, and to double the volume of the lending programme in dollars up to 24 billion yen.

#### ***The BoE expands the monetary stimulus to offset the negative impact of the referendum result on the economic activity***

The Monetary Policy Committee of the Bank of England (BoE), in the meeting held on 3<sup>rd</sup> August, decided to adopt an additional comprehensive monetary stimulus package in order to boost growth and ensure a sustainable return of the inflation to its target, in the context of the negative impact expected on the economic activity due to the result of the British referendum in favour of the United Kingdom leaving the European Union.

Among the measures adopted the following stand out: first, the decision to lower the Official Bank Rate by 25 basis points, down to 0.25%, compared to the 0.50% in force since March 2009. This measure will allow reducing the financing cost for businesses and households. In order to reinforce the transmission of the reduction in bank rates to the real economy, and given the additional pressure that this measure implies for financial institutions margins, the BoE decided to accompany it with the implementation of an additional liquidity programme for banks (Term Funding Scheme - TFS) at rates close to the Bank rate. Second, the British public debt purchase programme is expanded by 60 billion pounds, reaching 435 billion. Likewise, the BoE decided to acquire up to 10 billion of corporate debt.

Table 1.1. Financial and monetary indicators

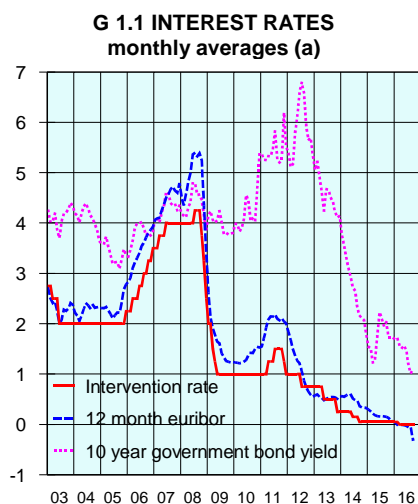
	2014	2015	2016					
			Apr.	May	Jun.	Jul.	Aug.	Sep.
<b>A) Interest rates (percentages) (1)</b>								
Official rates (2)								
Eurozone	0.05	0.05	0.00	0.00	0.00	0.00	0.00	0.00
United States	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Japan	0.10	0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euribor rates								
3 months	0.21	-0.02	-0.25	-0.26	-0.27	-0.29	-0.30	-0.30
12 months	0.48	0.17	-0.01	-0.01	-0.03	-0.06	-0.05	-0.05
Debt market (3)								
3 years	0.92	0.36	0.13	0.08	0.10	-0.03	0.06	0.01
5 years	1.46	0.81	0.54	0.51	0.46	0.28	0.11	0.17
10 years	2.71	1.74	1.51	1.57	1.48	1.17	1.01	1.10
Bank rates (3)								
Loans and credit. Synthetic rate	3.84	2.94	2.86	2.66	2.48	2.70	-	-
Mortgage loans (households)	3.11	2.50	2.31	2.34	2.32	2.36	-	-
Deposits. Synthetic rate	0.61	0.29	0.18	0.16	0.16	0.14	-	-
<b>B) Spreads (basis points) (1)</b>								
Spain-Germany 10 years	147	120	134	140	146	126	109	116
USA-Germany 10 years	131	159	163	165	163	159	163	165
<b>C) Eurozone monetary aggregates (4)</b>								
M1	8.10	10.40	9.70	9.10	8.70	8.40	-	-
M2	3.80	5.00	5.10	5.10	4.90	4.80	-	-
M3	3.80	4.50	4.60	4.90	5.00	4.80	-	-
<b>D) Exchange rates (1)</b>								
Dollar/euro	1.329	1.110	1.134	1.131	1.123	1.107	1.121	1.117
% (4)	-10.0	-11.8	5.2	1.4	0.1	0.7	0.7	-0.5
Yen/euro	140.4	134.3	124.3	123.2	118.5	115.3	113.5	115.7
% (4)	3.8	-10.0	-3.6	-8.6	-14.6	-15.1	-17.2	-14.2
Yen/dollar	105.8	121.0	109.6	108.9	105.5	104.1	101.2	103.6
% (4)	15.4	2.0	-8.4	-9.9	-14.8	-15.6	-17.8	-13.8
Effective nominal euro rate	101.8	92.3	94.8	95.1	94.7	94.9	95.2	95.3
% (4)	-4.3	-6.6	5.7	3.8	2.6	3.9	2.3	1.6
<b>E) Stock market indexes % (5)</b>								
Madrid General Index	3.0	-7.4	-5.6	-5.6	-14.9	-10.5	-8.9	-7.0
IBEX 35	3.7	-7.2	-5.4	-5.3	-14.5	-10.0	-8.7	-6.7
Eurostoxx – 50	1.2	3.8	-7.3	-6.2	-12.3	-8.5	-7.5	-5.7
Dow Jones	7.5	-2.2	2.0	2.1	2.9	5.8	5.6	6.1
Standard & Poors 500	11.4	-0.7	1.0	2.6	2.7	6.3	6.2	6.7
Nikkei 225	7.1	9.1	-12.4	-9.5	-18.2	-12.9	-11.3	-11.1

(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.

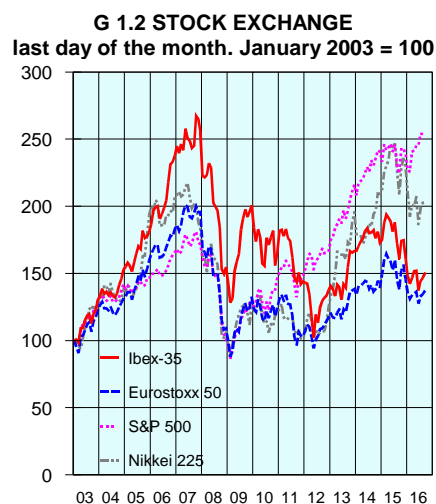
Source: European Central Bank and Banco de España.

As indicated in the statement, in the event that published indicators are consistent with the BoE forecasts issued in August, additional cuts will probably be carried out in the basic rate, during any of the meetings planned for this year, to levels close but just above zero. In addition,

based on this hypothesis, the BoE does not rule out expanding either the amount or the instruments of the asset purchase programme, or to strengthen the transmission mechanism of the monetary policy by expanding the TFS.



(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 ECB maintains the interest rates and the debt purchase programme***

The Governing Council of the ECB, on its meeting held on 21<sup>st</sup> July, the first one after the celebration of the British referendum, 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. In the press conference that followed the meeting, Mario Draghi highlighted that, with regard to the non-conventional monetary policy measures, asset monthly purchases are expected to continue until the end of March 2017, or until a later date if necessary. Likewise, the ECB president stated that the risks to the Eurozone growth outlook remain biased downwards due, among other factors, to the result of the referendum in the UK and other geopolitical uncertainties, along with weak growth prospects in the emerging economies. In this context, the ECB will act using all instruments available within its mandate and will maintain an adequate degree of accommodation of the monetary policy to ensure that inflation rates return to levels below but close to 2%.

### ***The 12 month Euribor remains close to zero***

In the interbank market of the Eurozone, interest rates remained relatively stable during July and August, after registering a fall in the days following the British referendum. On 2<sup>nd</sup> September, the one, six and twelve-month Euribor interest rates stood at -0.373%, -0.193% and -0.052%, respectively (-0.363%, -0.182% and -0.052% at the end of June). In particular, the 12 month Euribor stability is due to the fall of the risk premiums required in this market (the Euribor-OIS differential stood at 34 basis points, 4 basis points below the figure registered on 30<sup>th</sup> June), which offset the rate increase expectation, as the Overnight Index Swap (OIS) for the 12 month, indicative of the rate expectations, reached -0.39%, 4 b.p. above the figure recorded at the end of June.

### ***European public debt yields show mixed results***

In the secondary public debt market, the greater uncertainty associated with the result of the referendum in the UK favoured in late June the demand for safe haven assets, such as the German bund, whose yield became negative for the first time in its history, at the expense of the peripheral debt, causing a rebound in the Spanish risk premium to levels next to 160 b.p. However, since mid-July, the lower risk aversion, together with the expectations of a possible further monetary easing of the ECB and the BoE (confirmed after the meeting of its Monetary Policy Committee held on 3<sup>rd</sup> August), reversed the trend, causing a sharp yield reduction until the end of August.

Moreover, in Spain, the European Commission's decision to cancel the fine due to the lack of effective action to correct the excessive deficit, together with the LFS favourable results for the second quarter of the year, helped the 10-year Spanish bond yield to reach record lows, standing below 1% during most of August. However, following a slight yield rebound in late August and early September, in part due to the growing expectations of rising interest rates in the United States and to the high demand in the Treasury auctions, on 2<sup>nd</sup> September the Spanish bond yield stood at 1.04%, 3 b.p. above the figure recorded on 30<sup>th</sup> June. On the other hand, the German bond yield rose 6 b.p. over the same period, up to -0.05%, the Spain-Germany differential standing at 109 b.p., 3 b.p. below the level recorded in late June. Meanwhile, the Spain-Italy differential stood at -13 b.p., compared to -11 b.p. recorded on 30<sup>th</sup> June.

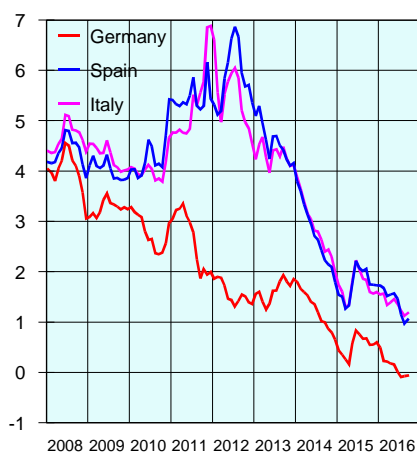
Table 1.2. **Ten-years government bond yields**  
% and basis points

Countries	Yields (%)					Differentials with Germany (basis points)				
	Dec-31-15	Jun-30-16	Sep-02-16	Variation in bp		Dec-31-15	Jun-30-16	Sep-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	-0.11	-0.05	6	-68					
Holland	0.79	0.10	0.07	-3	-72	16	21	12	-9	-4
Finland	0.92	0.20	0.08	-12	-84	29	31	13	-18	-16
Austria	0.91	0.21	0.16	-5	-75	28	32	21	-11	-7
France	0.99	0.20	0.19	-1	-80	36	31	24	-7	-12
Belgium	0.97	0.24	0.22	-2	-75	34	35	27	-8	-7
Ireland	1.15	0.54	0.45	-9	-70	52	65	50	-15	-2
Spain	1.80	1.01	1.04	3	-76	117	112	109	-3	-8
Italy	1.61	1.12	1.17	5	-44	98	123	122	-1	24
Portugal	2.54	2.94	3.05	11	51	191	305	310	5	119
Greece	8.35	8.29	8.21	-8	-14	772	840	826	-14	54

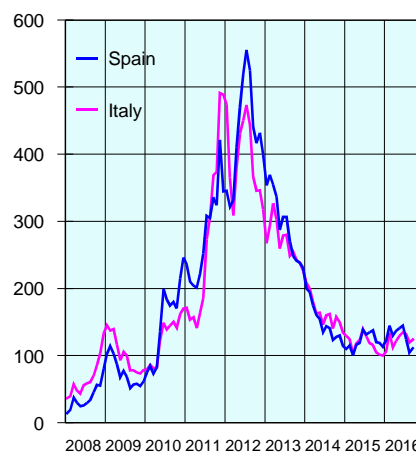
Source: Financial Times.

### ***The stock indices rebound in July and August***

In the stock markets, the main indices on both sides of the Atlantic rebounded between late June and early September, in a context of a reduction of the uncertainty that followed the result of the British referendum and of high volatility in oil prices. In Europe, the Eurostoxx 50 index increased by 7.5% during that period (-5.7% compared to late last year), mainly due to the expectations of further monetary easing by the ECB and the BoE. Thus, the momentum of the European index during July and August more than offset the falls associated with the referendum result and the uncertainty regarding the financial situation of European banks following the publication of stress tests results by the European Banking Authority. In Spain, the IBEX 35 recorded in early September a 9.1% increase in comparison to late June, dropping by

**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.

6.7% compared to 31<sup>st</sup> December 2015. In the US market, the S&P 500 index rose by 3.9% between 30<sup>th</sup> June and 2<sup>nd</sup> September (6.7% compared to the end of 2015), in a context of rising expectations about a possible interest rate increase this year, since, according to the Fed, the short-term risks for the economic prospects have eased.

**Table 1.3. International stock exchanges**

Countries	Indexes	Level Sep-02-16	% Variation	
			Jun-30-16	Dec-31-15
Germany	DAX	10,683.32	10.4	-0.6
France	CAC 40	4,542.17	7.2	-2.0
Italy	FTSE MIB	17,183.90	6.1	-19.8
Spain	IBEX 35	8,908.90	9.1	-6.7
Eurozone	EUROSTOXX 50	3,079.74	7.5	-5.7
United Kingdom	FTSE 100	6,894.60	6.0	10.4
United States	S&P 500	2,179.98	3.9	6.7
Japan	NIKKEI 225	16,925.68	8.7	-11.1
China	SHANGHAI COMP	3,067.35	4.7	-13.3
Mexico	IPC	47,787.99	4.0	11.2
Brazil	BOVESPA	59,616.40	15.7	37.5
Argentina	MERVAL	15,965.65	8.7	36.7

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

### *The euro recovered part of the lost ground against the dollar*

With respect to the currency market, the exchange rate of the euro against the dollar recovered during the first three weeks of August part of the lost ground in July, following the result of the British referendum, which raised the expectations of a possible easing of the ECB monetary policy. Thus, despite the depreciation of the euro against the dollar in late August, coinciding with an increased expectation of a possible interest rate rise in the US, the euro ended the period between 30<sup>th</sup> June and 2<sup>nd</sup> September with an appreciation of 0.8%, reaching 1.1193 dollars. In that same period, the euro appreciated by 1.9% against the pound, especially after the BoE meeting held in early August, where the monetary stimulus was expanded to offset the

negative impact of the referendum result, and 1.6% against the yen, trading at the end of the 2<sup>nd</sup> September session at 0.8426 pounds and 115.83 yen. In that same period, the euro appreciated by 0.7% in nominal effective terms.

### *The M3 broad monetary aggregate moderates its y-o-y rate of growth in July*

On 26<sup>th</sup> August, the ECB published the evolution of the monetary and credit aggregates in the Eurozone in July 2016. The M3 broad aggregate rose by 4.8% y-o-y, two tenths less than in June, due to the slowdown of the currency in circulation, overnight deposits and marketable instruments (0.4, 0.3 and 1.6 points, to 3.5%, 9.3% and 4.9%, respectively). On the other hand, other short-term deposits moderated their rate of decline by one tenth, down to 1.4% y-o-y.

Table 1.4. Eurozone monetary aggregates

Monetary aggregates	July 2016 Balance (Billions €)	% Year-on-year variation		
		May 2016	June 2016	July 2016
1. Currency in circulation	1,056	4.5	3.9	3.5
2. Overnight deposits	5,870	10.0	9.6	9.3
<b>M1 (= 1 + 2)</b>	<b>6,926</b>	<b>9.1</b>	<b>8.7</b>	<b>8.4</b>
3. Other short-term deposits (= 3.1. + 3.2.)	3,581	-2.0	-1.5	-1.4
3.1. Term deposits up to two years	1,407	-5.8	-4.6	-4.4
3.2. Deposits redeemable at notice up to three months	2,175	0.7	0.6	0.6
<b>M2 (= M1 + 3)</b>	<b>10,507</b>	<b>5.1</b>	<b>4.9</b>	<b>4.8</b>
4. Marketable instruments (= 4.1.+ 4.2.+4.3.)	667	3.0	6.5	4.9
4.1. Repurchase agreements	82	-15.1	-2.1	-16.9
4.2. Money market funds shares units	487	8.5	10.7	8.1
4.3. Securities other than shares up to two years	98	-1.8	-4.0	14.8
<b>M3 (= M2 + 4)</b>	<b>11,174</b>	<b>4.9</b>	<b>5.0</b>	<b>4.8</b>

Source: European Central Bank.

### *Financing to the private sector in the Eurozone slowed down in July*

On the other hand, the main counterpart to M3, the financing to the private sector in the Eurozone, grew by 1.4% y-o-y in July, one tenth less than in June, due to the lower increase of securities other than shares (4.7%, compared to the 7.3% registered in the previous month). Furthermore, shares and other equity moderated the rate of decline by three tenths, to -2.7%, and loans accelerated one tenth, up to 1.3%. Within loans, those received by households increased by 2%, one tenth more than that of the previous month, and those received by non-financial corporations increased by 1.3%, the same as in June.

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

According to the financing to the private non-financial sectors in Spain data, published by the Bank of Spain on 1<sup>st</sup> September 2016, the financing stock to the private non-financial sector decreased by 1.4% y-o-y in July, three tenths more than in the previous month. Financing received by firms intensified the pace of decline half a point, to -1.2%, due to the drop in foreign loans, following the increase registered in the previous month, and the slowdown in securities other than shares, while the fall of bank loans moderated one tenth, to -1.5%. On the other hand, financing received by households recorded a y-o-y rate of -1.7%, the same as the figure



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

	July 2016 Balance (Billions €)	% Year-on-year variation		
		May 2016	June 2016	July 2016
<b>Financing to the private sector</b>	<b>12,798</b>	<b>1.3</b>	<b>1.5</b>	<b>1.4</b>
<b>Loans</b>	<b>10,669</b>	<b>1.1</b>	<b>1.2</b>	<b>1.3</b>
<b>Households</b>	<b>5,356</b>	<b>2.1</b>	<b>1.9</b>	<b>2.0</b>
<i>House purchases</i>	3,995	2.3	2.1	2.3
<i>Consumer credit</i>	604	4.5	3.5	3.3
<i>Other lending</i>	757	-0.7	-0.4	-0.5
<b>Non-financial corporations</b>	<b>4,305</b>	<b>1.2</b>	<b>1.3</b>	<b>1.3</b>
<b>Insurance companies &amp; pension funds</b>	<b>110</b>	<b>-21.1</b>	<b>-23.6</b>	<b>-16.1</b>
<b>Other financial intermediaries</b>	<b>897</b>	<b>-1.1</b>	<b>0.0</b>	<b>0.2</b>
<b>Securities other than shares</b>	<b>1,365</b>	<b>5.1</b>	<b>7.3</b>	<b>4.7</b>
<b>Shares and other equities</b>	<b>763</b>	<b>-2.4</b>	<b>-3.0</b>	<b>-2.7</b>

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

registered in the previous month, due to the fact that the lower drop of bank loans for housing offset the slowdown of bank loans for purposes other than housing.

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

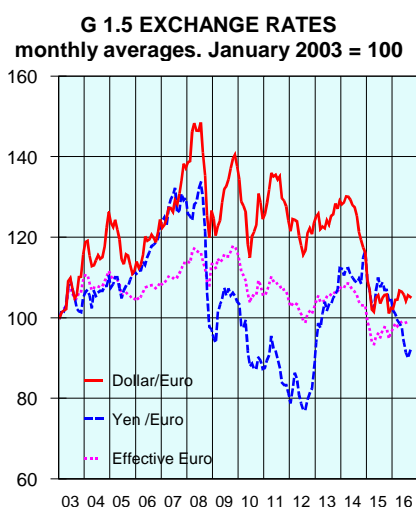
	July 2016 Balance (Billions €)	% Year-on-year variation		
		May 2016	June 2016	July 2016
<b>Non-financial corporations and households</b>	<b>1,619</b>	<b>-1.7</b>	<b>-1.1</b>	<b>-1.4</b>
<b>Non-financial corporations</b>	<b>901</b>	<b>-1.3</b>	<b>-0.7</b>	<b>-1.2</b>
<i>Bank loans</i>	531	-2.0	-1.6	-1.5
<i>Securities (1)</i>	83	3.6	1.5	0.2
<i>External loans</i>	287	-1.2	0.5	-0.9
<b>Households</b>	<b>718</b>	<b>-2.2</b>	<b>-1.7</b>	<b>-1.7</b>
<i>Bank loans. Housing</i>	552	-3.7	-3.4	-3.1
<i>Bank loans. Other</i>	166	3.2	4.3	3.6
<b>General Government</b>	-	<b>4.1</b>	<b>4.7</b>	-
<b>Total financing</b>	-	<b>0.6</b>	<b>1.1</b>	-

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

### *New loan and credit operations to households and SMEs slow down, but continue to grow sharply*

According to data published by the Bank of Spain on 31<sup>st</sup> August, the amount of new loan and credit operations to households, in cumulative terms for the last twelve months, increased by 18.2% y-o-y in July, 6.4 points less compared to June. This slowdown is due to the lower increase of credits for house purchases and for consumption (27.4% and 27.1% y-o-y, rates 10.9 and 1.4 points lower than in June, respectively), and the further decline recorded by credits for other purposes (-4.7% versus -0.2% in June). 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 July, by 6% y-o-y, an increase 2.8 points 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 21% y-o-y, 9.2 points more than in June.



Source: European Central Bank (ECB).



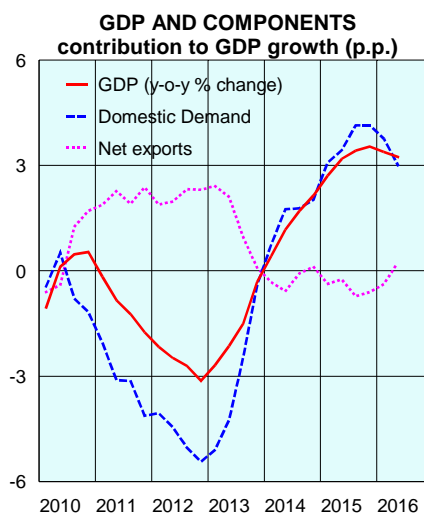
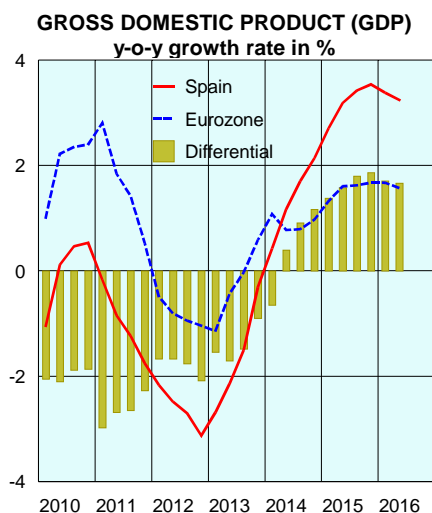
Source: Banco de España (BE).

## 2.- DEMAND AND PRODUCTION

### *The expansionary trend of the Spanish economy continued*

In the second quarter of 2016, the Spanish economy continued the expansionary trend that has characterised its performance since mid-2013, linking three years of positive growth and surpassing the expectations, despite the presence of some sources of uncertainty. Among the factors that boosted this growth we can find, at a domestic level, the improvement of the labour market and the financing conditions, as well as the progress in redressing macroeconomic imbalances. At an external level, the following factors also contributed: the ECB expansionary monetary policy, the gradual improvement of the global demand and the low oil prices.

### **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.

According to the Quarterly National Accounts (QNA) results, published by the INE, the GDP, in volume with calendar and seasonally adjusted data, recorded a q-o-q growth of 0.8% in the second quarter of the year, the same as the one registered in the three previous quarters and half a point higher than that of the Eurozone. In y-o-y terms, the GDP grew by 3.2%, double than that of the Eurozone (1.6%), ending the first half of 2016 with an average y-o-y increase of 3.3%, one tenth higher than that of last year as a whole.

### ***The growth composition improved***

The economic growth continued to rely on the domestic demand, although its contribution to the GDP y-o-y growth was more moderate in the second quarter (3 percentage points, eight tenths less than in the previous quarter), while the contribution of net external demand was positive (0.2 percentage points), after five quarters of negative contributions (-0.4 points in the first quarter). This is therefore a more balanced composition of growth, highlighting the persistence of high rates of private consumption and business investment, and the rebound in exports of goods and services.

### ***The nominal GDP accelerated***

The GDP at current prices rose 3.7% between April and June 2016 compared to the same period last year. This is a rate three tenths higher than the one recorded in the previous quarter, due to the GDP deflator acceleration, which rose 0.5% in comparison to the null variation observed in the first quarter. The deflator increase exceeded the figure registered by the nominal Unit Labour Cost (ULC) by one tenth, raising the ULC in real terms from a y-o-y rate of -0.2% in the first quarter, to 0% in the second quarter.

### ***Compensation of employees maintained its level of contribution to the GDP***

Regarding the *primary distribution of income*, an acceleration of six tenths can be noticed in the compensation of employees during the second quarter, being the annual rate of nominal increase 4%, with calendar and seasonally adjusted data. The gross operating surplus and mixed income accelerated more intensely, 1.5 points, registering a rate of 4.6%. On the other hand, net of subsidies taxes fell 1%, after four years of consecutive increases. In the second quarter of 2016, salaries accounted for 47.2% of GDP, with adjusted data, a percentage similar to the average of the last four years.

### ***The most recent indicators of global activity confirm the economic strength***

The indicators for the third quarter of the year point towards the continuation of the trends observed in the second quarter. The *Composite Activity Indicator* showed a high growth of the economic activity in the same way as the *Global Activity Composite PMI*, whose increase in August points, according to Markit, to a robust growth, of approximately 0.7% q-o-q in the third quarter; the *Business Confidence Indicator*, published by the INE, points in the same direction, as its q-o-q growth in the third quarter (0.5%) is similar to the figure registered in the second quarter (0.6%).

However, some opinion indicators, such as the *Economic Sentiment Indicator*, fell in the two month period July-August (eight tenths over the second quarter) as a result of the confidence deterioration in all its components, except in retail, where there was an improvement. Despite this, the differential with the Eurozone remains favourable to Spain.

As for *Large firm sales*, it moderated its growth pace in July, due to the lower boost of domestic sales and the greater decline in exports, extending the downward path that began last May. Thus, total sales, with deflated, fixed-sample and calendar adjusted data, recorded a y-o-y rate of 0.9% in July, 1.6 points lower than in June, due to the slowdown of domestic sales (1.4%, compared with the 3.3% registered in the previous month) and the higher drop in exports (-1%, compared with -0.4% in the previous month).

## 2.1. - Domestic demand

### *Domestic demand moderated the growth pace*

As noted above, domestic demand continued to boost the Spanish economy growth. Its contribution to the y-o-y GDP growth was 3 percentage points in the second quarter (3.8 points in the first one), although a more balanced growth pattern is observed due to the loss of weight of the domestic demand as a result of the gradual moderation in consumption and investment. Additionally the contribution of the external sector edged upwards (two tenths, after five quarters of negative contributions), as a result of the strong increase in exports of goods and services.

Table 2.1. **Quarterly National Accounts**  
Chain-linked volume base 2010; corrected data from seasonal and calendar effects

	2014	2015	2016(4)	year-on-year change				q-o-q change	
				III-15	IV-15	I-16	II-16	I-16	II-16
<b>DEMAND</b>									
Domestic consumption	0.9	3.0	3.0	3.4	3.5	3.4	2.7	0.9	0.1
- Private consumption	1.2	3.1	3.6	3.5	3.5	3.7	3.6	1.0	0.7
- Public consumption	0.0	2.7	1.3	3.0	3.7	2.4	0.1	0.7	-1.6
Gross fixed capital investment	3.5	6.4	4.5	6.7	6.4	5.1	4.0	0.3	1.3
- Equipment (1)	10.5	10.2	8.5	11.2	10.9	9.3	7.8	0.9	2.2
- Construction	-0.2	5.3	2.6	5.2	4.6	3.1	2.1	-0.2	0.9
- Intellectual Property Products	2.1	1.8	2.0	1.7	2.8	2.4	1.6	0.4	-0.1
Change in inventories (2)	0.2	0.1	0.1	0.2	0.2	0.1	0.1	0.3	-0.1
Domestic demand (2)	1.6	3.7	3.4	4.1	4.1	3.8	3.0	1.0	0.2
Exports of goods and services	5.1	5.4	5.4	4.5	5.3	3.8	6.8	-0.4	4.3
- Goods (fob)	4.5	4.9	3.9	4.2	4.4	2.6	5.3	-1.0	4.8
- Services	6.4	6.7	8.7	5.3	7.5	6.9	10.5	1.1	3.3
Imports of goods and services	6.4	7.5	6.0	7.2	7.7	5.4	6.6	0.4	2.7
- Goods (fob)	6.7	7.4	4.7	7.5	6.6	4.0	5.4	-0.1	2.9
- Services	4.5	8.1	12.2	6.0	13.5	12.1	12.3	2.5	1.8
Net foreign balance (2)	-0.2	-0.5	-0.1	-0.7	-0.6	-0.4	0.2	-0.2	0.6
<b>GROSS VALUE ADDED</b>									
Agriculture (3)	-3.7	1.9	4.5	3.7	6.2	5.5	3.5	-1.0	-0.9
Industry. Total	1.2	3.4	2.7	3.8	3.4	2.7	2.6	0.8	1.1
- Manufacturing	2.2	3.7	4.1	4.3	4.1	4.3	3.9	1.1	1.0
Construction	-2.1	5.2	2.5	5.1	4.0	2.8	2.2	0.0	-0.7
Services	1.9	3.1	3.6	3.3	3.4	3.6	3.6	0.9	1.1
<b>GDP m.p.</b>	<b>1.4</b>	<b>3.2</b>	<b>3.3</b>	<b>3.4</b>	<b>3.5</b>	<b>3.4</b>	<b>3.2</b>	<b>0.8</b>	<b>0.8</b>
<b>GDP at current prices</b>	1.0	3.8	3.6	4.1	4.3	3.4	3.7	0.4	1.3

(1) Equipment and cultivated assets. (2) Contribution to GDP growth (percentage points). (3) Agriculture, forestry and fishing. (4) First semester.

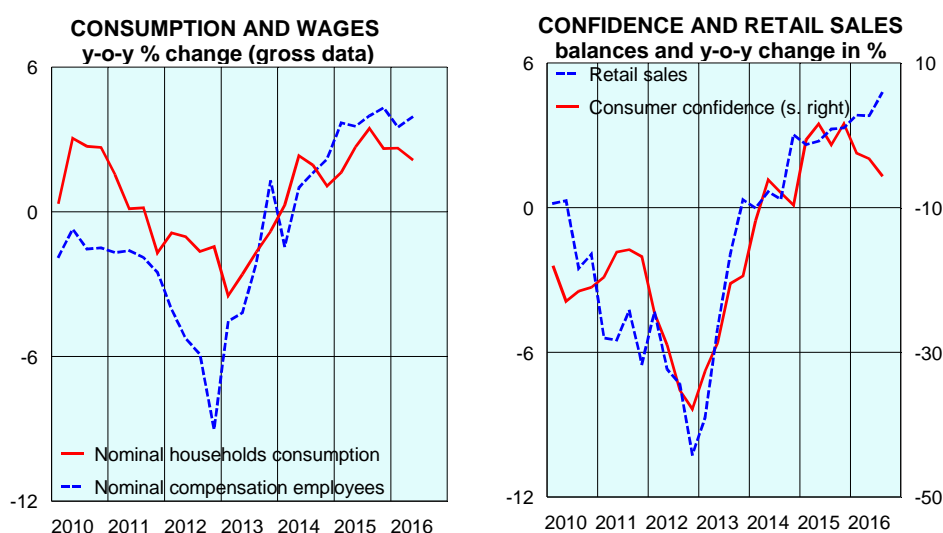
Source: INE (CNE-2010).

### ***Mild slowdown in private consumption***

Among the domestic demand components, *private consumption* expenditure (Households and Non-profit Institutions Serving Households), in volume, continued to grow in the second quarter at a fast pace, above that of the GDP, 3.6% y-o-y, although slightly lower than that of the previous quarter (3.7%). In q-o-q terms, the private consumption growth reached 0.7%, three tenths lower in comparison to the figure registered in the previous quarter.

The households final consumption expenditure continued to grow in the second quarter, in nominal terms, at a lower rate than that of the compensation of employees (2.2% and 3.9%, respectively, with gross series), what, in absence of the complete Accounts for the Institutional Sectors, could point to a household savings increase.

#### **G 2.2 PRIVATE CONSUMPTION INDICATORS**



Sources: INE and EC.

### ***New decline in the Debt/GDP ratio of households***

Households continued the deleveraging process started in mid-2010. The debt of households and NPISHs represented 66.4% of GDP in the first quarter of 2016, almost five points lower than a year before, reaching similar levels to those registered in early 2005.

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

Among the most recent short-term quantitative consumption indicators, *domestic sales in large companies of consumption services* (with deflated, fixed-sample and calendar adjusted data) intensified the growth rate by six tenths in July, up to 4.5% y-o-y, while those regarding *goods* grew at a slower rate (4.5% versus 6.8% recorded in June). On the other hand, according to the figures provided by the ANFAC (Spanish Association of Vehicles Manufacturers), *passenger car registrations* grew in the period from July to August at a y-o-y rate close to 8%, lower than the figure registered in the second quarter (17.2%).

Likewise, the *retail sales index*, with deflated and calendar adjusted data, maintained a high growth in July, 5.1% y-o-y, although lower than the one recorded in the previous month

(5.7%), registering a much more dynamic trend in the non-food group than in the food group, with rates of 7% and 0.6%, respectively.

### ***Consumer confidence improved in August***

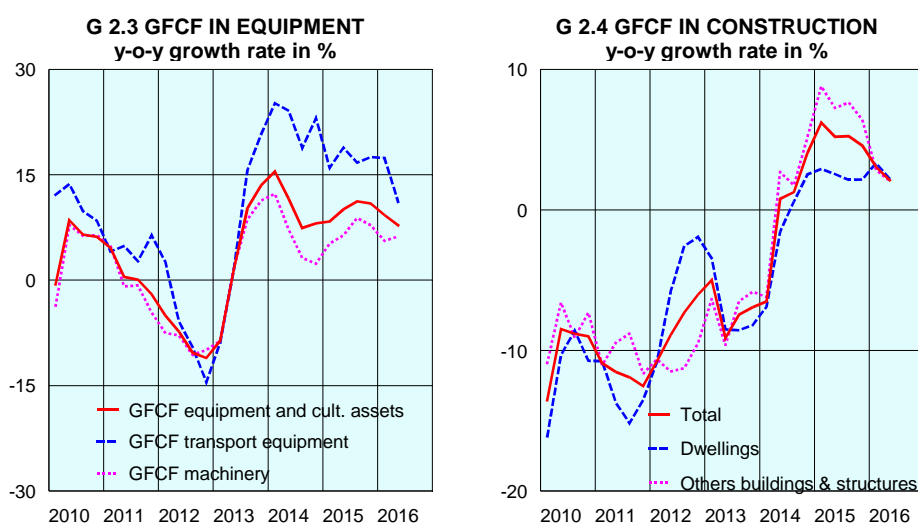
Among the qualitative indicators, *consumer confidence*, published both by the European Commission and the Spanish Official Credit Institute (ICO, by its Spanish abbreviation), improved in August with respect to July. The figure elaborated by the ICO edged upwards two and a half points in August, as a result of the significant increase in expectations (4.7 points), while the assessment of the current situation remained stable, with an almost imperceptible rise of one tenth. Similarly, the consumer confidence indicator published by the European Commission, improved six tenths in August compared to July, although it remained in negative territory (-5.2 points), as a result of the advance registered in the consumer perception on the trends of the household and unemployment situation, as well as the better prospects on the general situation and savings.

### ***Public consumption fell in q-o-q terms***

As for *the Final Consumption Expenditure of Public Administrations*, it increased, in volume, 0.1% y-o-y in the second quarter, compared to the 2.4% increase registered in the first quarter. In q-o-q terms, it fell by 1.6%, after five quarters of continued growth.

### ***The investment remained strong...***

With regards to investment, the *Gross Fixed Capital Formation (GFCF)* grew by 4.5% y-o-y in the first half of the year, a rate exceeding that of the GDP (3.3%), due to a strong dynamism of equipment investment (8.5%) and the expansionary trend, both for construction investment (2.6%), and intellectual property products (2%). In the second quarter of the year, the q-o-q growth of total fixed investments reached 1.3%, one point higher than the figure registered in the previous quarter.



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

The conditions remain favourable for investment decisions, given the deleveraging of companies, the low interest rates, the strength of demand, the use of the production capacity and

the sustaining global growth. However, *financing to non-financial corporations resident in Spain*, whose fall in July rose to 1.2%, half a point above the figure of June, provided less favourable signs.

### ***...mainly due to investment in equipment goods***

The *equipment investment* accelerated 1.3 points in the second quarter of 2016, up to 2.2% q-o-q, extending the strongly expansionary trend started in mid-2013, although the y-o-y growth of 7.8%, albeit high, was half a point lower than in the first quarter. This y-o-y slowdown is due to the loss of momentum of investment in transport equipment, which went from a growth of 17.4% in the first quarter of the year, down to 11.2% in the second quarter, partially offset by the slight acceleration of investment in other machinery. The latter rate reached 6.2%, six tenths higher than the preceding quarter.

The most recent indicators of equipment investment point to the continuity of the strong expansionary trend, which was even more intense than in the first half of the year. Thus, the *qualitative indicator of investment goods climate* showed a positive balance in the period from July to August (7.7 points), almost 3 points higher than in the second quarter and the *capital goods productive capacity utilisation* rose almost three points and a half, reaching 83.6% in the third quarter. Similarly, *equipment and software sales in large companies* accelerated in July, experiencing a y-o-y increase of 3%, almost double that of the previous month (1.6%).

*Construction investment* eased the pace of growth between April and June, its y-o-y rate reaching 2.1%, one point below the figure registered in the first quarter. This behaviour was determined by the lower increase of its two components, the residential segment and other constructions, which increased by 2.2% and 2.1%, respectively, 1.1 and 0.7 points less than in the previous quarter.

In particular, *housing investment* recorded a slightly negative q-o-q rate of -0.1% between April and June, after two years of uninterrupted growth (1.2% in the previous quarter). In this context, according to figures from the Bank of Spain, *credit to households for housing* moderated slightly its fall intensity by three tenths, registering a y-o-y rate of -3.1% in July.

However, the short-term indicators related to residential investment were very dynamic. Thus, both the number of *housing sales* and the number of *new housing mortgages* grew in the second quarter by approximately 24%, well above the figure recorded in the previous quarters. In parallel, the *housing prices* continued the raising path that begun two years ago, with a 3.9% y-o-y increase of the price of private housing in the second quarter (6.3% in the first quarter), a rate that rises to 4.9% in real terms. On the other hand, the investment in the non-residential segment rebounded in q-o-q terms, since it went from a fall of -1.3% in the first quarter to an increase of 1.7% in the second.

### ***Changes in inventories increased y-o-y***

Changes in inventories experienced a y-o-y increase close to 50% in the second quarter, more than five points above the figure registered in the first quarter, its contribution to the y-o-y GDP variation being 0.1 percentage points, the same as in the previous quarter.

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	-2.8	-3.6	-2.8	-3.1	-2.6	-2.6	Jul.16
<b><u>Private Consumption</u></b>								
Composite Consumption Indicator (3)	4.7	4.1	5.0	4.7	3.8	4.3	-	Q.II.16
Consumer Goods. Apparent cons. (3)	6.8	4.2	8.1	7.6	6.5	1.9	-	Jun.16
IPI consumer goods (adjusted)	1.4	2.5	2.0	3.6	3.0	2.4	1.1	Jul.16
Consumer goods imports (vol.)	6.9	8.8	6.3	8.1	8.6	9.1	-	Jun.16
Retail sales index (4)	3.0	4.0	3.3	3.3	3.8	3.8	4.7	Jul.16
Passenger car registrations	20.9	11.3	23.1	16.6	6.9	17.2	7.9	Aug.16
Real wages (5)	4.5	4.7	4.2	4.7	4.2	5.2	-	Q.II.16
Consumer goods. Capacity utiliz. (%)	73.6	75.2	74.2	74.0	75.7	75.4	74.6	Q.III.16
Consumer confide. indicator (balances)	0.3	-3.5	-1.3	1.6	-2.5	-3.2	-5.5	Aug.16
Large firms sales. Consumption (6)	6.0	5.6	7.0	6.7	5.3	6.3	4.5	Jul.16
Households financing (2)	-3.2	-2.0	-3.2	-3.0	-2.5	-1.7	-1.5	Jul.16
<b><u>Equipment Investment</u></b>								
Composite Equipment Indicator (3)	14.1	6.1	14.6	12.8	6.8	5.4	-	Q.II.16
Capital Goods. Apparent cons.(3)	7.8	5.2	10.8	7.0	6.3	4.1	-	Jun.16
IPI consumer goods (adjusted)	7.4	5.6	11.0	10.3	8.1	4.9	0.7	Jul.16
Capital goods imports (vol.)	14.4	6.3	18.9	11.9	1.6	10.9	-	Jun.16
Corporations financing (2)	-2.0	1.0	-1.9	-0.2	1.0	1.1	0.7	Jul.16
Truck registrations	35.6	12.9	41.1	31.1	11.0	17.9	3.5	Jul.16
Capital goods. Capacity utilization (%)	79.9	81.7	77.2	80.8	81.5	80.2	83.6	Q.III.16
Large firms sales. Capital (6)	4.8	3.9	3.8	4.5	3.6	4.5	3.0	Jul.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.

## 2.2. - Foreign demand

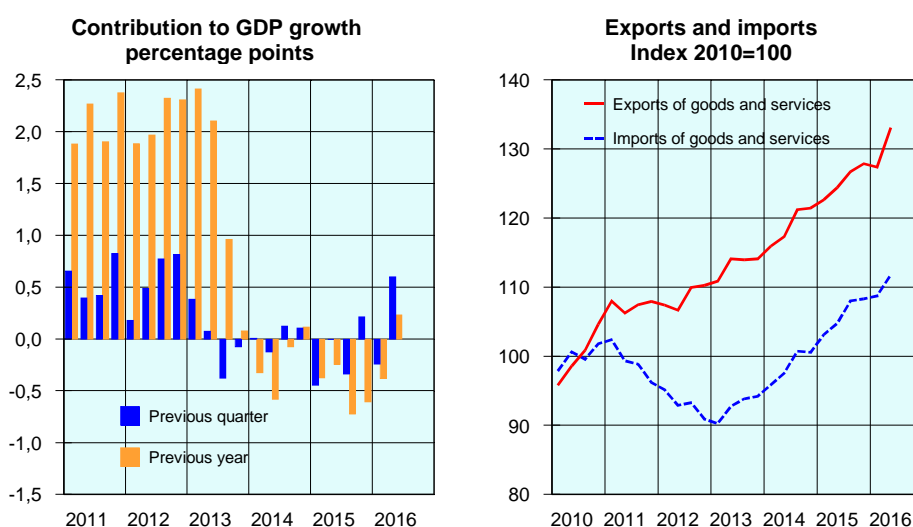
### *The foreign sector lowered the GDP q-o-q growth by two tenths*

In the second quarter of 2016, according to QNA figures, the foreign sector contributed six tenths to the GDP q-o-q variation, after the negative contribution of two tenths in the previous quarter, as a result of a growth in goods and services exports (4.3%, q-o-q rate) above that of imports (2.7%), after these flows registered rates of -0.4% and 0.4% respectively in the first quarter of the year. In y-o-y terms, the net external demand contributed two tenths to the GDP variation in the second quarter, after subtracting four tenths in the previous period, because exports accelerated more than imports, 3 points (from 3.8% up to 6.8%) and 1.2 points (from 5.4% to 6.6%), respectively.

Compared to the major economies of the European Union, the q-o-q and y-o-y rates of Spanish real exports were higher than those of Germany, France and the UK: Spain (4.3% and 6.8%, in quarterly and annual rate respectively), Germany (1.2% and 2.1%), France (-0.1% and -0.0%) and the UK (0.1% and 2.7%).



## G 2.5 EXTERNAL SECTOR



Source: INE.

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

Exports of goods and services accelerated in the second quarter of 2016, after the slowdown observed in the previous quarter, despite a clear and widespread recovery not being observed in the evolution of the activity of the main trading partners and the major emerging economies.

In the second 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 two tenths in the United Kingdom (0.6%) and one tenth in the United States (0.3%); while it moderated three tenths in Germany (0.4%), seven tenths in France (0.0%) and three tenths in Italy (0.0%). In the major emerging economies, different trends were observed: acceleration in China (1.8%), Korea (0.8%) and Indonesia (4%), growth moderation in India (1.9%) and Taiwan (0.1%) and decreases in Mexico (-0.2%) and Brazil (-0.6%).

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

On the other hand, in the second 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 loss of competitiveness of 0.8% y-o-y, due to a 2.5% improvement of the nominal effective exchange rate, partially offset by a decline in relative prices (-1.6%). Regarding the European Union, a competitiveness gain of 0.1% was recorded due to the fall in the relative consumer prices index (-1.1%), higher than the 1% rise of the nominal effective exchange rate. Finally, a competitiveness loss of 6.4% with regards to the BRICS countries was recorded, resulting from a significant appreciation of the nominal exchange rate index (11.8% over four points higher than the figure recorded in the previous quarter, contrasting with the 11.3% depreciation observed in the second quarter of 2015), partially offset by the 4.8% fall of relative prices.

The acceleration in real exports up to 4.3%, reflects the expansionary evolution (4.8%) of exports of goods, following the declines reported in the previous two quarters (-0.2% in the fourth quarter of 2015 and -1% in the first quarter of 2016), and the 2.2 point acceleration of exports of services up to 3.3%. In comparison with the same period last year, goods and services exports increased by 6.8% in the second quarter of 2016, with rises in goods and services (5.3% and 10.5%, respectively).

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

In this context, the goods exports y-o-y growth (5.3%) in the second quarter of 2016 contrasts with the sluggishness experienced by the world trade in goods (0.25% according to the Central Planning Bureau of the Netherlands), resulting in a real market share gain of 3.9%, reaching 1.96% in the first half of 2016.

According to *Customs* figures, deflated by unit value indices, which are more volatile than the QNA figures, the "momentum" of exports (variation in volume in the last three months compared to the previous three months) recorded a positive rate in June (3.8%), due to the positive contribution from all areas, except Latin America, especially from the member countries of the European Union, which account for two thirds of the total exports.

In y-o-y terms, real exports of goods grew by 7.1% in the second quarter of 2016, following the 2.5% registered in the first quarter. By product type, a greater dynamism of the volume of exports of all groups except energy intermediate goods was noticeable, which doubled the rate of decline, to 27% y-o-y. In all other products an acceleration took place in consumer goods, food (5.5%, 2.7 points more than in the first quarter of 2016) and non-food (16.7%, 9.8 points more than in the previous quarter), in capital goods (16.4% versus the 2.8% registered in the previous quarter) and exports of non-energy intermediate goods (from 0.8% to 3.8%).

Within the non-food consumer goods group, car exports increased by 19.7% y-o-y, after the 4.7% growth registered in the first quarter, resuming the double-digit growths registered in the previous quarters. Its contribution to the growth of total exports was of 2 percentage points.

### ***Exports to the Eurozone accelerated and exports outside the European Union slowed down***

In the second quarter of 2016, exports in volume to the European Union and the Eurozone increased by 8.1% and 7.7% y-o-y, respectively, versus the rates of 4.8% and 5.1% experienced in the first quarter respectively. The nominal sale growths to Germany, Italy, the UK and Benelux were particularly important. Exports to the rest of the world recovered, reaching a real increase of 5.2%, after the 2.2% fall observed in the previous quarter. The breakdown by geographic destination outside the European Union reveals double-digit growths of the nominal sales to China and North Africa, more moderate growths of exports to the United States, Japan, Turkey, Russia and the New Industrial Economies of Asia increases, while those to sub-Saharan Africa, the Middle East, India and Latin America fall down, especially exports to Brazil, Argentina and Venezuela. The exports to the European Union, whose contribution to the increase in total exports was 5.3 points in the second quarter, 2.1 points more than in the first quarter, while the contribution of exports outside the European Union stood at 1.8 points, following the negative contribution (-0.7%) 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			2016		2015	2016	
		II	III	IV	I	II	IV	I	II
<b>Total exports</b>	<b>100.0</b>	<b>3.9</b>	<b>3.4</b>	<b>3.7</b>	<b>2.5</b>	<b>7.1</b>	<b>3.7</b>	<b>2.5</b>	<b>7.1</b>
<i>Consumer goods</i>	38.1	9.7	10.5	11.2	5.5	12.7	3.8	2.0	4.3
Foods	13.7	6.0	9.0	4.4	2.8	5.5	0.6	0.4	0.7
Others goods	24.5	11.9	11.1	15.5	6.9	16.7	3.2	1.6	3.6
Cars	11.9	12.7	21.9	15.3	4.7	19.7	1.4	0.5	2.0
<i>Capital goods</i>	8.6	5.2	-1.3	7.5	2.8	16.4	0.8	0.3	1.7
Excl. heavy trans. equipment	8.4	5.5	2.5	7.8	3.0	16.9	0.8	0.3	1.7
<i>Intermediate goods</i>	53.2	0.2	-0.1	-1.9	0.1	1.8	-0.9	0.2	1.1
Energy	3.6	-5.4	-14.0	-12.4	-12.7	-27.0	-0.5	-0.3	-1.0
Non-energy	49.6	0.6	1.2	-1.1	0.8	3.8	-0.4	0.5	2.1
<b>Total imports</b>	<b>100.0</b>	<b>7.5</b>	<b>7.1</b>	<b>7.3</b>	<b>4.6</b>	<b>4.7</b>	<b>7.3</b>	<b>4.6</b>	<b>4.7</b>
<i>Consumer goods</i>	27.0	7.1	6.3	8.1	8.6	9.1	1.9	2.1	2.2
Foods	6.8	0.7	3.6	6.4	8.5	13.3	0.4	0.5	0.8
Others goods	20.2	9.5	7.2	8.7	8.5	7.6	1.5	1.7	1.4
Cars	5.3	23.9	16.5	12.5	8.0	2.5	0.6	0.4	0.1
<i>Capital goods</i>	8.2	10.6	18.9	11.9	1.6	10.9	1.2	0.2	1.0
Excl. heavy trans. equipment	8.1	10.3	19.0	11.5	1.3	10.9	1.2	0.1	1.0
<i>Intermediate goods</i>	64.8	7.2	6.1	6.3	3.2	2.2	4.1	2.3	1.5
Energy	14.1	-2.7	-2.0	-7.0	-4.0	-11.2	-1.0	-0.5	-1.4
Non- energy	50.7	9.9	8.5	10.0	4.9	5.4	5.1	2.7	2.9

Sources: Customs and SGACPE.

### *Spending in final consumption of non-residents in the economic territory slowed down*

According to QNA figures, the *expenditure of non-resident households* in the economic territory, in volume, increased by 1.3% q-o-q and by 5.4% y-o-y in the second quarter of 2016, indicating a recovery in the first case, following the -0.7% registered in the previous quarter, and an acceleration of five tenths in the second one. For the third 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 July, above 8%.

For the second quarter of the year, *real exports of non-tourism services* grew by 4.5% q-o-q, following the 2.3% increase registered in the first quarter; in y-o-y terms, the advance was of 13.9%, 5.7 points more than in the previous quarter. According to the International Trade in Services Survey published by the INE, referring to the first quarter of 2016, the services with greater contribution to the nominal growth of exports were business services (3.9 p.p.), telecom, computer and information technology services (1.8 p.p.) and transport (1.3 p.p.), while financial services (-0.8 p.p.) contributed negatively.

### Real imports of goods lost momentum

Furthermore, *goods and services imports*, in real terms and according to QNA figures, grew by 2.7% in the second quarter, compared to the previous quarter, following the 0.4% recorded in the first quarter. By components, goods imports rose by 2.9% versus the previous quarter and services imports by 1.8% (-0.1% and 2.5% 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 June (1%), following the 1.8% recorded in March, reflecting a positive contribution of imports from the EU and, by products, to the positive contribution of non-food consumer goods and, to a lesser extent, to food and capital goods.

In y-o-y terms and according to Customs figures, *imports of goods* in volume rose by 4.7% in the second quarter, one tenth more than in the previous quarter.

Table 2.4 Foreign trade by group of countries, volume

	Weight in Total	Year-on-year change (%)					Contribution to growth		
		2015			2016		2015		2016
		2015	II	III	IV	I	II	IV	I
<b>Total exports</b>	<b>100.0</b>	<b>3.9</b>	<b>3.4</b>	<b>3.7</b>	<b>2.5</b>	<b>7.1</b>	<b>3.7</b>	<b>2.5</b>	<b>7.1</b>
<i>EU</i>	64.8	6.2	5.3	5.2	4.8	8.1	3.4	3.2	5.3
Euro-area	50.4	6.4	5.0	3.8	5.1	7.7	2.0	2.7	4.0
<i>Non-EU</i>	35.2	-0.2	-0.2	0.9	-2.2	5.2	0.3	-0.7	1.8
USA	4.6	13.4	15.1	-2.4	7.0	13.6	-0.1	0.3	0.6
Latin America	6.1	6.9	12.8	4.3	-10.2	-4.2	0.3	-0.6	-0.2
China	1.8	6.7	11.6	17.0	13.9	28.3	0.3	0.2	0.5
Other countries (1)	11.0	-2.8	-1.0	6.5	2.8	7.1	0.7	0.3	0.8
<b>Total imports</b>	<b>100.0</b>	<b>7.5</b>	<b>7.1</b>	<b>7.3</b>	<b>4.6</b>	<b>4.7</b>	<b>7.3</b>	<b>4.6</b>	<b>4.7</b>
<i>EU</i>	56.0	11.2	7.0	8.9	2.7	3.7	5.3	1.6	2.2
Euro-area	44.5	8.1	7.2	8.8	2.1	3.7	4.0	1.0	1.7
<i>Non-EU</i>	44.0	2.4	7.2	4.9	7.2	6.2	2.0	3.0	2.5
USA	4.7	25.9	23.5	14.3	5.3	-1.0	0.7	0.3	-0.1
Latin America	5.6	-6.0	-9.4	-13.1	-11.3	-5.9	-0.8	-0.6	-0.3
China	8.6	24.4	27.3	23.0	13.0	17.4	1.7	1.1	1.2
Other countries (1)	10.3	-12.3	-2.2	5.8	10.8	9.2	0.5	1.0	0.8

(1) Maghreb, Middle East and Russia.

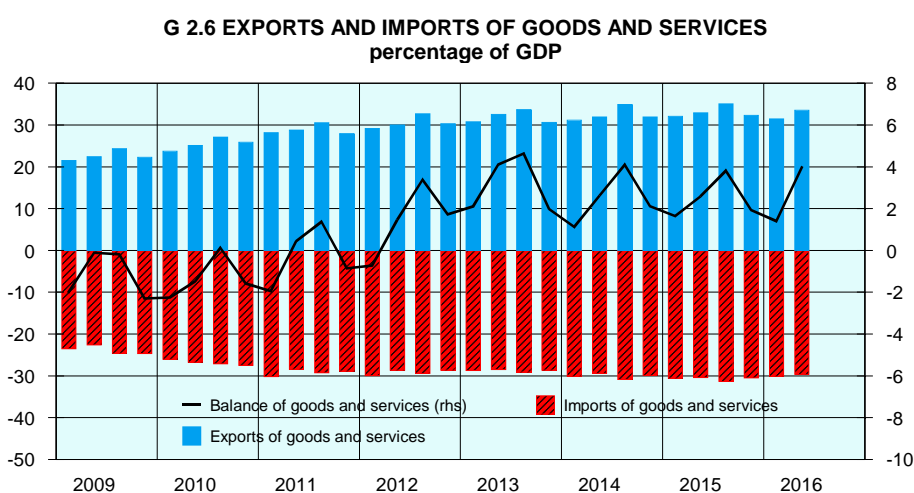
Sources: Customs and SGACPE.

By product type and in volume, in the second quarter of 2016 the positive contribution of consumer goods (up to 2.2 points) and capital goods (1 point) increased, while the contribution of imports of intermediate goods decreased slightly (to 1.5 points). Among consumer goods, food accelerated, while the most important component of non-food consumption, i.e. passenger cars, slowed down by 5.5 points, to 2.5%.

By geographical areas, real imports of goods from the European Union accelerated one point and those from the Eurozone 1.6, up to 3.7% in both cases in the second quarter of 2016, whilst non-European Union countries imports slowed down one point, reaching 6.2%. In the breakdown by geographical origin, and in nominal terms, the growth of purchases from new EU partners, Japan, Russia and Argentina, stand out. On the other hand, those from Sub-Saharan Africa and Venezuela fell sharply.

### ***Tourism import growth moderated***

According to QNA figures, in the second quarter of 2016, *real spending of households residents abroad* rose by 0.8% q-o-q, following the 12.9% observed in the first quarter. These rates include, at least in part, the Easter Holidays effect. On the other hand, *imports of non-tourism services* increased 2.1% q-o-q, following the 0.7% fall registered in the previous quarter. According to the latest data released by the INE, the services with the highest positive contribution to this rate were business (3%), insurance and pensions (2.7%) and intellectual property (2%).



Source: INE.

### ***The surplus of the balance of goods and services increased***

In the second quarter of 2016, the surplus of the goods and services balance, calculated with gross data at current QNA prices, stood at 4% of GDP, 1.4 points more than in the previous year, since the goods deficit (-0.9% of GDP), one point lower than the same period of 2015, coincided with a surplus in services (4.9% of GDP) four tenths more than that of the previous year. Within the services sector, the tourism net revenue surplus (2.6% of GDP) fell one tenth, compared to the percentage recorded in the second quarter of 2015, while the non-tourism services (2.3% of GDP) increased five tenths.

## **2.3. - Productive activity**

### ***Activity in the services sector led the growth***

From the *supply* point of view, all major branches of activity registered positive contributions to the GDP growth in the second quarter of the year, especially services, whose

gross value added in volume experienced a y-o-y increase of 3.6%, the same figure as that registered in the previous quarter. The GVA growth of the primary sector was slightly lower (3.5%, two points lower than the figure of the first quarter); while the GVA of the industry and construction sectors slowed down one and six tenths, respectively, down to 2.6% and 2.2%.

In q-o-q terms, the GVA of the services and industry sectors grew by two and three tenths respectively, both registering a 1.1% increase. On the other hand, the GVA of agriculture, farming, forestry and fishing fell 0.9%, one tenth less than in the previous quarter, and the GVA of construction decreased by 0.7%, compared to the null variation of the previous quarter.

Table 2.5 **Employment and productivity**

Year-on-year change (%)

	Year-on-year change (%)			2015				2016	
	2014	2015	2016(4)	I	II	III	IV	I	II
<b>EMPLOYMENT (1)</b>									
Agriculture (2)	-1.0	1.3	3.8	-4.9	0.9	4.1	5.3	5.5	2.1
Industry total	0.1	2.8	2.0	2.7	3.2	3.0	2.3	2.4	1.6
Manufacturing	0.1	2.9	2.6	2.6	3.2	3.1	2.5	3.1	2.2
Construction	-3.1	6.0	1.0	8.1	7.9	5.1	3.1	0.9	1.1
Services	1.7	2.9	3.4	3.0	2.6	3.0	3.0	3.4	3.3
<b>Total</b>	<b>1.1</b>	<b>3.0</b>	<b>3.1</b>	<b>2.9</b>	<b>2.9</b>	<b>3.1</b>	<b>3.0</b>	<b>3.2</b>	<b>2.9</b>
<b>PRODUCTIVITY (3)</b>									
Agriculture (2)	-2.8	0.6	0.7	1.0	1.1	-0.4	0.9	0.1	1.4
Industry total	1.0	0.6	0.7	0.3	0.3	0.7	1.1	0.3	1.1
Manufacturing	2.1	0.8	1.4	0.2	0.6	1.1	1.5	1.2	1.7
Construction	1.1	-0.8	1.5	-2.1	-2.0	0.0	0.8	1.8	1.2
Services	0.2	0.2	0.2	-0.3	0.4	0.3	0.4	0.1	0.3
<b>GDP per employee</b>	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>	<b>-0.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.5</b>	<b>0.1</b>	<b>0.4</b>

(1) Full-time equivalent jobs. National Accounts. (2) Agriculture, forestry and fishing. (3) GVA per employee (adjusted series and full-time equivalent jobs). (4) First semester.

Source: INE (CNE-2010).

### ***Productivity rose, especially in the manufacturing industry***

The *apparent productivity per employee* in terms of National Accounts, grew by 0.2% in the first half of the year as a result of the abovementioned GDP increase (3.3%) and a rise of 3.1% of full-time equivalent employment. In the breakdown by major activity branches, the higher advance in productivity in the manufacturing industry between January and June stands out, reaching 1.4%, six tenths more than in 2015 as a whole. This result is largely due to the boost of the added value in the sector. Likewise, productivity in the construction sector rebounded, going from a previous fall of 0.8% last year to a rise of 1.5% in the first half of 2016. In this case, this was due to the slowdown in employment. On the other hand, productivity in the services sector increased slightly by 0.2% as in 2015 and 2014.

### ***Activity indicators in the industry showed signs of slowdown***

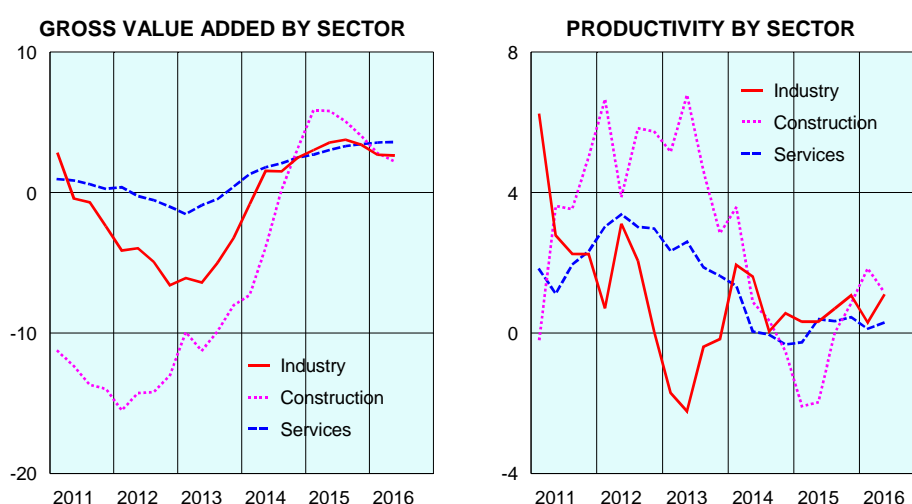
Amongst the indicators of the industrial sector, the *Industrial Production Index (IPI)* reduced its rate of increase in recent months, experiencing a y-o-y variation of 0.8% in May and June, with calendar adjusted data. This was lower than earlier in the year. Thus, the second quarter

of the year ended with an increase of 1.4%, 1.2 points lower than the figure registered in the first quarter. The filtered breakdown by the IPI groups showed a less general dynamism in the second quarter, the most favourable results corresponding to equipment, with an increase of 5.1%, followed by consumer goods (2.4%) and intermediate goods (0.5%), while energy fell 2.6%. The IPI slowdown path continued in July, when the indicator registered a y-o-y rate of 0.3%, with calendar and seasonally adjusted data.

The *Industry New Orders*, a leading indicator of the activity in the sector, showed a more contractionary behaviour in the second quarter of 2016 (-1% y-o-y, with work calendar adjusted data, compared to the -0.3% registered in the first quarter), mainly due to the sharp decline in energy, close to 27 %, in contrast to the high drive of the equipment goods component, which grew at a rate of 8.6% between April and June.

The *manufacturing PMI* remained stable in August, at 51, seven tenths below the figure recorded in the Eurozone (51.7). The manufacturing production continued registering an expansionary trend, but the growth pace in July and August was the weakest of the last thirty-three months of growth.

#### 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.

#### *Contradicting activity signals in the construction sector*

With regards to the construction sector, leading indicators such as the *construction floorage approvals* grew at a strong pace in the first five months of the year, 28.7% over the same period of 2015. This was due to the residential component, whose y-o-y increase came close to 54%, while the non-residential component fell over 20%.

On the other hand, the *Production Index in the Construction Industry (PICI)*, published by the Eurostat, showed a more moderate y-o-y growth in the second quarter, with an increase of 0.7%. This figure was much lower than the one recorded in the first quarter (13.4%), with calendar adjusted data. This slowdown was due, unlike in the case of permits, to the deterioration of the building component, which fell 1.2% after the strong advance observed in the previous

Table 2.6 Activity and Production Indicators

Year-on-year change or balances in %

INDICATORS	2015	2016(1)	2015		2016			Latest data
			III	IV	I	II	III(1)	
Composite Activity Indicator (2)	2.9	2.7	2.8	3.2	2.9	2.6	-	Q.II.16
Electric power consumption (3)	1.7	-0.4	2.5	2.5	-0.8	1.0	-1.5	Aug.16
Non energy imports (vol.)	8.6	6.5	8.7	9.6	5.9	7.1	-	Jun.16
Economic Sentiment Indicator (90-15=100)	108.8	106.4	109.1	109.6	107.3	106.1	105.3	Aug.16
Large Firms Sales (4)	5.0	2.1	5.2	3.9	1.5	3.2	0.9	Jul.16
Large Firms Sales. Domestic (4)	4.6	2.4	4.9	3.3	1.7	3.4	1.4	Jul.16
<b>Industry</b>								
Composite Industry Indicator (2)	3.2	1.8	3.3	3.4	2.0	1.6	-	Q.II.16
IPI calendar ajuste	3.4	1.7	4.2	4.2	2.6	1.4	0.4	Jul.16
Large Firms Sales. Industry (4)	4.5	2.4	4.0	3.9	2.0	3.7	-0.1	Jul.16
Industry godos Exportas (vol.)	9.5	11.3	6.5	12.7	5.6	16.9	-	Jun.16
Emplomen (LFS)	4.3	0.6	3.8	1.0	1.7	-0.4	-	Q.II.16
Social Security covered workers (5)	2.2	2.8	2.4	2.7	2.8	2.7	2.7	Aug.16
Industria confidente indicador (balances)	-0.3	-2.8	0.7	0.3	-1.9	-2.8	-4.2	Aug.16
Industry capacity utilization %	77.8	78.4	77.6	78.1	79.0	77.8	78.4	Q.III.16
<b>Construction</b>								
Compositor Construcción Indicador (2)	2.4	-0.5	1.0	1.7	0.1	-1.0	-	Q.II.16
Cemento Aparente Consumición	5.7	-2.3	-0.5	5.8	-0.4	-3.9	-	Jun.16
Large Firms Sales.Construction (4)	1.3	-4.3	-1.9	2.3	-1.1	-6.2	-7.2	Jul.16
Emplomen (LFS)	8.1	-2.1	5.9	2.7	-2.7	-1.4	-	Q.II.16
Social Security covered workers (5)	4.7	2.4	4.6	4.1	2.6	2.1	2.6	Aug.16
Official bidding (at current prices)	-16.1	-24.5	-36.8	-31.3	-4.2	-39.0	-	Jun.16
Florare aprobar: total	37.9	28.7	19.8	53.4	40.2	14.0	-	May.16
Florare aprobar: hoazín	42.6	53.6	31.9	85.9	60.2	45.1	-	May.16
Construction confidence indicator (balances)	-25.3	-37.8	-28.5	-21.7	-31.7	-40.4	-43.1	Aug.16
Mortgages. Amount borrowed	19.1	19.8	35.0	17.3	18.2	21.4	-	Jun.16
Housing: Prices per sq. meter	1.1	2.4	1.4	1.8	2.4	-	-	Q.I.16
<b>Services</b>								
Composite Services Indicator (2)	3.9	3.8	3.9	4.0	3.9	3.8	-	Q.II.16
Large Firms Sales. Services (4)	4.5	2.5	4.7	3.9	1.9	3.6	1.2	Jul.16
Railway passengers	2.2	4.6	-2.1	4.4	5.1	3.7	5.6	Jul.16
Railway traffic goods (Tm per km)	-6.3	-9.5	-7.0	-11.6	-5.8	-12.0	-12.1	Jul.16
Air traffic passengers	6.0	11.6	5.1	8.6	14.4	9.8	11.1	Jul.16
Hotel overnight satis	4.4	8.9	4.4	6.5	13.3	7.1	7.3	Jul.16
Foreign tourists	5.1	11.1	3.3	9.4	13.9	10.4	9.3	Jul.16
Emplomen (LFS)	2.6	3.5	2.6	3.2	3.8	3.2	-	Q.II.16
Social Security covered workers (5)	3.5	3.1	3.5	3.4	3.1	3.0	3.3	Aug.16
Services confidence indicator (balances)	19.4	17.9	19.7	20.2	18.8	17.5	16.9	Aug.16
Retail trade confidence indicator (balances)	14.1	12.7	12.8	15.9	14.2	11.3	12.6	Aug.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.

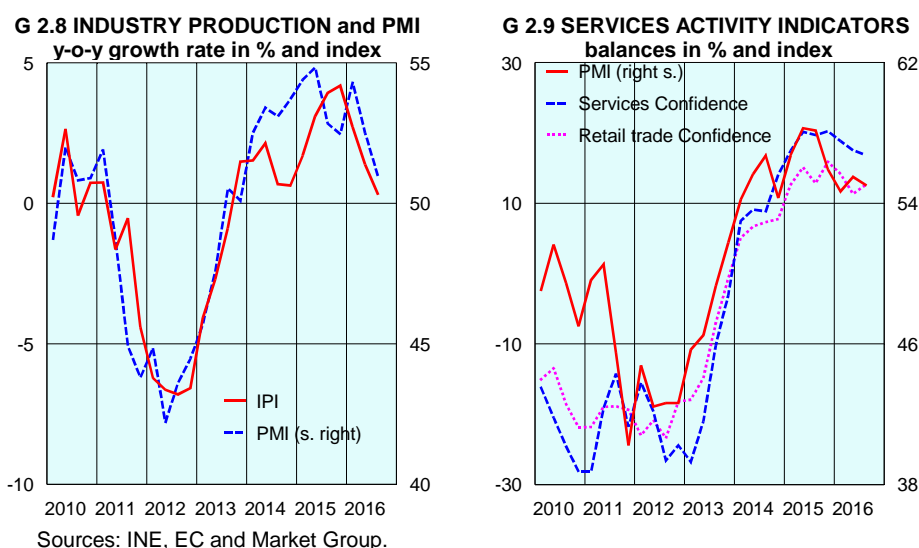


Quarter (14%), partially offset by the acceleration of civil works (almost three and a half points, up to 11.1%).

However, *confidence* in the sector shows a clear deterioration since early this year, reaching a very negative balance of -45.6 points in August, according to data from the European Commission, the lowest of the last twenty-six months.

### **Activity in services gained momentum**

With regards to the services sector, the activity continues to be very dynamic. The GVA of the services sector grew by 3.6% y-o-y in the first half of the year, half a point more than in 2015 as a whole. This dynamism was reflected in the *Services Sector Turnover Index* (SSTI), which grew by 4.5% y-o-y in June, after filtering off the effects of the work calendar. This represents 1.8 points more than in the previous month. The acceleration affected both retail branch, whose rise was 4.3% (two points higher than in May) and other services, which increased the growth pace by 1.7 points, up to 5.1% y-o-y.



The most recent indicators, such as *retail trade confidence*, reflected an improvement in the two month period from July to August over the second quarter. The improvement was of 1.3 points, reaching a positive balance of 12.6 points, and *services confidence* recorded a very positive balance in that two-month period (16.9 points), slightly lower than the figure of the second quarter (17.5). In line with this, the *services PMI* reached 56 in August, almost two points higher than in July, indicating a strong dynamism of activity in the sector.

### **Record figure of international tourists in July**

In July, the tourism-related indicators showed strong expansionary trend. Thus, more than nine and a half million *tourists* visited Spain in July. This is a record figure and 9.3% higher in comparison to that of a year before. In the same month, the rate of increase in *air traffic passenger* intensified by three tenths, up to 11.1%, and *hotel overnight stays* increased by 7.3% y-o-y, two tenths more than in the second quarter.

### 3. - PRICES

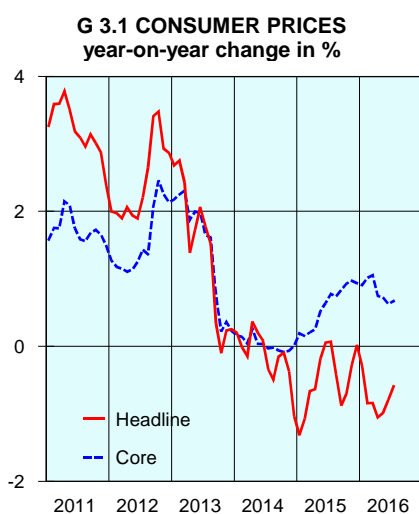
Consumer prices moderated the rate of decline in July. This evolution was mainly influenced by non-processed food prices. According to INE's flash estimate, CPI continued to moderate the rate of decline in August, until becoming almost null.

***The y-o-y rate of the CPI rose two tenths in July, up to -0.6%***

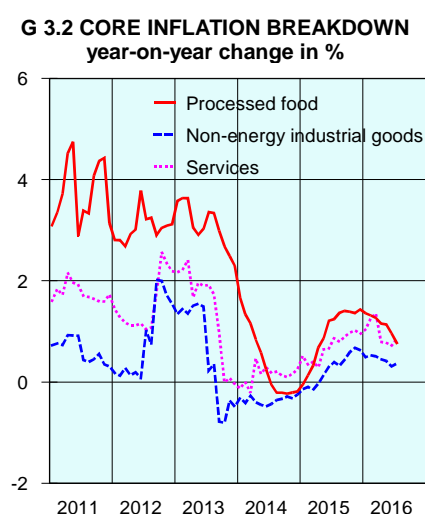
In July 2016, the Consumer Price Index (CPI) fell by 0.7% compared to the previous month, two tenths less than in the same month last year (-0.9% m-o-m).

In y-o-y terms, the CPI moderated the downward pace, recording a rate of -0.6%, two tenths lower than in the previous month (-0.8%). This lower drop is mainly explained by non-processed food, and within this component, the rebound in fresh fruit prices stands out, as it grew by 14.4% y-o-y (6.1% in June).

On the other hand, energy product prices in July maintained a similar behaviour to the one observed in June, falling by 12% y-o-y (-11.7% in the previous month). This evolution was mainly due to electricity prices, which fell by 14.9% (-13.5% in June), an evolution mainly associated to the high production of wind and hydroelectric power in July this year compared to the same month of 2015.



Source: INE.



Source: INE.

***Core inflation rose one tenth, up to 0.7%***

Core inflation, which excludes energy and non-processed food from the general CPI, rose one tenth in July, up to 0.7%.

By components, the price of processed food slowed down two tenths, to 0.8%, mainly due to the evolution of oil prices, which grew by 10.5%, a rate 3.3 points lower than in June. Considering the processed and non-processed food jointly, their prices rose nine tenths, up to 2.3%.

Table 3.1 Main price indicators

	Annual average			Year-on-year change in %					
				2015			2016		
	14	15	16 <sup>(1)</sup>	Jul.	Sep.	Dec.	Mar.	Jun.	Jul.
<b>CPI: Total</b>	-0.2	-0.5	-0.8	0.1	-0.9	0.0	-0.8	-0.8	-0.6
<b>Core inflation</b> (2)	0.0	0.6	0.8	0.8	0.8	0.9	1.1	0.6	0.7
<b>CPI excl. food and energy</b>	0.0	0.5	0.7	0.7	0.7	0.8	1.0	0.6	0.6
<b>CPI excl. energy</b>	-0.1	0.7	1.0	0.8	1.0	1.1	1.1	0.7	1.0
<b>CPI food</b>	-0.1	1.2	1.7	1.4	1.8	1.7	1.5	1.4	2.3
- Non-processed	-1.2	1.8	2.9	1.7	2.6	2.5	2.2	2.3	5.7
- Processed	0.4	0.9	1.1	1.2	1.4	1.4	1.3	1.0	0.8
<b>CPI excl. food</b>	-0.2	-1.0	-1.4	-0.3	-1.6	-0.5	-1.5	-1.4	-1.4
- Industrial goods	-0.5	-2.7	-3.9	-1.5	-4.2	-1.9	-4.5	-3.6	-3.7
- Energy	-0.8	-9.0	-13.2	-5.8	-13.6	-7.5	-14.8	-11.7	-12.0
- Non-energy industrial goods	-0.4	0.3	0.4	0.4	0.4	0.6	0.5	0.3	0.4
- Total services	0.1	0.7	1.0	0.9	0.9	0.9	1.4	0.7	0.9
<b>CPI manufactured goods</b> (3)	-0.1	0.5	0.7	0.7	0.8	0.9	0.8	0.6	0.5
<b>Industrial Producer Prices: Total</b>	-1.3	-2.1	-5.1	-1.3	-3.6	-2.2	-5.4	-4.5	-4.6
<b>Energy</b>	-3.1	-8.8	-17.0	-7.1	-14.3	-7.8	-17.7	-14.7	-15.6
<b>Non-energy IPP</b>	-0.8	0.3	-0.8	0.6	0.3	-0.2	-1.0	-0.7	-0.5
<b>Consumer goods</b>	-0.5	1.1	0.1	1.3	1.3	0.7	0.0	0.2	0.1
- Durable	0.5	0.2	1.1	0.1	0.2	0.3	1.0	1.4	1.5
- Non-durable	-0.5	1.2	0.0	1.4	1.4	0.7	-0.1	0.1	0.0
- Food	-1.0	1.3	-0.3	1.7	1.7	0.6	-0.5	-0.2	-0.3
- Non-food	0.4	0.7	0.8	0.5	0.7	0.9	0.8	1.0	0.9
<b>Capital goods</b>	0.2	0.8	0.6	0.9	0.9	0.9	0.7	0.4	0.6
<b>Intermediate goods</b>	-1.5	-0.7	-2.3	-0.1	-0.9	-1.6	-2.7	-2.2	-1.7
<b>Unit Value Indices (UVI): Imports</b>	-2.3	-2.5	-4.9	-2.9	-4.2	-5.7	-9.0	-3.3	-
- Consumer goods	1.1	7.0	2.0	7.6	4.7	3.6	0.9	0.7	-
- Consumer food	3.4	4.2	-1.1	1.4	5.6	-0.1	-1.6	-3.0	-
<b>Exports</b>	-0.9	0.6	-2.4	1.9	-2.5	-0.5	-3.2	-2.0	-
<b>Prices received by farmers</b> (4)	-	6.1	-3.1	4.1	8.5	4.6	-3.9	-2.4	-
<b>GDP Deflator</b>	-0.4	0.6	0.3	..	0.7	0.7	0.0	0.5	..
<b>Private Consumption Deflator</b>	0.3	-0.5	-0.9	..	-0.4	-0.4	-0.7	-1.1	..

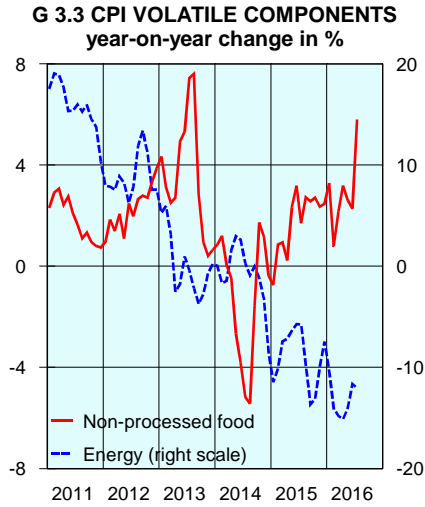
(1) Average of the period available data.

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

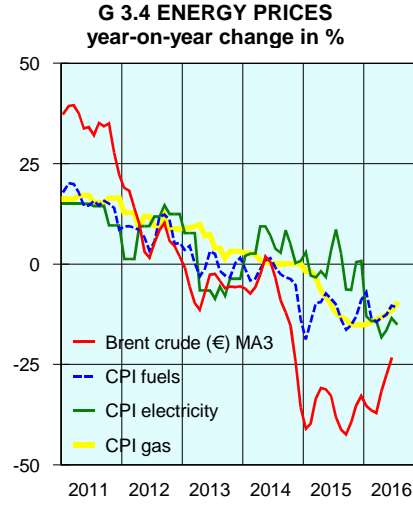
(3) Processed food and non-energy industrial goods.

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

Sources: INE, DA, MAAA and SGACPE.



Source: INE.



Sources: INE and Reuters.

The y-o-y rate of non-energy industrial goods (BINE) prices rose one tenth in July, largely due to the acceleration of prices of clothing and footwear items.

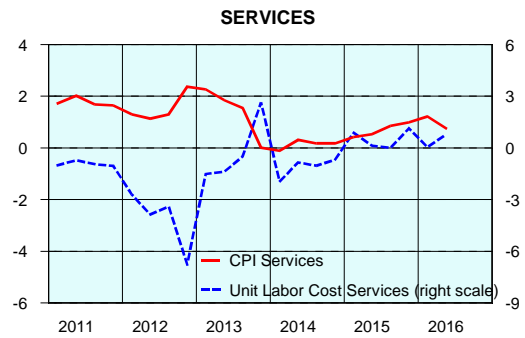
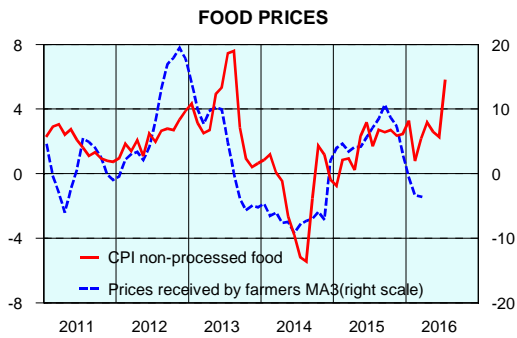
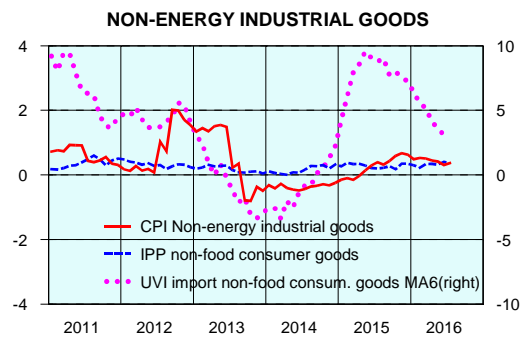
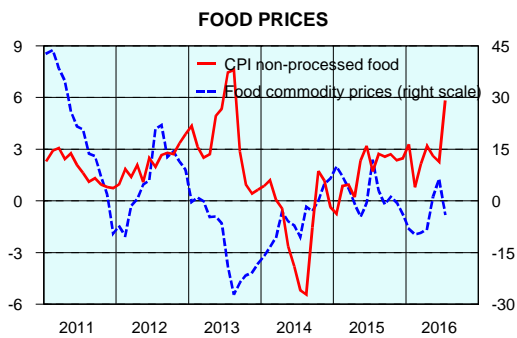
The y-o-y rate of services prices increased two tenths in July, up to 0.9%, with prominence among its determinants of the package holidays item, whose prices rose by 0.6% y-o-y, compared to the 4.8% fall of the previous month.

**Flash estimate set the CPI y-o-y rate to -0.1% in August**

According to INE’s flash estimate, the y-o-y rate of the national CPI rose five tenths in August, reaching -0.1%. This increase is mainly explained by the price of fuel and electricity.

**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 continued*

Harmonised inflation, according to Spain's HICP flash estimate, rose four tenths in August compared to July, up to -0.3%. On the other hand, according to the euro area's HICP, the inflation rate of the monetary union remained at 0.2% in August. This stability was due to the fact that the lower fall of energy prices offset the slight slowdown of prices of the other major components of the MUICP.

If August final figures confirm the estimates, the inflation differential favourable to Spain against the Eurozone would stand at 0.5 pp in August, against the 0.9 pp registered last July.

Table 3.2 **Inflation differential against main competitors (1)**

	2014	2015	2016(2)	2015			2016		
				Jul.	Sep.	Dec.	Mar.	Jun.	Jul.
<b>Eurozone</b>	-0.6	-0.6	-0.9	-0.2	-1.0	-0.3	-1.0	-1.0	-0.9
Core inflation	-1.0	-0.4	-0.1	-0.3	-0.3	-0.1	-0.1	-0.3	-0.2
- Proc. food.	-1.3	0.4	0.5	0.7	0.9	0.9	0.8	0.3	0.1
- Non-energy industrial goods	-0.4	-0.2	-0.2	-0.1	-0.5	-0.1	-0.3	-0.1	0.0
- Services	-1.2	-0.7	-0.3	-0.5	-0.5	-0.3	-0.2	-0.5	-0.4
Non-proc. food.	0.7	-0.1	0.8	0.0	-0.7	0.0	0.6	0.4	1.1
Energy	1.1	-2.2	-5.6	-0.1	-4.7	-1.6	-6.1	-5.2	-5.3
<b>EU</b>	-0.7	-0.6	-0.9	-0.2	-1.0	-0.3	-1.0	-1.0	-0.9
<b>OECD</b>	-1.9	-1.2	-1.8	-0.7	-1.6	-1.0	-1.8	-1.7	-
<b>USA</b>	-1.8	-0.7	-1.9	-0.2	-1.1	-0.9	-1.8	-1.9	-1.5

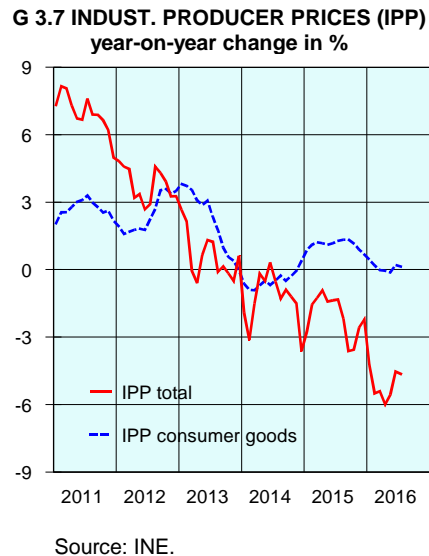
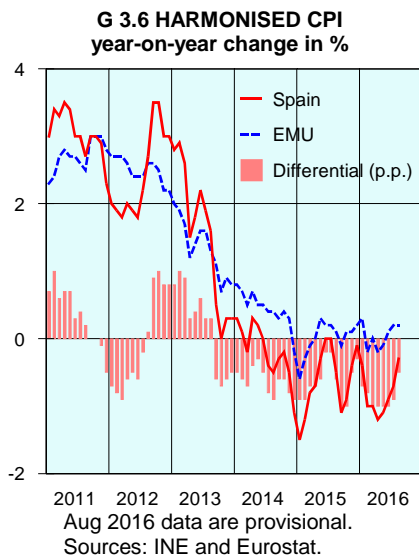
(1) Differences in percentage points between the annual variation in the CPI for Spain and other areas or countries. For Spain and the EU countries, these rates have been calculated with harmonised price indices.  
(2) Average of the period available data.  
Sources: Eurostat and OECD.

### *The PPI y-o-y pace of decline increased slightly*

The *Producer Price Index* (PPI) remained stable in July 2016 compared to the previous month, following an increase of 0.1% in the same period last year. In y-o-y terms, the IPI fell by 4.6%, a drop one tenth higher to that registered in the previous month.

The sharper y-o-y decline in the general index is mainly explained by energy production prices, which accentuated the drop intensity by almost one percentage point, down to -15.6%. This was mainly due to the electricity production from conventional thermal sources, whose prices fell by 33.6%, three points more than in the previous month

Production prices of non-energy goods fell by 0.5% y-o-y in July, two tenths less than in the previous month. This was mainly explained by intermediate goods, whose production prices experienced a y-o-y decrease of 1.7%, half a point less in comparison to that of the previous month (-2.2%). In turn, this was largely due to metallurgy, a sector in which prices fell by 1.6% y-o-y in July, almost four percentage points less than the previous month. Production prices of equipment goods accelerated two tenths, up to 0.6%, and those of consumer goods increased by 0.1%, one tenth less than in June.

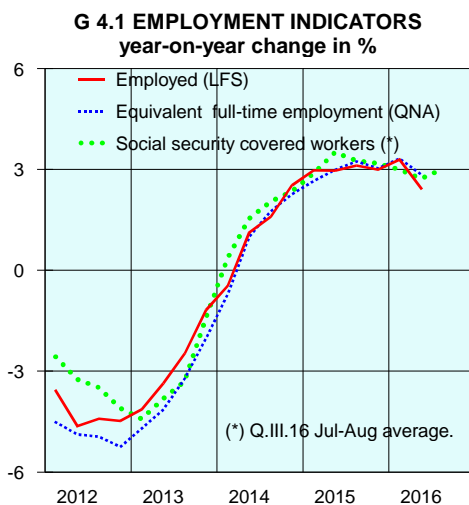


#### 4. - LABOUR MARKET

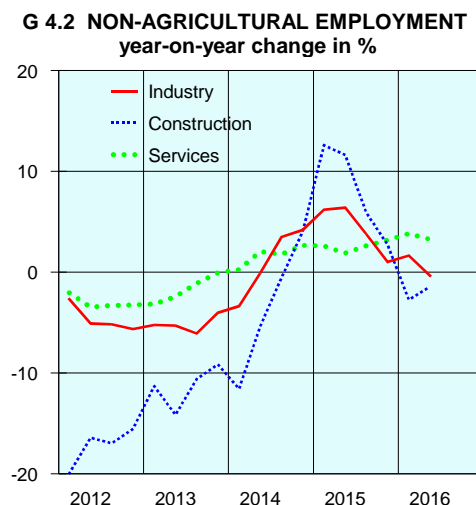
In the second quarter of 2016, labour market statistics show a slowdown in employment, more pronounced in the case of the Labour Force Survey (LFS) than in the register of Social Security covered workers, both placing the y-o-y growth below 3%. However, in the third quarter, an increase in the pace of job creation is observed, according to published figures of covered workers.

*Employment ended the first half of the year with an average annual growth close to 3%*

According to LFS data, in the second quarter of 2016 the number of employed people increased by 271,400, (411,700 in the same period of last year), the total number of employed reaching 18.3 million. With seasonally adjusted data by the INE, the number of employed slowed down half a point in q-o-q terms, recording a rate of 0.3%.



Sources: INE (LFS and QNA) and MESS.



Source: INE (QNA).

Table 4.1 Summary of employment market indicators

	Latest available data (1)		Year-on-year change in %					
	Thousands	Annual Δ	2015-I	2015-II	2015-III	2015-IV	2016-I	2016-II
<b>Labour Force Survey</b>								
In work	22875.7	-139.8	0.1	0.2	-0.1	-0.7	-0.3	-0.6
- Men	12220.7	-129.2	0.3	-0.2	-0.4	-1.1	-0.8	-1.0
- Women	10654.9	-10.8	-0.2	0.6	0.1	-0.2	0.2	-0.1
Rate of employment (2)(*)	59.4	-	0.0	0.2	0.0	-0.3	-0.2	-0.4
- Men	65.2	-	0.2	0.0	-0.1	-0.6	-0.4	-0.6
- Women	53.9	-	-0.2	0.3	0.1	-0.1	0.1	-0.1
In work	18301.0	434.5	3.0	3.0	3.1	3.0	3.3	2.4
- Non-agricultural sector	17540.8	414.6	3.7	3.1	3.0	2.8	3.1	2.4
- Industry	2497.1	-8.8	6.2	6.4	3.8	1.0	1.7	-0.4
- Construction	1077.2	-15.7	12.6	11.6	5.9	2.7	-2.7	-1.4
- Services	13966.5	439.1	2.6	1.9	2.6	3.2	3.8	3.2
- Men	9971.1	209.7	3.9	3.4	3.0	3.2	3.4	2.1
- Women	8329.8	224.6	1.9	2.4	3.2	2.7	3.1	2.8
- Foreign nationals	1982.5	73.3	3.4	2.2	3.7	4.5	4.5	3.8
- Full time	15499.9	451.5	2.9	3.7	2.8	3.4	4.0	3.0
- Part time	2801.1	-17.0	3.3	-0.9	4.8	0.8	-0.2	-0.6
Rate of part-time employment (3)(*)	15.3	-	0.1	-0.6	0.2	-0.3	-0.6	-0.5
Wage earners	15187.8	425.5	3.3	3.1	3.7	3.5	3.8	2.9
- Private Sector	12192.7	386.7	3.9	3.7	4.1	3.7	4.2	3.3
- Public Sector	2995.0	38.7	1.2	0.9	2.1	2.5	2.1	1.3
- On a permanent contract	11281.3	223.3	2.7	1.6	1.6	1.6	1.8	2.0
- On a temporary contract	3906.4	202.2	5.4	8.0	10.1	9.5	10.1	5.5
Rate of workers on temporary contracts (4)(*)	25.7	-	0.5	1.1	1.5	1.4	1.4	0.6
Self-employed	3113.2	8.9	1.3	2.3	0.3	0.6	1.1	0.3
Unemployed	4574.7	-574.3	-8.2	-8.4	-10.6	-12.4	-12.0	-11.2
- Men	2249.6	-338.9	-10.1	-11.7	-12.0	-15.4	-15.1	-13.1
- Women	2325.1	-235.4	-6.2	-4.8	-9.2	-9.2	-8.7	-9.2
- Under the age of 25	692.8	-74.4	-11.3	-8.7	-11.6	-15.5	-14.3	-9.7
- Having no previous job	472.7	-88.9	2.7	4.1	-2.1	-16.4	-19.9	-15.8
Rate of unemployment (5)(*)	20.0	-	-2.2	-2.1	-2.5	-2.8	-2.8	-2.4
- Men	18.4	-	-2.6	-2.7	-2.6	-3.3	-3.3	-2.6
- Women	21.8	-	-1.6	-1.4	-2.3	-2.2	-2.2	-2.2
- Young people (aged 16-24)	46.5	-	-4.1	-3.9	-5.8	-5.6	-4.9	-2.7
<b>MEMBERSHIP OF THE S.S.</b>								
Total no. workers covered	17700.0	519.1	2.9	3.5	3.3	3.2	3.0	2.7
Wage earners	14493.9	489.8	3.0	3.8	3.6	3.6	3.4	3.1
Self-employed	3206.1	29.3	2.4	2.2	1.7	1.4	1.2	1.0
- Foreign nationals	1727.6	83.9	0.8	3.3	3.9	4.6	5.4	4.5
<b>EMPLOYMENT OFFICES</b>								
Registered unemployment	3697.5	-370.5	-6.5	-7.6	-8.2	-7.9	-8.1	-7.9
Registered contracts	1451.8	203.6	13.2	10.9	9.6	10.9	6.1	9.9
- Permanent (6)(*)	7.2	-	0.8	0.0	0.0	-0.2	0.3	0.4
- Part time (6)(*)	35.6	-	0.9	0.0	-0.2	-0.2	0.5	0.8

(1) Second quarter for the Labour Force Survey and the month of August for Social Security 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 six columns show the change over the previous year in percentage points.

Sources: INE (LFS) and MESS.

Similarly, the full-time equivalent employment, estimated by the INE in the Quarterly National Accounts (QNA), grew by 0.6% q-o-q in the second quarter, with seasonally and calendar adjusted data. This is three tenths less than in the previous quarter.

On the other hand, the information published by the Ministry of Employment and Social Security on Social Security covered workers, shows a q-o-q increase with seasonally adjusted data of 0.9% in the second quarter of 2016, two tenths higher in comparison to the first quarter.

In y-o-y terms, LFS employment increased by 434,500 people in the second quarter of 2016, representing a variation rate of 2.4%, nine tenths lower than the figure registered in the first quarter, thus ending the first half of the year with an average annual increase of 2.9%.

QNA full-time equivalent employment pointed in the same direction, but with lower intensity growing by 2.9% y-o-y in the second quarter, three tenths less than in the previous quarter, and by 3.1% in the first half of 2016.

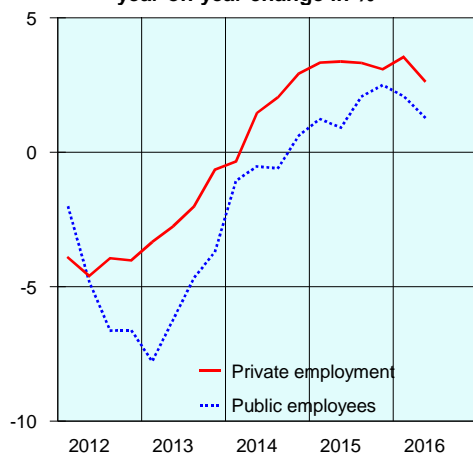
In line with the QNA employment figures, Social Security covered workers show a three tenths slowdown, registering a rate of 2.7% in the second quarter and ending the first half of the year with an annual increase of 3%.

On the other hand and according to the LFS, the employment rate of the population over 16 years old rose 1.1 pp in the second quarter, in comparison to the same period of 2015, reaching 47.5%.

### ***The slowdown in employment in the second quarter affected the main activity branches***

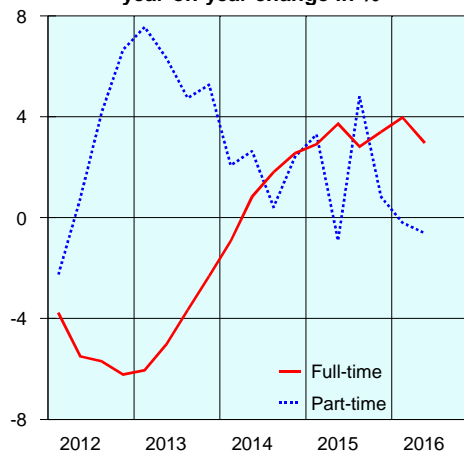
According to LFS figures, the slowdown in employment in the second quarter affected the main activity branches, except construction, as well as public and private employment. Thus, employment in services slowed down six tenths, down to 3.2%, it fell for the first time in industry since 2014, by 0.4% compared to the 1.7% increase recorded in the previous quarter, and it grew by 2.7% in agriculture (8.4% in the previous quarter). There was employment destruction in construction (-1.4%), although at a slower pace than in the first quarter (-2.1%). On the other hand, private employment slowed down eight tenths in the second quarter, down to 2.7%, and public employment eight tenths, down to 1.3%.

**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 dropped*

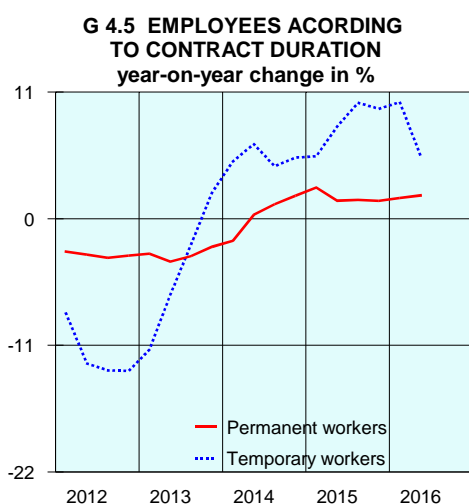
Regarding the type of working hours per day, in the second year the employment increase was entirely in full-time employment, which rose by 3% y-o-y, one percentage point less than in the previous quarter, while part-time employment increased the pace of decline by four tenths, down to -0.6%. As a result, the partiality rate fell half a point in comparison to the same period of 2015, reaching 15.3% 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 seven tenths, down to 9.3%, in the second quarter in comparison to the same period of last year.

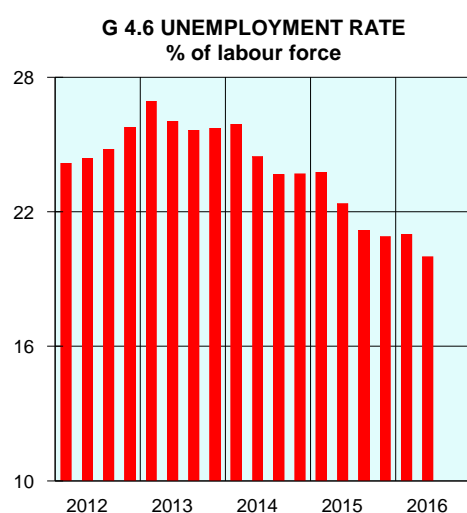
In the same vein, the decrease of underemployment should be mentioned (employed people working fewer hours than usual in their sector, who would like to work more hours and are available to do so). In the second quarter of 2016 underemployment stood at 10.7 % of total employment, 1.8 pp lower than the same period last year.

Considering the professional status of the worker, there was a slowdown in the second quarter both of contracted employees, nine tenths, down to 2.9% y-o-y, and self-employed, eight tenths, down to 0.3%, standing the salaried workers rate at 83%.

Considering the duration of contracts, 53% of the y-o-y job creation in the second quarter of 2016 was of permanent nature (37% in the previous quarter), and the rest was temporary. Permanent employees grew at a rate of 2%, similar to the one registered in the previous quarter (1.8%) and employees with temporary contracts by 5.5% (10.1% in the previous quarter), the temporary rate reaching 25.7%, six tenths less than in the same period last year.



Source: INE (LFS).



Source: INE (LFS).

### *Unemployment dropped at a y-o-y rate of 11.2%*

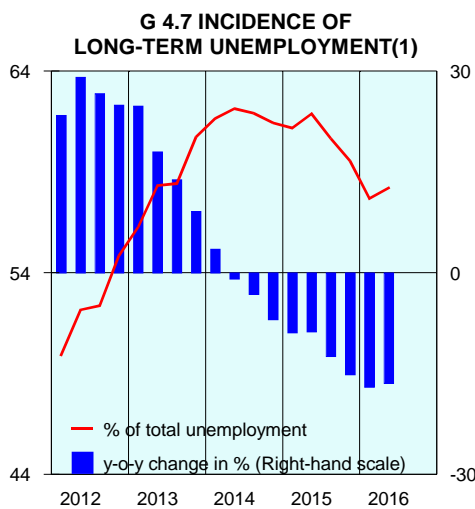
According to LFS figures, unemployment fell by 216,700 people in the second quarter of 2016, (-295,600 in the same period last year), the total number of unemployed people reaching 4.6 million. With seasonally adjusted data by the INE, unemployment fell 1.9% q-o-q (-2.6% in the previous quarter), linking thirteen consecutive quarters of declines.

In y-o-y terms, the LFS shows a fall in unemployment of 574,300 people in the second quarter of the year, representing a variation rate of -11.2%, eight tenths higher than the previous quarter.

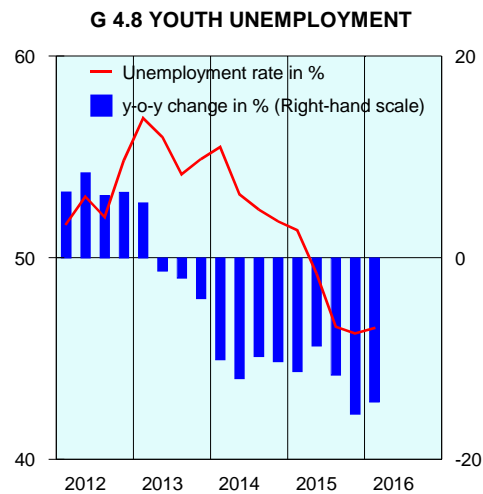
The unemployment rate fell 2.4 percentage points in the second quarter compared to the same period of 2015, reaching 20% of the labour force.

### *Youth unemployment and long-term unemployment continued 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 16 and 19 years, a group in which the unemployment rate fell by almost six percentage points to 63.5% compared to the figure registered a year earlier. The youth unemployment rate (16-24 years) reached 46.5% in the second quarter, almost three percentage points lower than the same period last year (49.2%).



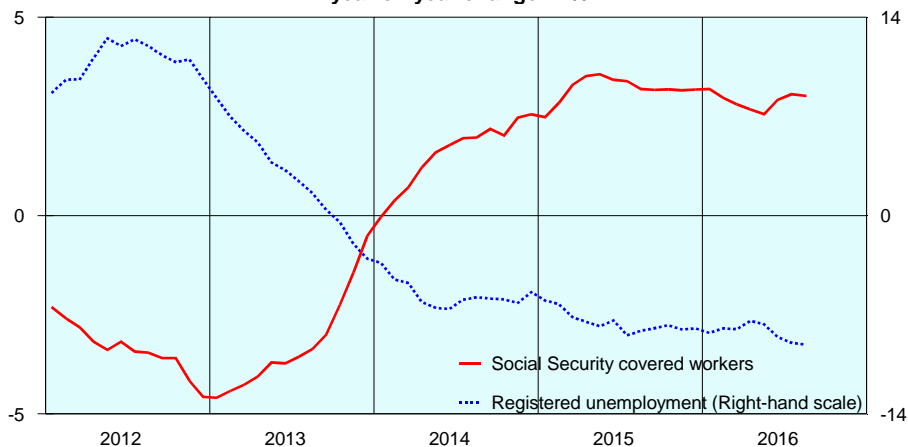
Source: INE (LFS).



Source: INE (LFS).

According to the length of time searching, most of the unemployment rate decline is explained by the long-term component<sup>1</sup> (people seeking employment for over one year), whose

**G 4.9 S.S. COVERED WORKERS AND REGISTERED UNEMPLOYMENT**  
year-on-year change in %



Source: MESS.

<sup>1</sup> N. B: strictly speaking, long-term unemployment is defined as the group of people unemployed and seeking employment at least during one year. In this report we use the information available on the INE website, which allows us to break down unemployment by seeking time, but not according to the time people have been unemployed.

proportion on the total of the labour force fell 2.2 percentage points, down to 11.6%. The reduction occurred mostly amongst those who had been seeking employment for over 2 years.

According to the latest labour market information, as shown by the Social Security (SS) covered workers records, employment accelerated again in the months elapsed in the third quarter. It grew at a rate of 3% y-o-y in the two month period from July to August, three tenths more than in the second quarter.

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

	2014	2015	2016 (1)	2015				2016	
				I	II	III	IV	I	II
<b><u>WAGES FROM COLLECTIVE BARGAINING (2)</u></b>									
All sectors	0.5	0.8	1.1	0.7	0.7	0.8	0.8	1.1	1.1
- Agriculture	0.7	0.8	0.9	0.8	0.8	0.8	0.8	0.9	0.9
- Industry	0.6	0.8	1.1	0.7	0.7	0.7	0.8	1.1	1.1
- Construction	0.1	0.8	0.9	0.5	1.1	0.9	0.8	0.7	0.9
- Services	0.5	0.8	1.2	0.6	0.7	0.7	0.8	1.2	1.2
<b><u>TOTAL LABOUR COSTS PER WORKER</u></b>									
All sectors	-0.3	0.6	-0.2	0.5	0.4	0.3	1.2	-0.2	-
- Industry	1.3	-0.4	0.5	-0.3	-0.4	-0.4	-0.4	0.5	-
- Construction	-0.2	-1.1	-2.2	-1.1	-0.8	-0.3	-2.1	-2.2	-
- Services	-0.6	1.0	-0.2	0.9	0.8	0.5	1.9	-0.2	-
<b><u>WAGE COSTS PER WORKER</u></b>									
All sectors	-0.1	1.1	0.0	1.4	0.6	0.5	1.7	0.0	-
- Industry	1.5	0.4	1.0	0.6	0.2	0.2	0.6	1.0	-
- Construction	0.7	-0.7	-1.7	1.0	-1.4	-0.1	-1.9	-1.7	-
- Services	-0.5	1.4	0.0	1.7	0.9	0.7	2.3	0.0	-
<b><u>NON-WAGE COSTS PER WORKER</u></b>									
All sectors	-1.0	-0.7	-1.0	-1.9	-0.2	-0.5	-0.3	-1.0	-
- Industry	0.7	-2.6	-0.7	-2.6	-2.2	-2.1	-3.4	-0.7	-
- Construction	-2.3	-2.0	-3.5	-5.4	0.9	-0.7	-2.5	-3.5	-
- Services	-1.0	-0.1	-0.8	-1.4	0.2	0.0	0.7	-0.8	-
<b><u>COMPENSATION PER EMPLOYEE (3)</u></b>									
All sectors	-0.6	0.5	0.4	0.7	0.3	0.1	0.9	-0.1	0.8
- Agriculture	-3.7	0.7	1.9	-0.3	-0.5	0.8	2.7	1.6	2.1
- Industry	1.2	-0.1	0.4	0.5	0.1	-0.2	-0.7	0.3	0.5
- Construction	0.2	-0.5	-1.8	-0.7	-0.6	0.4	-1.2	-1.9	-1.8
- Services	-0.9	0.8	0.6	0.6	0.5	0.3	1.6	0.2	1.1
<b><u>UNIT LABOUR COST (4)</u></b>									
All sectors	-0.8	0.3	0.1	0.9	0.1	-0.2	0.4	-0.2	0.4
- Agriculture	-1.0	0.0	1.1	-1.2	-1.6	1.3	1.8	1.6	0.7
- Industry	0.1	-0.7	-0.3	0.2	-0.3	-0.9	-1.7	0.0	-0.6
- Construction	-0.8	0.3	-3.3	1.4	1.4	0.4	-2.1	-3.7	-2.9
- Services	-1.1	0.5	0.4	0.9	0.1	0.0	1.1	0.0	0.8

(1) Average of the period available data.

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

(3) Equivalent full-time employment. Adjusted for seasonal and calendar effects.

(4) Compensation per employee/labour productivity. Adjusted for seasonal and calendar effects.

Sources: MESS and INE (Quarterly Survey of Labour Costs and National Accounts Base 2010).

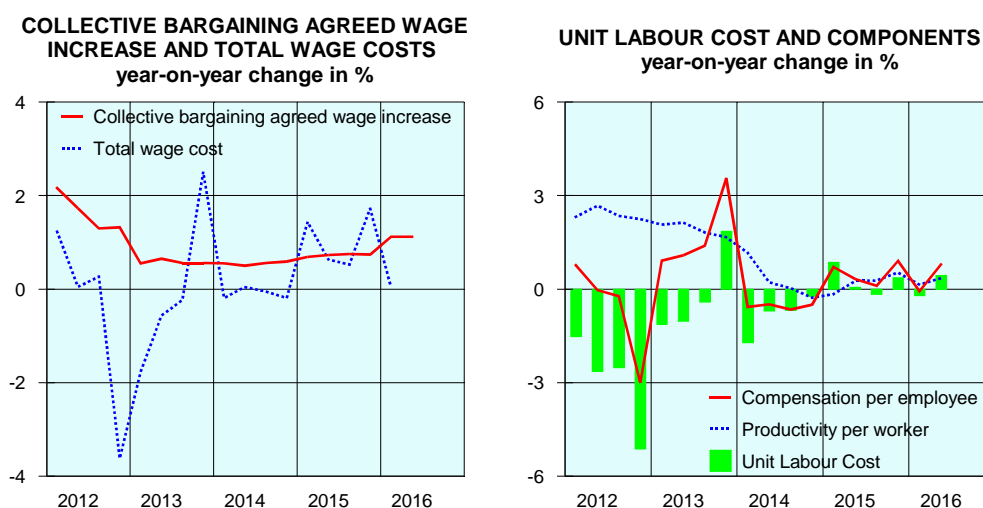
This is due to the acceleration of employment in all activity branches, with the service sector standing out. Here, the social security covered workers grew by 3.3% y-o-y in the period between July and August, three tenths more than in the second quarter.

With regard to registered unemployment, the rate of decline sharpened 1.1 pp in the two month period, to 9% y-o-y. As in the case of Social Security covered workers, the main branch responsible for this evolution is services, whose y-o-y rate fell from -6.3% in the second quarter down to -7.5% in the two month period from July to August.

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

According to LFS figures, compensation per employee rose by 0.8% y-o-y in the second quarter of the year, after the decline of 0.1% recorded in the first quarter, so unit labour costs (ULC) rose 0.4%, compared to the 0.2% drop of the previous quarter. In real terms, the ULC variation was null. By main activity branches, the increase of the nominal ULC mainly comes from the services sector, where they grew by 0.8% y-o-y, after remaining steady in the previous quarter. Construction ULC moderated the pace of decline eight tenths, to -2.9%, industry ULC fell by 0.6%, after the stabilisation achieved in the previous quarter, and agriculture ULC fell nine tenths, down to 0.7%.

#### G 4.10 WAGE INDICATORS



Sources: INE (ETCL and QNA) and MESS.

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 July remained at 1.1%. 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 (1.2%), industry (1.1%), agriculture (0.9%) and construction (0.9%).

Up to July, 903 opt-outs were registered, 10.1% less than in the same period last year. As usual, most of the opt-outs submitted (almost 90%) related to salaries.

## 5. - PUBLIC SECTOR

On 26<sup>th</sup> July 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 May 2016. On 31<sup>st</sup> August the Ministry also published the State monthly budget execution data for July, both in terms of National Accounts and Cash. 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 July.

### *The General Government consolidated deficit, excluding Local Governments, stands at 2.32% of GDP up to May*

With consolidated data and in terms of National Accounts, the Central Government, the Regional Governments and the Social Security Funds recorded up to May 2016 a deficit of € 26 billion (2.32% of GDP), 12.8% higher in comparison to the same period of 2015 (2.13% of GDP). Excluding the assistance to the financial institutions, the deficit stands at € 24.6 billion (2.20% of GDP), 6.7% higher than the figure accumulated up to May last year. This deficit increase is explained by a y-o-y increase of non-financial uses (1.7%), while non-financial resources registered a null variation.

The non-financial resources stability is mainly explained by the fact that the 14.3% fall of current taxes on income and wealth offset the increase of taxes on production and imports (2%) and social contributions (3.1%). In turn, the sharp decrease in current taxes on income and wealth is largely explained 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.

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 (4.9%) and compensation of employees (2.3%). Among the items that fell, intermediate consumption (-1.1%), interests (-5.9%), transfers to other administrations (-3.1%) and gross fixed capital formation (-0.3%) stand out.

The Central Government ended the first five months of 2016 with a deficit of € 23.8 billion (2.12% of GDP), 11.6% higher than the figure registered in the same period of 2015 (€ 21.3 billion, equivalent to 1.97% of GDP). This deficit increase is explained by a fall of non-financial resources (-4.6%) higher than the one recorded by non-financial uses (-0.7%). The expenditure of the Central Government eligible to be included in the calculation of the expenditure rule increased by 1.9% y-o-y, up to € 40.3 billion.

The Regional Governments accumulated a deficit of €4.0 billion (equivalent to 0.36% of GDP) up to May this year, 24.8% lower than in the same period of 2015 (€ 5.4 billion, equivalent to 0.50% of GDP). This lower deficit is explained by an increase of non-financial resources (4.2% y-o-y) higher than the one registered by non-financial uses (1.7%). The Regional Governments received advances on account from the financing system amounting to € 1.3 billion, while in the same period of 2015 the advances amounted to € 1.1 billion. If this effect is removed in both periods, the accumulated deficit up to May this year amounted to € 5.3 billion, representing 0.47% of GDP, a percentage 0.13 points 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 1.6% y-o-y, with an amount of € 55 billion.

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

	2015 Outturn	2016 Budget	%	Outturn July		
				2015	2016	%
<b>1. NON-FINANCIAL RECEIPTS</b>	<b>144,375</b>	<b>134,773</b>	<b>-6.7</b>	<b>83,596</b>	<b>70,060</b>	<b>-16.2</b>
TAXES	107,354	112,880	5.1	60,578	54,257	-10.4
Direct	64,174	69,404	8.1	32,053	26,335	-17.8
Personal income tax	38,731	39,610	2.3	26,721	23,237	-13.0
Corporate income tax	20,649	24,868	20.4	2,997	436	-85.4
Others	4,795	4,926	2.7	2,336	2,662	14.0
Indirect	43,180	43,476	0.7	28,525	27,922	-2.1
Value added tax	32,565	31,334	-3.8	22,720	21,578	-5.0
Excise duties	7,340	7,923	7.9	3,960	4,384	10.7
Others	3,275	4,219	28.8	1,844	1,960	6.3
OTHER RECEIPTS	37,021	21,893	-40.9	23,018	15,803	-31.3
<b>2. NON-FINANCIAL PAYMENTS</b>	<b>158,055</b>	<b>157,189</b>	<b>-0.5</b>	<b>99,057</b>	<b>83,939</b>	<b>-15.3</b>
Wages and salaries	16,406	16,808	2.5	9,454	9,364	-1.0
Goods and services	3,537	3,082	-12.9	1,603	1,752	9.3
Interest payments	31,750	33,514	5.6	23,355	15,025	-35.7
Current transfers	90,374	88,812	-1.7	56,606	51,862	-8.4
Contingency fund	-	2,468	-	-	-	-
Real investment	5,680	3,632	-36.1	2,613	1,742	-33.3
Capital transfers	10,308	8,873	-13.9	5,426	4,194	-22.7
<b>CASH BALANCE (1-2)</b>	<b>-13,679</b>	<b>-22,416</b>	<b>63.9</b>	<b>-15,461</b>	<b>-13,879</b>	<b>-10.2</b>
<b>Memorandum item (National Accounts):</b>						
Non-financial resources	174,521			101,124	94,194	-6.9
Non-financial uses (EDP)	214,181			126,071	124,036	-1.6
<b>NET LENDING (+) OR BORROWING (-)</b>	<b>-39,660</b>			<b>-24,947</b>	<b>-29,842</b>	<b>19.6</b>
As % of GDP	-3.67			-2.31	-2.66	

Source: Ministerio de Hacienda y Administraciones Públicas.

As for Social Security Funds, these ended the first five months of 2016 with a surplus of € 1.8 billion (0.16% of GDP), 50.3% lower than the figure registered in the same period of 2015 (€ 3.6 billion). This balance reduction is explained by a fall of non-financial resources (-1.8%), due in turn to the decline of transfers received from other administrations (-21.9%), and to an increase in non-financial uses (1.2%). This evolution is mainly due to the result of the State Public Employment Service, which has reduced its surplus by 52.9%, down to € 1.1 billion, mainly due to the lower transfers received from the State because of the fact that the credits in the State budget in 2016 decreased by 61.2% in comparison to the previous year.

### *The State's deficit stands at 2.66% of GDP up to July in terms of National Accounts...*

Up to July 2016, the budget execution of the State ended with a deficit, in terms of National Accounts, of € 29.8 billion (2.66% of GDP) 19.6% higher than the deficit accumulated

in the same period of 2015. This higher deficit was due to a y-o-y reduction in non-financial resources (-6.9%) higher than the one registered by non-financial uses (-1.6%).

***...and, in terms of Cash, it falls down to 1.24% of GDP***

In terms of Cash, the State recorded a deficit of €13.9 billion up to July 2016 (1.24% of GDP), lower by 10.2% to the figure recorded in the same period of 2015 (€15.5 billion). Non-financial revenues decreased by 16.2% y-o-y, reaching €70.1 billion, while non-financial payments decreased by 15.3%, down to €83.9 billion.

***Tax revenues decrease by 1.8% up to July, in homogeneous terms***

Total tax revenues (including the Regional and Local Governments' share) recorded a y-o-y decrease of 0.7% up to July, mainly due to the effects of the direct taxation reform. 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 1.8%. Without including the Regional and Local Governments, and in non-homogeneous terms, they decreased by 10.4%.

Within total taxes, revenues from personal income tax, including the Regional and Local Governments' share, decreased by 1.9% up to July, mainly due to the reform impact in labour and capital withholdings (-1.4% and -9.5%, respectively). However, personal income tax revenues moderated their y-o-y fall rate by 2.8 points in comparison to the revenues accumulated until June, mainly due to the dynamism of SMEs and to the revenue growth arising from the Income Tax Campaign. In homogeneous terms, the reduction stands at 2%.

Revenues from corporate tax stood at €436 million up to July 2016, compared to the €3 billion registered a year earlier, mainly due to the fall of the payment in instalments (-48.1%), which is explained in turn by the regulatory changes (tax base definition change, reduction of the average tax rate resulting from the general rate decrease and disappearance of the increased rates and minimum payment) and because those for the previous year included the effect of AENA's privatisation, without correspondence in this year.

VAT revenues, including the Regional and Local Governments' share, increased by 4.5% y-o-y up to July. In homogeneous terms, adjusted by the different tax rebates rate, the increase stands at 3.5%.

Excise duties collection, including the Regional and Local Governments' share, was 4.6% higher compared to the figure registered in the same period of 2015, mainly due to the increase in the Duty on Hydrocarbons (10.4%, which in homogeneous terms, corrected for the health cent refunds, stood at 3.4%). The Excise on Tobacco Products rose by 1.3%.

***The State's non-financial payments decrease by 15.3%***

With regard to expenses, the State's total non-financial payments decreased by 15.3% up to July, compared to the figure recorded in the same period of 2015, due to the fall of staff expenses (-1%), current transfers (-8.4%), real investments (-33.3%), capital transfers (-22.7%) and financial expenses (-35.7%). On the other hand, current expenses on goods and services increased by 9.3%.

The borrowing requirement up to July 2016 amounted to € 40.6 billion, compared to the € 18.6 billion recorded in the same period of 2015. This evolution is due to the higher net increase of financial assets (€ 26.8 billion, compared to the € 3.2 billion recorded a year earlier), 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 (€ 13.9 billion, compared to the € 15.5 billion recorded a year earlier). The borrowing requirement was mainly financed through mid and long term domestic debt (€ 40.7 billion). On the other hand, the State's debt, according to the methodology of the Excessive Deficit Procedure (EDP), stood at € 937.5 billion at the end of July, compared to € 888 billion registered a year earlier.

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

	2014	2015	% Annual Change	January-July		% Annual Change
				2015	2016	
<b>Direct taxes</b>	<b>95,571</b>	<b>97,789</b>	<b>2.3</b>	<b>51,749</b>	<b>48,631</b>	<b>-6.0</b>
Personal income tax	72,655	72,346	-0.4	46,417	45,533	-1.9
Corporate income tax	18,694	20,649	10.5	2,997	436	-85.4
Non-resident income	1,420	1,639	15.5	775	1,147	47.9
Other direct taxes	2,802	3,156	12.6	1,560	1,516	-2.9
<b>Indirect taxes</b>	<b>78,225</b>	<b>82,726</b>	<b>5.8</b>	<b>51,190</b>	<b>53,557</b>	<b>4.6</b>
Value added tax	56,166	60,305	7.4	38,570	40,325	4.5
Excise duties	19,104	19,147	0.2	10,776	11,272	4.6
Tobacco	6,661	6,280	-5.7	3,679	3,729	1.3
Hydrocarbons	9,724	9,783	0.6	5,513	6,087	10.4
Others	2,719	3,084	13.4	1,584	1,457	-8.0
Other indirect taxes	2,956	3,275	10.8	1,844	1,960	6.3
<b>TOTAL TAXES</b>	<b>173,796</b>	<b>180,516</b>	<b>3.9</b>	<b>102,939</b>	<b>102,188</b>	<b>-0.7</b>

Source: IGAE, Ministerio de Hacienda y Administraciones Públicas.

### ***Social contributions increase by 2.8% y-o-y up to July***

On the other hand, up to July 2016, the Social Security System (Managing Entities, General Treasury and Mutual Insurers) recorded a deficit of € 5.7 billion in terms of Cash, 29.3% higher than the figure recorded in the same period of 2015 (€ 4.4 billion). Revenues decreased by 2.5% mainly due to the decline in capital transfers (-74%) and, to a lesser extent, to the fall in property income (-51.9%) and in the State's current transfers (-3.3%), partially offset by the 2.8% increase registered in social security contributions. On the other hand, payments fell by 0.7%, mainly due to the decline in capital transfers and current expenses on goods and services (-78.3% and -10.5%, respectively). Expenditure on pensions and temporary disability increased until July by 3% and 11.3%, respectively. Finally, regarding Social Security's management expenses, staff expenses rose by 1.7%.

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

On 17<sup>th</sup> August, the Bank of Spain published the General Government Debt data for June 2016, according to the EDP methodology. According to the Bank of Spain, the General Government EDP Debt reached the figure of 1,107.3 billion euros in this period, 4.7% higher than the figure recorded in the same period last year.



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

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

	2015	2016	%	2015	2016	%
	Outturn	Budget	Change	July	July	Change
<b>1. REVENUE</b>	<b>119,343</b>	<b>137,522</b>	<b>15.2</b>	<b>75,916</b>	<b>74,021</b>	<b>-2.5</b>
Social Security contributions	99,156	117,243	18.2	58,469	60,083	2.8
Current transfers	15,714	16,732	6.5	11,875	11,671	-1.7
<i>of which: from the State</i>	13,094	13,143	0.4	10,211	9,877	-3.3
Property income	2,632	1,634	-37.9	1,479	711	-51.9
Other revenue (1)	1,842	1,914	3.9	4,093	1,556	-62.0
<b>2. EXPENDITURE</b>	<b>133,297</b>	<b>141,266</b>	<b>6.0</b>	<b>80,339</b>	<b>79,743</b>	<b>-0.7</b>
Contributory pensions	114,421	121,233	6.0	67,008	69,007	3.0
Sickness benefits	5,488	5,398	-1.6	2,668	2,970	11.3
Maternity benefits	2,142	2,204	2.9	1,242	1,237	-0.4
Other benefits	2,285	2,107	-7.8	1,348	1,364	1.2
Wages and salaries	2,250	2,358	4.8	1,281	1,303	1.7
Goods and services purchases	1,414	1,478	4.5	771	690	-10.5
Other revenue (2)	5,298	6,489	22.5	6,020	3,171	-47.3
<b>3. CASH BALANCE (1-2)</b>	<b>-13,954</b>	<b>-3,745</b>	<b>-73.2</b>	<b>-4,424</b>	<b>-5,721</b>	<b>29.3</b>
As % of GDP	-1.3	-0.4		-0.41	-0.51	

(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.

By subsectors, the State EDP Debt stood at € 939 billion, recording a 4.8% increase compared to the figure registered in the same period of 2015. On the other hand, the Regional Government EDP Debt reached € 273.8 billion, 9.6% higher than that recorded a year earlier. Regarding the Social Security Administrations, the EDP Debt reached € 17.2 billion, a figure slightly lower to the one registered in June 2015. Finally, Local Corporations registered in June an EDP Debt of € 35.3 billion, 6.5% lower compared to that registered in the same period of 2015.

## 6. - BALANCE OF PAYMENTS

### *The Balance of Payments expanded the net lending to the rest of the world*

According to the available Balance of Payments data, in the first half of 2016, the Spanish economy generated net lending to the rest of the world of € 8.1 billion (€ 1.5% of GDP), versus a net lending of € 4 billion (0.7% of GDP) in the same period last year.

The *current account* balance accumulated a surplus of € 6.3 billion, a figure much higher in comparison to the one recorded in the first half of 2015 (€ 958 million). This result includes an increase 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 41.8%.

In parallel, the financial balance registered net capital outflows amounting to € 192 million, versus net outflows of € 8.6 billion a year earlier, due to a € 42.3 billion increase in the net position of the Bank of Spain, and € 42.5 billion net capital outflows excluding the Bank of Spain.

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

€ millions

	January-June 2015			January-June 2016		
	Credit	Debit	Net	Credit	Debit	Net
<b>Current and capital accounts</b>	<b>206,734</b>	<b>202,754</b>	<b>3,982</b>	<b>214,811</b>	<b>206,722</b>	<b>8,093</b>
<b>Current account</b>	<b>203,479</b>	<b>202,521</b>	<b>958</b>	<b>212,171</b>	<b>205,839</b>	<b>6,333</b>
Goods and services	173,094	162,194	10,902	179,949	165,365	14,584
<i>Tourism</i>	21,200	6,519	14,681	22,651	7,813	14,838
Primary and secondary income	30,385	40,327	-9,943	32,222	40,474	-8,252
<b>Capital account</b>	<b>3,255</b>	<b>233</b>	<b>3,022</b>	<b>2,640</b>	<b>883</b>	<b>1,758</b>

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

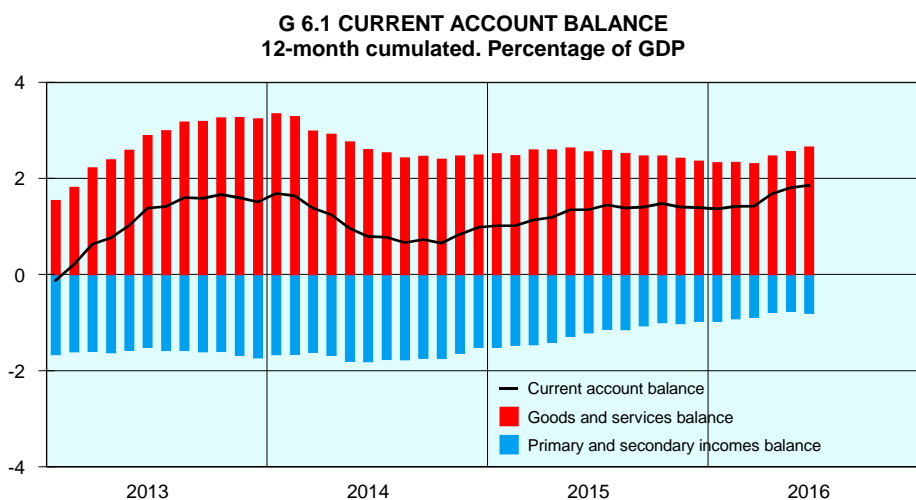
Source: Banco de España.

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

The exchanges of goods and services with the rest of the world between January and June 2016 resulted in a surplus of € 14.6 billion, 33.8% higher compared to the figure recorded in the same period last year. In nominal terms, exports increased by 4% and imports by 2%. These rates were 2.5 and 4.2 points lower, respectively, than the ones registered in the first half of 2015.

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

The latest data available of the Balance of Payments providing broken down information of the balances of goods and services refer to the first quarter of 2016. According to Customs data, which show a similar evolution, in the first half 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 25.8% cheaper on average during the period, while the non-energy balance surplus fell by 39.3%. As a result, a trade deficit reduction of 31.4% took place. Using the unit value indices of the Ministry of Economy and Competitiveness, the terms of trade improved by 2.6%, the same as in the first six months of 2015, contributing to the trade deficit reduction.



Sources: Banco de España and SGACPE.

### ***Tourism revenues and payments accelerated...***

The *balance of tourism services* accumulated in the first half of the year a surplus of € 14.8 billion, 1.1% higher than in the same period of 2015. This result reflects an increase of 6.8% of tourism revenues, which implies an acceleration compared to the 2.9% registered in the same period of 2015. Spending by foreign tourists collected by the Tourist Expenditure Survey (EGATUR) increased by 8.2% y-o-y in the first half (7.5% in the previous year). On the other hand, tourist arrivals, an indicator of the evolution of tourism in real terms, increased by 11.7%, 6.9 points more than in the first half last year.

Tourism payments, as a result of Spanish residents travelling abroad, grew by 19.8% in the first half compared to a year earlier. This rate is 2.6 points higher than the one recorded in the first half of 2015.

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

The *balance of primary and secondary income* accumulated a deficit of € 8.3 billion between January and June 2016, 17% lower than that recorded in the same months of 2015, since there is a revenue increase (6%) much higher than that of payments (0.4%), rates that in both cases represent an acceleration compared to those recorded last year. There are only data available split into primary and secondary income up to March 2016. The only available data for the first half 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 balance in net current transfers received from the EU of € 686 million, following the contraction registered a year earlier, with a fall in revenues (-6%) lower than that of payments (-22.4%). With regards to income, public transfers received from the European Social Fund, aimed at promoting employment, rose by 48.1%, while in the transfers for the private sector, the subsidies received by farmers as refunds of the Common Agricultural Policy fell by 12.7%. On the payments side, within public payments for the EU, the Traditional Own Resources grew (11.5%) and those related to the VAT Resource fell (-29.8%) and to the GNI Resource (-26.6%) 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 decreased***

In the first half of 2016 the *capital balance* generated a surplus of € 1.8 billion, 41.8% lower than the year before, recording falls in revenues (-18.9%) and a strong increase in payments, which are almost multiplied by four. Capital transfers from the EU fell by 26.3% to € 1.7 billion over the same period last year. 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, that barely exceeded three million euros, and those corresponding to the ERDF (-21.4%, to € 1.6 billion) 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 outflows in financial transactions with the rest of the world, excluding the Bank of Spain***

In the first six months of 2016, the *financial account* recorded net capital outflows amounting to € 192 million, versus the net outflows of € 8.6 billion registered a year earlier. *Excluding the Bank of Spain*, the financial account recorded net capital outflows worth € 42.5

billion (7.7% of GDP) up to June, higher than the net outflows of € 32.2 billion registered a year earlier. This result includes positive balances (investments) in asset and liability transactions.

Table 6.2 Financial flows with the European Union

	Million euro					% y-o-y change		Accumulated amounts		
								Million euro		% y-o-y change
	2015 II	2015 III	2015 IV	2016 I	2016 II	2016 I	2016 II	2015 I-II	2016 I-II	2016 I-II
<b>Net current transfers</b>	<b>-1,563</b>	<b>-541</b>	<b>-1,504</b>	<b>1,047</b>	<b>-361</b>	<b>-6.7</b>	<b>-76.9</b>	<b>-440</b>	<b>686</b>	<b>--</b>
<b>- Revenue</b>	<b>1,022</b>	<b>1,035</b>	<b>810</b>	<b>4,428</b>	<b>1,489</b>	<b>-16.1</b>	<b>45.7</b>	<b>6,298</b>	<b>5,917</b>	<b>-6.0</b>
Refunds CAP	594	603	503	4,000	931	-20.9	56.8	5,648	4,931	-12.7
ESF	393	355	169	355	491	98.7	25.0	571	846	48.1
Other subsidies	36	78	138	73	67	70.0	88.4	78	140	78.4
<b>- Payments</b>	<b>2,584</b>	<b>1,576</b>	<b>2,314</b>	<b>3,381</b>	<b>1,849</b>	<b>-18.6</b>	<b>-28.4</b>	<b>6,738</b>	<b>5,231</b>	<b>-22.4</b>
VAT	329	183	135	493	206	-26.1	-37.2	996	699	-29.8
GNI	1,931	994	1,734	2,373	1,294	-22.6	-33.0	4,998	3,668	-26.6
Traditional Own Resources	324	325	373	346	348	16.2	7.3	622	694	11.5
Other	0	75	71	169	1	39.1	--	122	170	39.8
<b>Capital transfers</b>	<b>1,878</b>	<b>1,712</b>	<b>807</b>	<b>812</b>	<b>861</b>	<b>106.4</b>	<b>-54.1</b>	<b>2,272</b>	<b>1,673</b>	<b>-26.3</b>
ERDF	1,734	1,648	699	775	814	168.6	-53.1	2,023	1,590	-21.4
Cohesion Fund	126	57	13	3	0	-94.9	-100.0	187	3	-98.3
Other	18	7	96	34	47	-23.2	166.8	61	81	31.1

Sources: D. G. Tesoro and SGACPE.

### *Foreign investment in Spain moderated...*

The change in net liabilities, excluding the Bank of Spain, generated net capital inflows up to June 2016 worth € 3.9 billion, 92.9% lower than the net inflows registered a year earlier. The direct investment balance rose by 13.3% y-o-y, reaching net inflows of € 11.8 billion, which were channelled toward other resident sectors (only the breakdown by instrument for the first quarter is available). On the other hand, portfolio investment recorded net outflows amounting to € 12.2 billion (net inflows of € 55.3 billion in the first half of 2015) due to the results of all sectors, especially Monetary Financial Institutions. Finally, other investments (loans, deposits and repos) recorded net inflows of € 4.3 billion, compared to the net outflows of € 11.1 billion seen in the same period of 2015, the financial private sector being 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 six months of 2016 net capital outflows (investments) of € 46.3 billion, 46.6% below compared to last year. Direct investment accumulated capital outflows amounting to € 16.9 billion, 36.4% lower than a year earlier, coming mainly from other resident sectors. The portfolio investment balance fell by 80.9%, registering net outflows of € 11.3 billion, focused on the non-financial private sector. On the other hand, other investment recorded net outflows amounting to € 19.6 billion, 8.7 times higher than a year earlier, led by the Monetary Financial Institutions. Finally, financial derivatives registered net inflows of € 1.5 billion (€ 1.4 billion a year earlier).

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

Current, capital and financial transactions generated a decrease of € 42.3 billion of net assets for the Bank of Spain, a figure that includes a decrease (increase of the net position) of € 47.4 billion assets vis-à-vis the Eurosystem and increases of € 2.9 billion in reserves and of € 2.2 billion in other net assets.

### ***The NIIP improved in the first quarter of 2016***

The *Net International Investment Position* (NIIP) decreased its debit balance in the first quarter of 2016, in comparison to the same period of 2015, by € 35.4 billion, reaching € 990 billion. The debit NIIP accounted for 90.8% of GDP in the first quarter of 2016, 6.9 points less than in the previous year. Assets amounted to € 1.6 trillion, 0.9% less from a year earlier, and liabilities € 2.6 trillion, 1.9% less compared to the first quarter of 2015. Furthermore, the gross external debt rose in the first quarter of 2016 by € 1.8 trillion (168.7% of GDP), versus the € 1.8 trillion registered in the same period of 2015 (173.8% of GDP).

The NIIP debit balance, excluding the Bank of Spain, reached an amount of € 869 billion in the first quarter of 2016, 7.5% less than a year earlier. A 87.5% increase of the direct investment debit balance was recorded, up to € 53 billion. On the other hand, a 14.1% decrease of debit balance was recorded in portfolio investment, to € 589 billion, and of other investment debit balance of 0.9%, to € 219 billion.

Table 6.3 **Balance of payments. Financial operations (1)**

	Millions of euros					
	January-June 2015			January-June 2016		
	Assets change	Liabilities change	Balance	Assets change	Liabilities change	Balance
<b>Financial account</b>	<b>63,157</b>	<b>54,575</b>	<b>8,581</b>	<b>4,079</b>	<b>3,886</b>	<b>192</b>
- Excluding Bank of Spain	<b>86,775</b>	<b>54,575</b>	<b>32,200</b>	<b>46,345</b>	<b>3,886</b>	<b>42,458</b>
<i>Direct investment</i>	<b>26,626</b>	<b>10,381</b>	<b>16,248</b>	<b>16,944</b>	<b>11,765</b>	<b>5,179</b>
Monetary financial institutions	5,324	-397	5,721	3,546	143	3,403
Other resident sectors	21,302	10,778	10,524	13,398	11,622	1,776
<i>Portfolio investment</i>	<b>59,246</b>	<b>55,278</b>	<b>3,966</b>	<b>11,287</b>	<b>-12,165</b>	<b>23,454</b>
General Government	-377	52,064	-52,441	67	-2,755	2,822
Monetary financial institutions	11,054	10,735	319	-385	-6,750	6,365
Other resident sectors	48,569	-7,521	56,090	11,605	-2,660	14,265
<i>Other investment</i>	<b>2,265</b>	<b>-11,085</b>	<b>13,351</b>	<b>19,644</b>	<b>4,288</b>	<b>15,355</b>
General Government	-1,927	-4,009	2,082	-964	-985	21
Monetary financial institutions	-104	-7,858	7,754	21,609	5,445	16,164
Other resident sectors	4,296	782	3,514	-1,001	-172	-829
<i>Financial derivatives</i>	<b>-1,364</b>	<b>-</b>	<b>-1,364</b>	<b>-1,530</b>	<b>-</b>	<b>-1,530</b>
- Bank of Spain	<b>-23,618</b>	<b>-</b>	<b>-23,618</b>	<b>-42,266</b>	<b>-</b>	<b>-42,266</b>
Reserves	4,773	-	4,773	2,883	-	2,883
Claims on the Eurosystem	-31,055	-	-31,055	-47,354	-	-47,354
Other net assets	2,664	-	2,664	2,206	-	2,206
- Net errors and omissions	4,601	-	<b>4,601</b>	-7,899	-	<b>-7,899</b>

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

Source: Banco de España.

The Bank of Spain increased its debit balance by €34.6 billion in the first quarter of 2016 compared to a year earlier, up to € 120.9 billion, equivalent to 11.1% of GDP. This increase is explained by the expansion of the Bank of Spain debit balance vis-à-vis the Eurosystem (€ 40.6 billion), and to a lower extent, due to the € 1.9 billion decrease of reserves; on the other hand, the balance of other net assets went from negative to positive (€ 5.2 billion).

September 2016