

The Banco de España began to publish macroeconomic projections for the Spanish economy annually in 2007. In March, earlier this year, a change in the publication frequency for these projections was agreed, whereby from April they would appear in successive editions of the quarterly report on the Spanish economy. The Banco de España thus falls into line with the recent trend at most Eurosystem central banks regarding the publication of macroeconomic projections and with other public and private agencies that disseminate forecasts several times a year.

The inclusion of the macroeconomic projections in the quarterly report is a logical step, since this report contains the fullest and most detailed analyses of conjunctural developments in the Spanish economy to be regularly published by the Bank. Concentrating in the quarterly report both the future outlook for the Spanish economy and the monitoring of conjunctural developments during the quarter helps better link the analysis of the main recent events to the medium-term outlook.

This decision entails certain changes in the organisation of the content of the quarterly report, as well as in its publication

calendar, which will be brought forward one month relative to the current calendar. As from December 2014, the report will be published in March, June, September and December.

Under these new arrangements, the extent and level of detail of the presentation of the projections will differ in the various quarterly reports. The annual projections publication cycle for the current year and the next will begin in March, and will be accompanied by an analysis of macrofinancial conditions in the Spanish economy during the following two-year period, as has been the case in recent years in the Spanish economic projections report which, generally, has been published in March. The June and December quarterly reports will include the forecasts for the Spanish economy drawn up by the Banco de España Directorate General for Economics, Statistics and Research as part of the joint Eurosystem forecasting exercise, whose aggregate results for the euro area are made public by the ECB following the monetary policy meeting of the Governing Council corresponding to each of these two months. Finally, the September report will publish the results of the updated forecasts published in June.

The INE (National Statistics Institute) has begun from end-September to publish the Spanish National Accounts (SNA) time series under the new 2010 base, in accordance with the EU's new obligatory methodological standard: the European System of National and Regional Accounts 2010 (ESA 2010). The new SNA entails methodological changes associated with the adaptation to ESA 2010 and it includes, as is usual with re-basing, statistical innovations derived from revisions in the statistical sources used or in estimation procedures.<sup>1</sup> To date, The INE has published the base 2010 annual accounts of the main macroeconomic aggregates for the period 1995-2013 and the non-financial quarterly accounts of the institutional sectors for 1999-2013. The

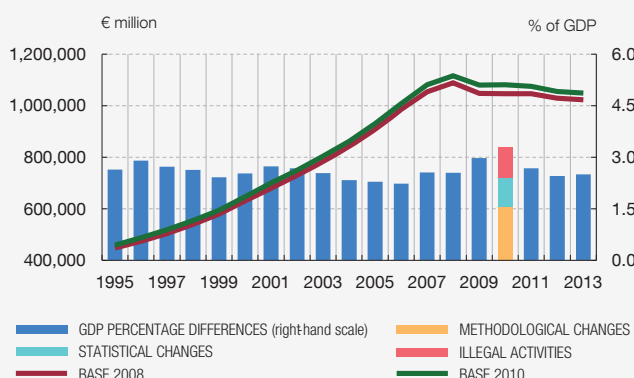
publication of SNA quarterly time series using the new base has been announced for 27 November. This box describes the key changes ESA 2010 involves and details the main implications for the macroeconomic aggregates.

Among the methodological changes ESA 2010 involves is the inclusion of research and development (R+D) expenditure and purchases of armament systems as expenditure on investment in fixed capital, whereas ESA 95 treated them as intermediate consumption. Consequently, the depreciation of this expenditure is now reflected in fixed capital consumption. Among the statistical innovations, mention should be made of the inclusion of the information from the 2011 Population and Housing Census and of the revision of the external statistics, further to the adoption of the methodology of the IMF's Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6). Lastly, the base 2010 SNA introduces the estimation of illegal activities that had already been envisaged in ESA 95 but which had not yet been

<sup>1</sup> Greater details of these changes can be found in "Spanish National Accounts. New base 2010. 2010-2013 series", INE, note updated on 3 October 2014, and in "Implementation of the 2010 European System of Accounts (ESA 2010) in Spanish National Accounts. Methodological note. Preview of provisional estimate of effects", INE, June 2014.

## 1 SPANISH NATIONAL ACCOUNTS. NEW BASE 2010

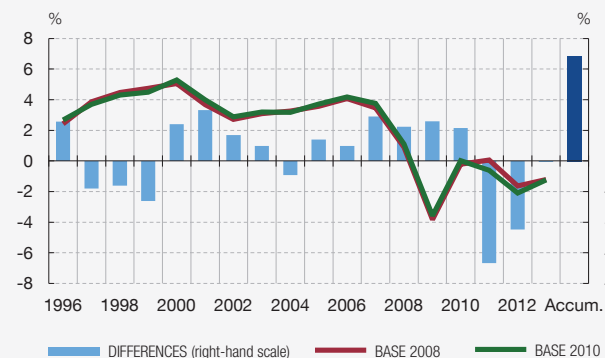
### 1.1 NOMINAL GDP



SOURCE: INE.

## 2 SPANISH NATIONAL ACCOUNTS. NEW BASE 2010

### 2.1 ANNUAL CHANGE IN GDP VOLUME

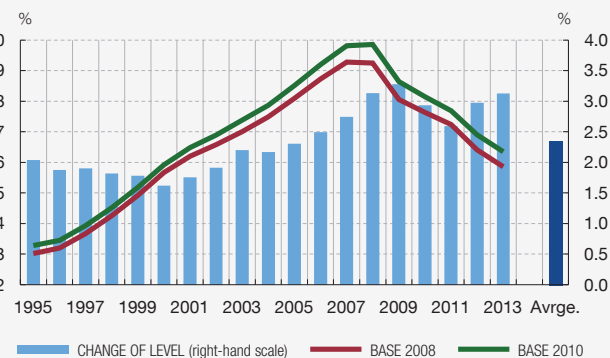


SOURCE: INE.

### 1.2 CHANGES IN NOMINAL GDP BY COMPONENT Average 1995-2013



### 2.2 FULL-TIME EQUIVALENT JOBS



carried out. The INE has estimated these illegal activities following Eurostat methodology and procedures, so that the different countries' series are homogeneous and comparable.

As a result of these changes, the level of base 2010 nominal GDP has been revised upwards from 1995 to a level in 2013 that is 2.6% higher than using base 2008. According to INE estimates, the methodological changes account for almost 50% of this revision, whereas the statistical changes and the inclusion of illegal activities explain the rest in practically equal proportions (see Chart 1.1).<sup>2</sup> On the expenditure side, the upward revision of nominal GDP is attributable to a higher level of national demand, in terms both of investment and of private consumption. On the supply side, higher nominal GDP is explained by the greater activity of the services sector, to the detriment of construction, while on the side of income generated, both the contribution of employee compensation and of the gross operating surplus are higher (see Chart 1.2).

The significance of the various demand components relative to GDP has not changed substantially with the new base, with the

exception of exports and imports, which decline as a percentage of GDP as the foreign trade data have been revised. As a result of these changes, the external balance on goods and services has improved under the new SNA by around 1 pp of GDP in the period 2010-2013 and the net lending of the nation reached 2.1% of GDP in 2013, compared with 1.5% under the former base.

The effect of all these modifications on the rate of change of GDP in real terms has been limited, except for the years 2011 and 2012, in which GDP growth was revised downwards by 0.6 pp and 0.4 pp, respectively. However, with the new SNA the cumulative growth of real GDP from 1995 to 2013 is 0.7 pp higher than that recorded with the 2008 base (see Chart 2.1). Table 1 summarises the main revisions in the rates of change in the most recent period. In terms of components, there is a notable downward revision of the rate of increase of national demand, chiefly stemming from that of private consumption, while the rates of gross fixed capital formation have been revised upwards, except in the years 2011-2012, for which lower growth is estimated under the new base. As to external demand, both the growth of exports and of imports have been revised downwards (by 0.4 pp and 0.7 pp, respectively, in annual average terms). As a result, the contribution of external demand to the increase in GDP shifts marginally upwards, with the exception

<sup>2</sup> The INE has published the impact of the changes only for 2010.

## 1 GDP AND DEMAND COMPONENTS: SPAIN (Base 2010 compared with Base 2008)

Annual rates of change: GDP volume and %

	2013	2011		2012		2013	
	% nom GDP (ESA 2010)	New	Diff.	New	Diff.	New	Diff.
<b>SPAIN</b>							
<b>Gross domestic product</b>	<b>100.0</b>	<b>-0.6</b>	<b>-0.7</b>	<b>-2.1</b>	<b>-0.4</b>	<b>-1.2</b>	<b>0.0</b>
Private consumption	58.2	-2.0	-0.8	-2.9	-0.1	-2.3	-0.2
Government consumption	19.5	-0.3	0.2	-3.7	1.1	-2.9	-0.7
Gross capital formation	19.0	-6.4	-0.8	-8.3	-1.4	-3.7	1.5
Exports	31.6	7.4	-0.2	1.2	-0.9	4.3	-0.6
Imports	28.1	-0.8	-0.7	-6.3	-0.6	-0.5	-0.9
<b>Contribution to GDP growth</b>							
National demand	—	-2.7	-0.7	-4.3	-0.1	-2.7	0.0
Net external demand	—	2.1	0.0	2.2	-0.3	1.4	0.0
Memorandum item							
Net lending (+)/ net borrowing (-) of the nation (% of GDP)	—	-2.9	0.7	0.1	0.7	2.1	0.6
Employment	—	-2.6	-0.3	-4.4	0.4	-3.3	0.1
Nominal GDP	—	-0.5	-0.6	-1.9	-0.2	-0.6	0.0
GDP deflator	—	0.1	0.1	0.2	0.2	0.7	0.1
Nominal private consumption	—	0.6	-0.7	-0.6	-0.2	-1.4	-0.6
Consumption deflator	—	2.7	0.2	2.4	-0.1	0.9	-0.4
Household saving ratio (% GDI)	—	11.7	-1.0	9.0	-1.4	11.2	0.8
Compensation per employee	—	0.9	-0.5	-0.6	-0.8	1.7	1.0
Unit labour costs	—	-1.1	-0.1	-3.0	0.0	-0.4	1.1
Nominal GDP (€bn)	—	1,075.1	28.8	1,055.2	25.9	1,049.2	26.2
Δ nominal GDP (Base 2010/Base2008) (%)	—	2.8	—	2.5	—	2.6	3.0

SOURCES: INE and Banco de España.

of 2012, when it is 0.3 pp lower than the base 2008 estimate. As to prices, the GDP deflator has scarcely been revised over the period as a whole. Lastly, the level of employment under the new annual SNA is higher than that estimated in the 2008 base throughout the period; specifically, it is 3% higher in 2013 (see Chart 2.2). However, in terms of the rate of change, the revisions have been very limited.

Turning to the general government sector, the most significant changes under the SNA focus on the increase in the number of institutions considered to be general government owing to the reinforcement of the criterion of public control of institutions and the change to the criterion of the ratio of 50% of sales/production costs.<sup>3</sup> Taxes are henceforth attributed to the tier of government that has the power to regulate them: this means, for instance, that the European Union's VAT resource, which has been recorded to

date as a tax paid to the rest of the world, will henceforth be recorded as VAT of general government and as a transfer payment to the rest of the world. As earlier mentioned, R+D purchases and purchases of armament systems are now recorded as investment expenditure, with the particularity that the production of these goods by general government for own end-use will entail an increase in production revenue and an increase in gross capital formation for general government. Also, imputed contributions associated with the government employee Social Security scheme have been re-estimated, having hitherto been estimated as the difference between benefits paid and actual social contributions. They are now estimated using the contribution bases and percentages of the corresponding employer portion under the general Social Security regime. Finally, the treatment of interest payments under the EDP criterion is brought into line with that of the National Accounts.<sup>4</sup>

3 The criterion is made more restrictive, since the numerator is reduced, insofar as sales to other general government bodies are not included in it if there was no competition, and the denominator is increased by including interest as a cost.

4 Thus, interest rate swaps will continue to be considered financial transactions, with no impact on the general government balance. Hitherto the EDP criteria have included these transactions in interest paid.

## 2 MAIN GENERAL GOVERNMENT MAGNITUDES IN ESA 2010

	Magnitudes as a percentage of GDP, ESA 2010				Differences relative to previous GDP ratios (a)			
	2010	2011	2012	2013	2010	2011	2012	2013
<b>Gen. govt. balance</b>	<b>-9.4</b>	<b>-9.4</b>	<b>-10.3</b>	<b>-6.8</b>	<b>0.2</b>	<b>0.1</b>	<b>0.3</b>	<b>0.3</b>
Ratio changes due to balance					-0.1	-0.1	0.1	0.1
Ratio changes due to GDP					0.3	0.3	0.3	0.2
<b>Balance adjusted for impact of assistance to financial institutions</b>	<b>-9.4</b>	<b>-8.9</b>	<b>-6.6</b>	<b>-6.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Balance of gen. govt. sub-sectors</b>								
Central government	-4.8	-3.4	-7.8	-4.7	0.2	0.1	0.2	0.1
Social Security	-0.2	-0.1	-1.0	-1.1	0.0	0.0	0.0	0.0
Regional government	-3.7	-5.1	-1.8	-1.5	0.1	0.1	0.0	0.0
Local government	-0.7	-0.8	0.3	0.5	0.0	0.0	0.1	0.1
<b>Public debt (EDP)</b>	<b>60.1</b>	<b>69.2</b>	<b>84.4</b>	<b>92.1</b>	<b>-1.6</b>	<b>-1.3</b>	<b>-1.5</b>	<b>-1.8</b>
Ratio changes due to gen. govt. balance					0.1	0.1	-0.1	-0.1
Ratio changes due to other debt revisions					0.3	0.5	0.6	0.7
Ratio changes due to GDP					-2.0	-1.9	-2.1	-2.3
<b>Memorandum item</b>								
Gen. govt. revenue	36.2	36.0	37.0	37.5	-0.5	-0.1	-0.2	-0.3
Gen. govt. expenditure (excl. assistance to fin. inst.)	45.6	45.0	43.6	43.8	-0.7	-0.3	-0.5	-0.6

SOURCES: INE, IGAE (National Audit Office) and Banco de España.

a Differences reflect changes in National Accounts methodology (switch from ESA 1995 to ESA 2010) and possible revisions of previous data, which might have occurred even if the ESA 1995 standard had been maintained. With the data disseminated by the INE and the IGAE, it is not generally possible to separate these two effects.

In the case of 2013, these changes are reflected both in the general government balance (a lower deficit in millions of euro and as a percentage of GDP) and in the public debt (a higher level in millions of euro, but a lower percentage of GDP). Specifically, in 2013 the changes have entailed a reduction in the budget deficit (net of assistance to financial institutions) from 6.6% of GDP, under the previous criterion, to 6.3% of GDP with the new National Accounts. Of this reduction, 0.2 pp are due to the increase in the denominator of the ratio (the increase in GDP

discussed in this box). With regard to public debt, the changes entail a reduction in the ratio relative to GDP from 93.9% of GDP, according to the previous criterion, to 92.1% of GDP with the new National Accounts. In this case, the change in GDP has contributed to reducing the ratio by 2.3 pp. In the aggregates of the general government account, the change in National Accounts has entailed lower percentages of GDP, both in the total revenue for 2013 (0.3% of GDP) and in the total for expenditure (0.6% of GDP) (see Table 2).

Since mid-2012, financial market conditions have improved significantly, supported by the various economic policy measures adopted by the national authorities of the euro area countries, the progress made in relation to euro area governance

and the Eurosystem's expansionary monetary policy. The bout of financial stress in the run up to the publication of this report introduces some uncertainty, but it is still too early to assess its importance.

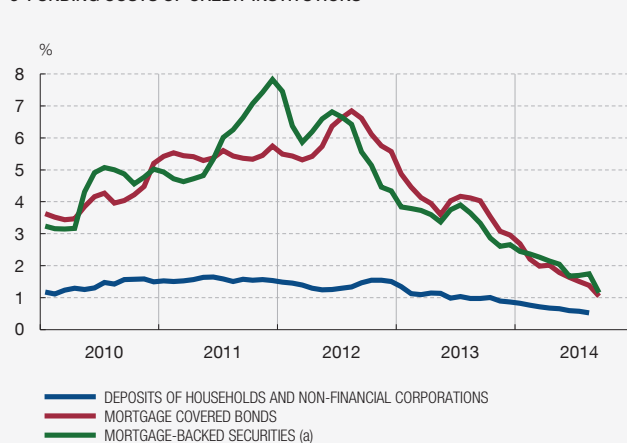
1 FIVE-YEAR CDS PREMIUM. NON-FINANCIAL FIRMS



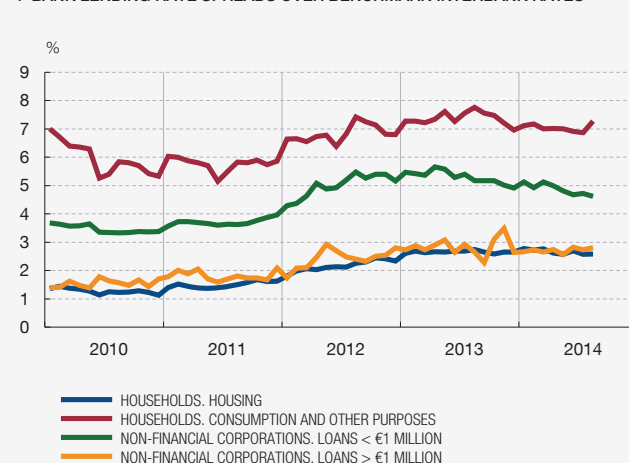
2 FIVE-YEAR CDS PREMIUM. FINANCIAL FIRMS



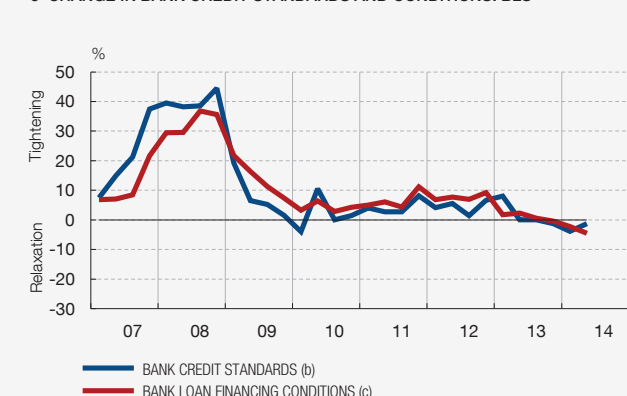
3 FUNDING COSTS OF CREDIT INSTITUTIONS



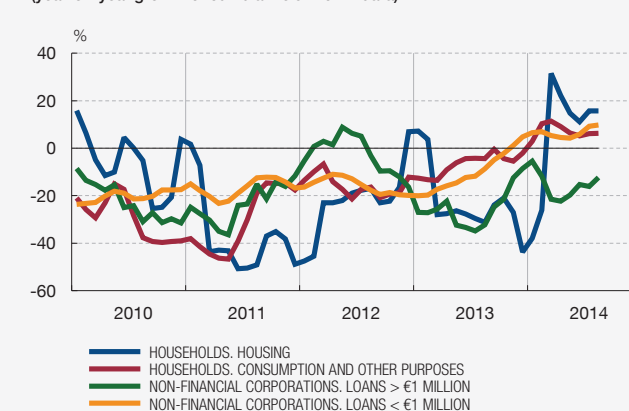
4 BANK LENDING RATE SPREADS OVER BENCHMARK INTERBANK RATES



5 CHANGE IN BANK CREDIT STANDARDS AND CONDITIONS. BLS



6 NEW BANK LOANS (year-on-year growth of cumulative 3-month data)



SOURCES: Datastream and Banco de España.

- a Average interest rate on senior tranches of Spanish mortgage-backed securities.
- b Average change in credit standards for new loans to firms (SMEs and large firms) and to households (housing and consumption and other purposes).
- c Defined as the average of the responses of Spanish banks to the questions in the Eurosystem's Bank Lending Survey relating to funding conditions in the various segments (such conditions include, inter alia, the margin on ordinary loans and on high-risk loans, the security required and the term).

Funding conditions in the market for Spanish government debt have improved significantly, as shown by the decline in the yields negotiated on the secondary markets for Spanish government bonds and in the spreads over German bunds with the same terms. Specifically, in mid-October the interest rate on the 10-year bond and its spread over the German bund with a similar maturity stood at around 2.1% and 124 bp respectively, down 58 bp and 17 bp from their end-June levels, and by a total of 551 bp and 511 bp, respectively, from their July 2012 highs (see the upper-right-hand panel of Chart 23 of this report).

The improvement in financing conditions on government debt markets has been gradually passed through to private agents, albeit unevenly. Thus, the credit default swap (CDS) premia on securities issued by non-financial firms and banks, which protect investors from debt default, have fallen significantly since mid-2012, reaching levels that are close to – but slightly higher than – the euro area average (see Panels 1 and 2 of the accompanying chart). The interest rates on covered bonds and asset-backed securities have also fallen, as have, since end-2012, those on deposits, the main component of the liabilities of credit institutions (see Panel 3 of the chart).

In addition, the expansionary monetary impulses are being passed through to the cost of bank credit, albeit with a longer lag and, thus far, only partially. By mid-2013, only the rate of interest on loans for house purchase had decreased. Since then there have also been reductions in the higher risk segments, which have been somewhat larger than those in interbank rates, so that the spreads over these rates, which had increased significantly during the period 2010-2012<sup>1</sup> (see Panel 3 of the accompanying chart), have narrowed. Thus, in the case of loans to households for consumption and other purposes apart from house purchase and loans to firms for amounts of less than €1 million (which include most loans to SMEs), these spreads have narrowed by around 50 bp and 100 bp, respectively, from their highs in 2013. That said, the cost of bank finance remains high for the expansionary stance of monetary policy.

<sup>1</sup> For further details on developments in these spreads and their determinants, see I. Fuentes (2014), “A disaggregated analysis of the determinants of the increase in lending rate spreads in Spain during the crisis”, *Economic Bulletin*, October, Banco de España.

Likewise, the responses of credit institutions to the Bank Lending Survey reveal that, following their significant tightening between 2007 and 2012, credit standards remained virtually unchanged in 2013, with signs of some relaxation in certain segments beginning to be discerned from end-2013 (specifically in loans to SMEs and to households for consumption and other purposes). According to this same source, financing conditions, overall, also appear to have relaxed somewhat recently (see Panel 5 of the accompanying chart). Similar results are obtained from the latest wave of the survey on the access to finance of SMEs in the euro area (SAFE) conducted by the European Central Bank, which covers the period from October 2013 to March 2014. Thus, for the first time since the survey was first conducted in 2009, the proportion of Spanish SMEs perceiving an increase in the availability of bank loans exceeded that of those reporting a decrease in availability.<sup>2</sup>

In step with this improvement in access to bank finance, new lending to the private sector has been more dynamic since the start of 2014 in most segments. Thus, since the beginning of the year, the flow of new loans to households has displayed a positive year-on-year growth rate, both in the case of those for house purchase and those for consumption and other purposes. In the case of firms, the recovery is concentrated in the segment of loans of less than €1 million, while in those of more than €1 million (basically used by large firms, with access to other sources of financing apart from bank credit) the volume of new lending continues to decline, although in recent months at more moderate rates (see Panel 6 of the accompanying chart).

In short, the latest data show an improvement in the financing conditions of the public and private sectors. The declines in financing costs are most evident on wholesale markets, where the spreads over euro area averages have narrowed considerably, while in the case of bank loans they have, so far, been more modest. The improvement – albeit moderate – in bank financing conditions would have been conducive to a recovery in lending since the beginning of 2014.

<sup>2</sup> For further details, see the box (only available in Spanish) “Evolución reciente del acceso a la financiación bancaria de las pymes españolas”, in “Informe trimestral de la economía española”, *Boletín Económico*, July-August, Banco de España, 2014, pp. 56-57.

