QUARTERLY REPORT ON THE SPANISH ECONOMY
OVERVIEW

The Banco de España has begun a changeover to a new release calendar for its quarterly report on the Spanish economy. The next report will be published in December this year and will be accompanied by an update of the macroeconomic projections for the two-year period 2014-2015 (see Box 1).

The GDP estimate for Q3 is of a more preliminary nature than usual and is subject to particular difficulties owing to the statistical differences that may arise further to the changes in methodology and in the National Accounts (NA) base currently under way. The preliminary estimates of GDP for Q3 that the INE will publish in November will be compiled with the new NA methodological standard (see Box 2). As at the cut-off date for this report, the scale of the changes in the quarterly series that will make up the new base is not known, but changes in the profile of the series or in the composition of GDP might have significant effects on the macroeconomic projections, meaning that the figures discussed below should be interpreted with all due caution.

During Q3, the pattern of recovery in the Spanish economy that began to take shape over the course of the past year continued. Underpinning this pick-up were the progressive normalisation of financing conditions, continuing levels of relatively robust confidence (despite some adverse developments in the external environment) and the favourable labour market performance. Estimates made drawing on the conjunctural information available suggests that GDP growth in Q3 was 0.5%, making for five consecutive quarters of positive growth. In terms of the year-on-year rate of change, output is expected to have increased by 1.6%. On the expenditure side, domestic demand is estimated to have increased at a rate of 0.6% quarter-on-quarter, while the contribution of net external demand to the increase in output was slightly negative. In step with the pattern observed since late 2013, employment continued to improve, albeit at a slightly slower pace than in Q2. It posted an estimated quarter-on-quarter rate of 0.4%, placing the year-on-year increase in employment at 1.2%.

Again having regard to the above-mentioned caution, economic and financial developments in recent months, along with the changes observed in the technical assumptions used, confirm the scenario of gradual recovery anticipated in the July quarterly report, with estimated growth in GDP of 1.3% and 2% in 2014 and 2015, respectively. However, the risks of slippage from this central scenario have stepped up in recent months, owing to the worsening outlook for the international economy, in particular for the euro area.

The inflation rate, measured by the year-on-year rate of change in the CPI, was slightly negative (-0.3%) for Q3 as a whole. As had been forecast, this development was much influenced by the trajectory of the prices of the most volatile CPI components, which were affected by temporary comparison effects, most acutely so in the case of certain processed foods and fuel prices. Cheaper crude oil prices on international markets contributed to more moderate final prices of energy. That said, core inflation, proxied by the CPI excluding energy and unprocessed food prices, held at a rate of zero throughout Q3, as has been the case since May, which denotes a deeper-seated change in inflation dynamics in Spain. The aforementioned temporary effects lost momentum during the quarter, whereby the year-on-year rate of change in the CPI stood at -0.2% in September, 0.3 pp up on the August figure. The slowdown in prices in Spain during Q3 was sharper than that recorded

QUARTERLY PUBLICATION OF MACROECONOMIC PROJECTIONS AND CHANGE IN THE QUARTERLY REPORT CALENDAR

BOX 1

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.

in the euro area, meaning that the inflation differential became more favourable to Spain, widening to 0.6 percentage points (pp) in September.

The projections for inflation are very similar to those published in the July quarterly report. CPI inflation is forecast to run at very low rates over the projection horizon, averaging 0.1% and 0.7% in 2014 and 2015, respectively, reflecting the degree of slack that will still be present in the Spanish economy and moderate costs and margins. The risks of deviations from the inflation forecasts are skewed to the downside, matching the assessment made in July.

In the international arena, the world economy held on a path of recovery, although the performance of the different areas remained uneven and the factors of fragility in the economy have progressively increased. Among the developed economies, and set against the greater strength of the United States and the United Kingdom, there was a notable lack of dynamism in the euro area. As to the emerging economies, the pace of growth stabilised in the Asian economies while, conversely, the deceleration of activity in Latin America continued. Overall, world trade weakened in Q3. Inflation held at moderate rates, contained by the decline in commodities prices. The lack of inflationary pressures meant that the monetary policy of the main central banks remained expansionary, although at those where the recovery showed signs of greater robustness, the first steps began to be taken for the withdrawal of non-standard measures. The divergences in the outlook for growth had begun to become discernible also in exchange rate developments, in a climate of high volatility. Specifically, from June, the euro had depreciated almost 8% against the dollar, although this movement has more recently been partly corrected.

In the euro area the loss of momentum of the economic recovery, following flat activity in Q2, has led growth forecasts for the area to be reduced for 2014 and 2015. The main

MAIN SPANISH MACROECONOMIC AGGREGATES (a)

TABLE 1

	2012	2013	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3
National Accounts									
Quarter-on-quarter rate of change, unless otherwise indicated									
Gross domestic product	-1.6	-1.2	-0.3	-0.1	0.1	0.2	0.4	0.6	0.5
Private consumption	-2.8	-2.1	-0.4	0.1	0.5	0.5	0.5	0.7	0.5
Gross capital formation	-6.9	-5.2	-1.3	-2.1	0.5	0.9	-0.7	0.6	1.5
Domestic demand	-4.1	-2.7	-0.3	-0.6	0.5	-0.3	1.1	0.6	0.6
Exports	2.1	4.9	-4.5	7.0	0.6	0.8	-1.0	1.3	2.5
Imports	-5.7	0.4	-4.6	6.1	2.1	-0.6	0.9	1.5	3.1
Contribution of net external demand (b)	2.5	1.5	0.0	0.4	-0.5	0.5	-0.7	0.0	-0.1
Year-on-year rate of change									
GDP	-1.6	-1.2	-1.9	-1.6	-1.1	-0.2	0.5	1.2	1.6
Employment	-4.8	-3.4	-4.7	-4.0	-3.3	-1.6	-0.4	0.8	1.2
GDP deflator	0.0	0.6	1.2	0.7	0.4	0.2	-0.6	-0.4	-0.5
Price indicators (year-on-year change in end-of-period data)									
CPI	2.4	1.4	2.4	2.1	0.3	0.3	-0.1	0.1	-0.2
CPI excl. unprocessed food and energy	1.6	1.4	2.3	2.0	0.8	0.2	0.0	0.0	-0.1
HICP	2.4	1.5	2.6	2.2	0.5	0.3	-0.2	0.0	-0.3
HICP: differential with the euro area	-0.1	0.2	0.9	0.6	-0.6	-0.5	-0.7	-0.5	-0.6

SOURCES: INE and Banco de España.

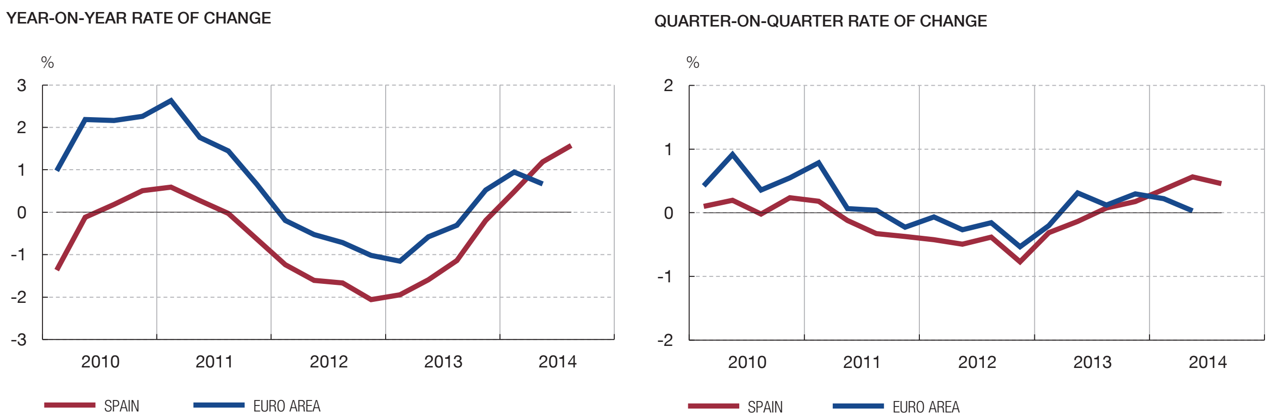
a Information available up to 16 October 2014.
b Contribution to the quarter-on-quarter rate of change of GDP in pp.

international agencies anticipate a scenario of weak recovery subject to significant risks of slippage. The prolongation of the declining course of the inflation rate over the past quarter, with the HICP posting a rate of change of 0.3% in September, has likewise determined a downward revision of the inflation outlook in the euro area. Indeed, inflation is estimated to stand over a very prolonged period at levels some distance off 2%, which is the medium-term monetary policy reference.

Against this background, the Governing Council of the ECB has approved in recent months new measures – standard and non-standard alike – reinforcing those agreed in June, with the aim of strengthening the expansionary nature of monetary policy, repairing its transmission mechanism and supporting the provision of credit to the private sector. On the standard front, the ECB, at its meeting on 4 September, cut the interest rate on its main refinancing operations by 10 bp to 0.05%, placing the respective rates on its deposit and marginal lending facilities at -0.20% and 0.30%, which for practical purposes exhausts the leeway available for standard monetary policy. In the non-standard arena, following the approval in June of the new targeted longer-term refinancing operation, the Governing Council announced two new private asset purchase programmes, specifically for covered bonds and asset-backed securities, the technical details of which were set out after the Governing Council meeting on 2 October.

This set of measures has prompted a significant easing of euro area monetary and financial conditions since June, through its impact on interest rates, which have fallen at all terms, and through the exchange rate of the euro, which has depreciated significantly in recent months. The degree of financial fragmentation has lessened in this period, although the uniform transmission across countries of monetary impulses continues to encounter certain difficulties. Nonetheless, in the days prior to the publication of this report, there has

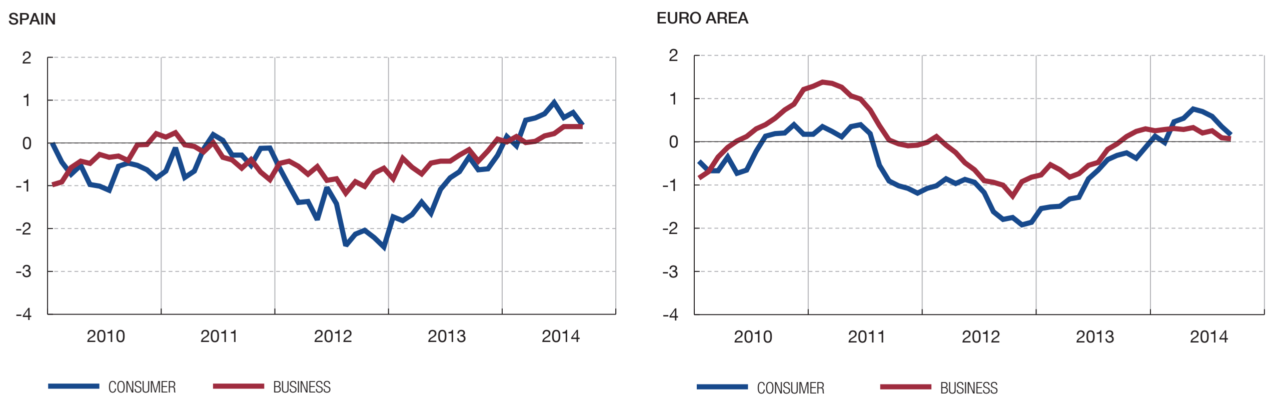
GROSS DOMESTIC PRODUCT (a) CHART 1



SOURCES: ECB, INE and Banco de España.

a Seasonally adjusted series.

CONFIDENCE INDICATORS (a) CHART 2



SOURCE: European Commission.

a Normalised confidence indicators (difference between the indicator and its mean value, divided by the standard deviation).

been a fresh bout of financial stability, linked partly to fears of a heightening of the risks surrounding the weak recovery, the scope of which it would be premature to assess.

Against this backdrop, financial conditions in Spain continued to improve during Q3, although they have also been affected by the latest tensions. There were fresh reductions in yields on Spanish government debt and in the spread over the German Bund. The risk premia on private fixed-income securities held at moderate levels, interbank market interest rates declined at all terms and credit institutions' cost of funding diminished. The decline in interest rates fed through to the cost of new loans extended to households and firms in virtually all segments, although they remain at relatively high levels given the monetary policy stance (see Box 6).

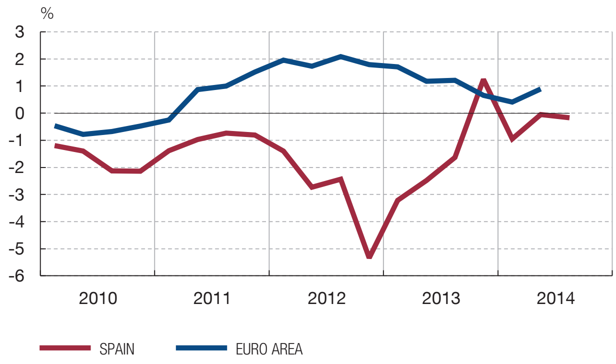
Despite the improvement in financial determinants and continuing high levels of confidence, the rate of increase of non-financial private-sector spending fell slightly in Q3. In the case of certain domestic demand components (chiefly business investment), the slowdown in spending plans might be beginning to reflect the deterioration of the external environment and doubts over the recovery of the euro area.

PRICES AND COSTS

CHART 3

HARMONISED INDICES OF CONSUMER PRICES (a)

UNIT LABOUR COSTS (b)



SOURCES: Eurostat, ECB and INE.

a Year-on-year rate of change.
b Per unit of output. Year-on-year rate of change calculated on the basis of seasonally adjusted series.

A somewhat lower increase in household consumption than that observed in the previous quarter is estimated (0.5% quarter-on-quarter), as part of a favourable trajectory. This behaviour would be underpinned by job creation and the continuing strength of expenditure in respect of certain durable consumption components. Disposable income increased moderately in the first half of the year and the rising path of household financial wealth continued.

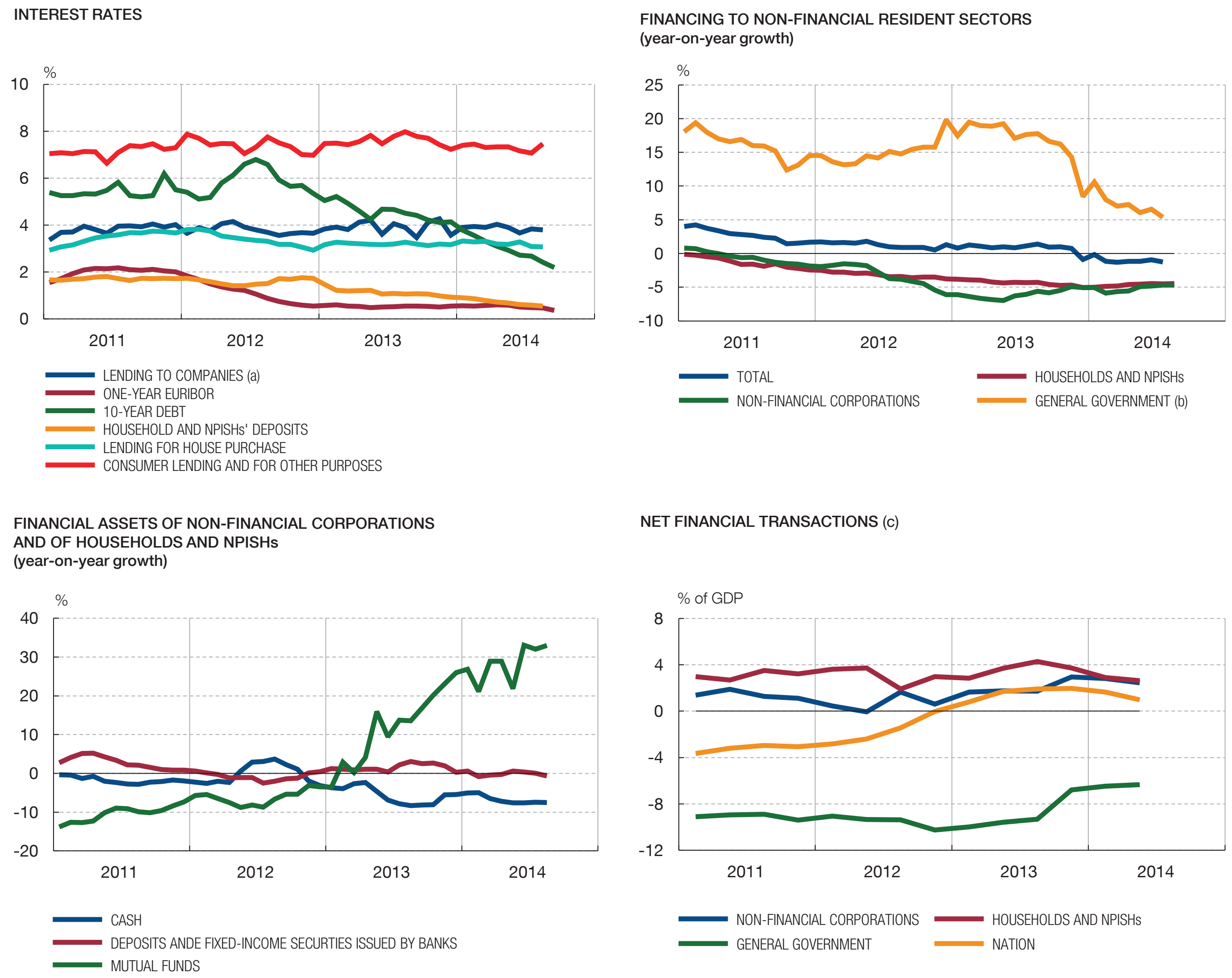
The rate of decline of residential investment slackened in Q3, in a setting in which building permits and the indicators of the demand for housing showed signs of stabilising after seven years of adjustment. There was something of a turnaround in real estate prices, which posted close-to-zero or slightly positive rates after more than six years of continuous decline. The year-on-year rate of the house price index (HPI) stood in Q2 at 0.8%, placing the cumulative adjustment in this indicator from its peak at 36% in nominal terms (44% in real terms). The improvement in the HPI was somewhat sharper than anticipated by other statistical sources, but all point in the same direction and, like the HPI, they signal uneven behaviour across the different regions.

In the corporate realm, productive investment is expected to have decelerated in Q3 as a result of the slowdown in investment in capital goods, since a small increase in investment in non-residential construction is estimated. This slowdown in firms' spending might be related to rising uncertainty over the foreign order book.

The contraction in lending to the household sector to August was on a similar scale to that of the preceding quarter (-4.5% year-on-year), contributing to a further decline in the ratio of household debt to household disposable income, the increase in the latter variable also contributing to this decline. In turn, the outstanding balance of credit financing to the corporate sector declined in Q3 at a similar rate to that in Q2 (-4.7% year-on-year in August), as did the sector's debt/GDP ratio. Notwithstanding, gross volumes of new lending business increased in most segments at a higher rate than in the previous quarter.

Based on still very partial information, general government conduct in Q3 showed a continuation of the path of containment of public spending and of the recovery in most taxes, linked to the performance of their bases, and in particular of domestic demand and employment. The aggregate deficit for central government, the regional governments and the Social Security

FINANCIAL INDICATORS OF THE SPANISH ECONOMY CHART 4



SOURCE: Banco de España.

a Weighted average of interest rates on various transactions grouped according to their volume. For loans exceeding €1 million, the interest rate is obtained by adding to the NDER (Narrowly Defined Effective Rate), which does not include commission and other expenses, a moving average of such expenses.
b Consolidated financing: net of securities and loans that are general government assets.
c Four-quarter cumulated data. The GDP series is seasonally adjusted.

system stood in the seven months to July at 3.9% of GDP, indicating that the achievement of the deficit target set (5.5% of GDP in 2014) will require perseverance in the adjustment over the remaining months of the year. The recently approved budgetary plan, which sets out the main thrust of the draft budget for central government and the regional governments, as dictated by the new European fiscal governance procedures, foresees the fulfilment of this target in 2014, albeit with a somewhat more negative than envisaged performance by revenue.

As did the draft State Budget, the plan establishes a general government deficit for 2015 of 4.2% of GDP, in line with the path of adjustment approved by the July 2013 European Summit. In turn, the official forecast of the public debt/GDP ratio for that year stands at 100.3%. The budgetary projections have been drawn up bearing in mind the tax changes that will come about further to the entry into force of the recently approved tax reform. They estimate that the forgone tax takings arising in this connection will be offset by a more favourable response by revenue to the projected economic recovery. The uncertainty surrounding the estimates of revenue and its response to the business cycle, in particular in a setting of tax changes, calls for watchfulness so as to allow for a reaction to potential budgetary slippage.

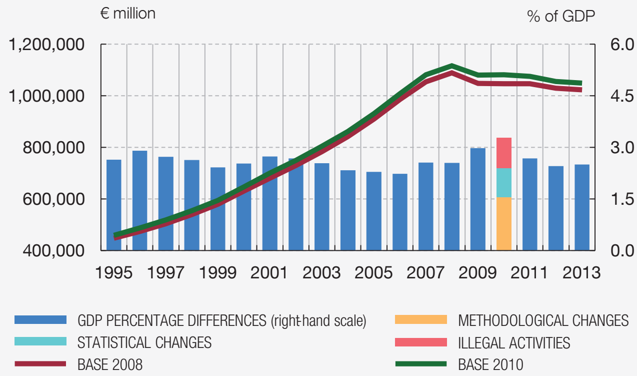
The INE (National Statistics Institute) has begun from end-September to publish the Spanish National Accounts (SNA) time series under the new 2010 base, in accordance with the EU's new obligatory methodological standard: the European System of National and Regional Accounts 2010 (ESA 2010). The new SNA 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.[1] 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

1 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

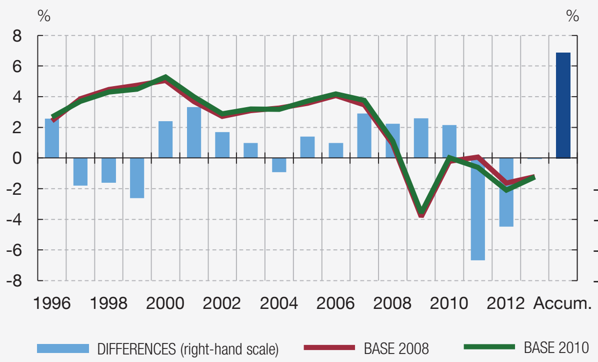


1.2 CHANGES IN NOMINAL GDP BY COMPONENT
Average 1995-2013

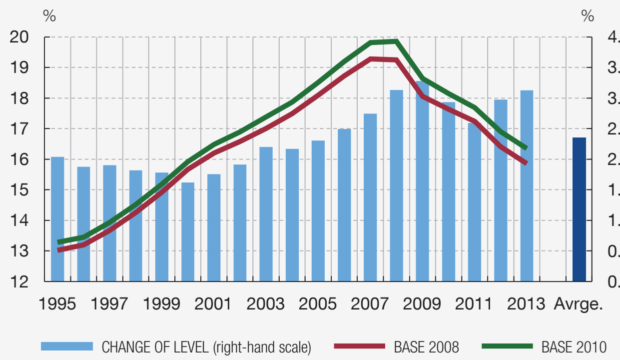
SOURCE: INE.

2 SPANISH NATIONAL ACCOUNTS. NEW BASE 2010

2.1 ANNUAL CHANGE IN GDP VOLUME



2.2 FULL-TIME EQUIVALENT JOBS



SOURCE: INE.

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).[2] 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

2 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 %

SPAIN	2013 % nom GDP (ESA 2010)	2011 New	2011 Diff.	2012 New	2012 Diff.	2013 New	2013 Diff.
Gross domestic product	**100.0**	**-0.6**	**-0.7**	**-2.1**	**-0.4**	**-1.2**	**0.0**
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
Contribution to GDP growth							
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.[3] 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.[4]

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
Gen. govt. balance	**-9.4**	**-9.4**	**-10.3**	**-6.8**	**0.2**	**0.1**	**0.3**	**0.3**
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
Balance adjusted for impact of assistance to financial institutions	**-9.4**	**-8.9**	**-6.6**	**-6.3**	**0.0**	**0.0**	**0.0**	**0.0**
Balance of gen. govt. sub-sectors								
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
Public debt (EDP)	**60.1**	**69.2**	**84.4**	**92.1**	**-1.6**	**-1.3**	**-1.5**	**-1.8**
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
Memorandum item								
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).

The latest developments in foreign trade in goods and services confirm the progressive reduction in the contribution of net external demand to GDP. Over the course of the past quarter, growth of goods exports was limited by the loss of momentum in our export markets owing to the progressive sluggishness of the euro area, while imports held at a high rate of increase. The pace of adjustment of the external imbalance has been slowing this year, as reflected in the non-financial accounts of the institutional sectors, which show net lending of the nation standing at 1.1% of GDP (in cumulated four-quarter terms to June), compared with 2.1% in 2013. More updated balance of payments figures, to July,[1] confirm this trajectory, which reflects the deterioration of the net current account balance (with a deficit of -€5.9 billion in the January-July period, compared with a surplus of €5.7 billion in the same period a year earlier), attributable to the increase in the deficit on the goods balance.

The rate of increase in employment eased slightly after the summer. The number of Social Security registrations increased at a seasonally adjusted quarter-on-quarter rate of 0.5% in Q3, compared with 0.7% the previous quarter. All the productive sectors except agriculture created net jobs, albeit unevenly: the increase in registrations was very moderate in industry and construction and higher in market services, as has been the case since late last year. The rate of change in registrations in terms of temporary employment contracts was higher than that for permanent contracts, although in September there was a year-on-year rise in permanent contract registrations for the first time since 2008. The number of new full-time registrations also rose slightly, in this case for the fourth month running. Registered unemployment continued to fall, posting a year-on-year decline of 5.9% in September.

The better performance of employment over the past year has been partly in response to continuing wage moderation. The average increase in wage rates to September stood at 0.6%, in line with 2013 and the recommendations of the Inter-Confederal Agreement on Collective Bargaining, which will expire at the end of the year. Looking ahead, the low-inflation environment in the euro area will complicate the achievement of additional gains in competitiveness; accordingly, it is essential to ensure labour costs are tailored to the specific situation of companies and to deepen structural reforms.

1 The July 2014 Balance of Payments publication was compiled adhering, for the first time, to the IMF Balance of Payments and International Investment Position Manual (6th edition) and fully incorporating a new data sources system; accordingly, the data for recent years have also been revised. For further details, see the press releases in this connection on the Banco de Espana website: http://www.bde.es/bde/es/Home/Noticias/.