ECONOMIC BULLETIN 1/2017

BANCO DE ESPAÑA
Eurosistema

CONTENTS

Quarterly report on the Spanish economy

1 Overview 3

2 External environment of the Spanish economy 26

3 The Spanish economy 37

Boxes

Box 1 Macroeconomic projections for the Spanish economy (2017-2019) 6

Box 2 The United States corporate income tax reform plan 11

Box 3 The rise in inflation in the euro area 14

Box 4 Inflation developments and outlook in Spain 16

Box 5 The effects of the recent rise in the minimum wage on employment and wages 18

Box 6 Recent changes in interest-rate reset terms for new housing loans 21

Box 7 Dynamism of non-resident tourism in 2016 and its determinants 23

Analytical Articles 51

Economic Notes 54

Banco de España publications 55

Acronyms and abbreviations 56

QUARTERLY REPORT ON THE SPANISH ECONOMY

1 OVERVIEW

The period elapsed since the publication of the previous *Quarterly Report,* on 21 December last year, has seen the continuation on the financial markets of the phase of risk appetite and low volatility that began in early November, following the US election result. These developments have been related to expectations of a rise in activity and inflation in the United States and, in general, the release of favourable economic indicators in most geographical areas. This has led to a rise in share prices and to a relative stability of yields on sovereign markets, accompanied, within the euro area, by a modest rise in the spreads over Germany, against a background of substantial political uncertainty. Oil prices, which had surged in the period immediately following the OPEC output reduction in late November, have – conversely – retreated quite considerably in the opening weeks of March.

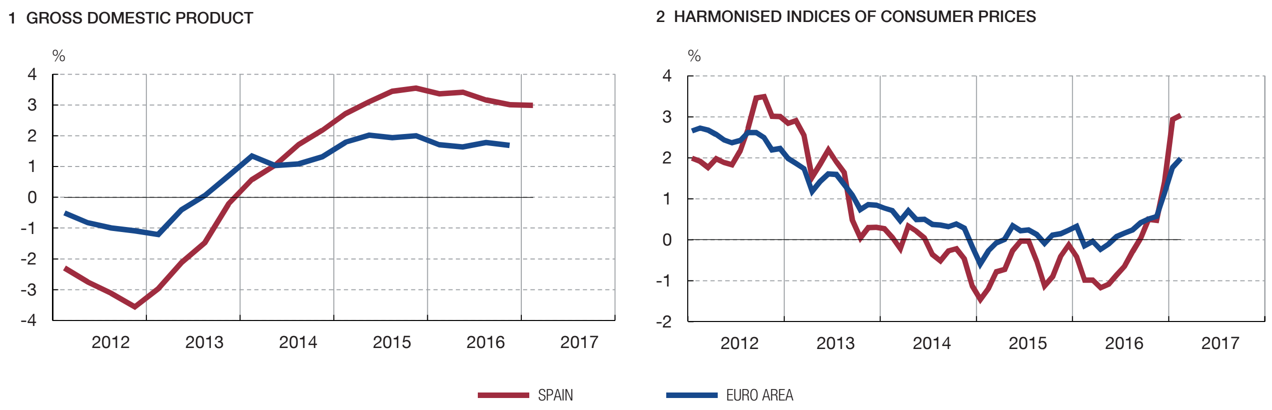
Judging by the indicators released during the quarter, which have proven more favourable than expected in the advanced and emerging economies alike, the growth of activity in the world economy appears to be accelerating in the opening months of the year. The future outlook is not free, however, from risks, as is discussed in detail in Box 1. In particular, the current boom on financial markets is itself a source of risk, insofar as it might be reflecting excessive confidence in the onset of a phase of higher growth and the disappearance of deflationary risks. Specifically, these market developments evidence, at least in part, expectations that the new US administration will pursue economic policies conducive to higher growth and inflation in the short term (and a potential fiscal expansion), apparently underestimating the influence of such policies on the pace of US monetary normalisation, along with other more harmful effects (such as the shift towards a diminished international mobility of goods and individuals). A potential acceleration in the pace of US monetary normalisation might, in particular, reverse recent capital inflows into the emerging economies. Among these, the continuation of the complex financial conditions in the Chinese economy remains a factor of risk.

In the euro area, the recent flow of conjunctural information has also generally been positive, more visibly so in the qualitative indicators, whereas confirmation from the quantitative indicators has not been complete. This information would suggest an improvement in activity, albeit in a setting of heightened political uncertainty associated with the United Kingdom's departure from the European Union and with imminent elections in some of the core European countries. Despite the rise in oil prices from their early-2016 low, private consumption apparently continues to be the driving force of the recovery in the euro area as a whole, a recovery increasingly becoming extensive to the different member states. As regards prices, the increase in overall inflation is so far not feeding through to core inflation. In any event, this acceleration in prices has been conducive to a pick-up in inflation expectations, making the possibility of a deflationary spiral more remote. Despite these favourable developments, the perception that it is not yet conclusive that inflation will undergo a sustained recovery led the ECB Governing Council in March to point out the need to retain the monetary stimuli.

In Spain, the latest information suggests a continuation of the expansion in activity at a rate which, in Q1, is expected to be 0.8% in quarter-on-quarter terms. The recovery remains underpinned by the strength of employment, which continues to make for buoyant domestic demand. This variable might, however, slow slightly in the short term owing to the squeeze on household income induced by the rise in inflation. Against this background, the contribution of the net external balance to GDP growth should continue to be positive, in the aforementioned setting of strengthening global activity and external market growth.

GROSS DOMESTIC PRODUCT AND CONSUMER PRICES (a)

CHART 1



SOURCES: Eurostat, INE and Banco de España.

a Year-on-year rate of change of seasonally adjusted series in the case of GDP and of original series in that of consumer price indices.

In the medium term, the projections set out in this *Quarterly Report* confirm the continuation of the Spanish economy's upturn, against the backdrop of the progress made in redressing imbalances and, in particular, in enhancing competitiveness. The rate of increase of GDP is, however, estimated to slow during the year as a result of higher oil prices and the expected neutral fiscal policy stance, following its expansionary gearing in the 2015-2016 period. Specifically, Spanish GDP is expected to grow 2.8% this year, easing to 2.3% and 2.1% in the two following years.

Turning to inflation, there has been a notable rise at the start of the year (up to 3% in January and February in terms of the year-on-year change in the CPI). This acceleration, in response above all to the strong increase witnessed in electricity prices and to the base effects of oil prices, has been sharper than that observed in other euro area economies. It is nonetheless expected that, in principle, this rise in inflation will be temporary, and start to tail off from the spring as the impact of the acceleration in the energy component fades. Thus, after increasing by 2.2% on average in 2017, it is estimated the CPI will slow to 1.3% and 1.5% in 2018 and 2019, respectively.

The developments described should be compatible with the continuation of the process to restore the main macro-financial equilibria. In this respect, the lower rate of increase of real GDP is expected to be offset by an acceleration in the deflator, meaning that nominal GDP should continue to grow at a rate somewhat higher than 3.5%, contributing to the ongoing deleveraging of the economy. Moreover, the projections shift to a later date, in part, the easing that appears to have been recently observed in the Spanish economy's import dependency. If this trend is confirmed, the substitution of domestic output for certain imports would contribute to mitigating the adverse impact of the recent hike in oil prices on the external balance which, in terms of the nation's net lending capacity, would hold at a level close to 2% of GDP. It is estimated that employment will grow by 2.6% this year and somewhat below 2% in the two following years, whereby the unemployment rate would fall to close to 14% at end-2019.

However, over the projection period public debt is expected to remain at very high levels, underscoring the need to resume fiscal consolidation, in order to attain a sustained reduction in public debt. This is particularly important both in terms of restoring leeway ahead of more adverse future growth scenarios and of reducing the economy's vulnerability to any future tightening of financial conditions.

MAIN MACROECONOMIC VARIABLES OF THE SPANISH ECONOMY (a) **TABLE 1**

			2016				2017
	2015	2016	Q1	Q2	Q3	Q4	Q1
National Accounts							
Quarter-on-quarter rates of change, unless otherwise indicated							
Gross domestic product	3.2	3.2	0.8	0.8	0.7	0.7	0.8
Contribution of national demand (b)	3.3	2.8	0.6	0.5	0.5	0.6	0.6
Contribution of net external demand (b)	-0.1	0.5	0.1	0.3	0.2	0.1	0.1
Year-on-year rates of change							
Employment	3.0	2.9	3.1	2.7	2.9	2.7	2.7
Price indicators (year-on-year change in end-of-period data) (c)							
CPI	-0.5	-0.2	-0.8	-0.8	0.2	1.6	3.0
CPI excl. energy and unprocessed food prices	0.6	0.8	1.1	0.6	0.8	1.0	1.0

SOURCES: INE and Banco de España.

a Information available to 24 March 2017.
b Contribution to the quarter-on-quarter rate of change of GDP (pp).
c Latest available figure for consumer price indices: Febuary 2017.

The *Report* contains 7 boxes in total. The first of these presents the Banco de España's new macroeconomic projections. There follows a description of the proposed US corporate income tax reform and a discussion of the possible consequences (Box 2). The apparently transitory nature of the recent rise in inflation in the euro area (Box 3) and in Spain (Box 4) is then assessed. There is a study of the potential impact on jobs and wages in Spain of the recent raising of the minimum wage in Box 5, and a further study of the relative weights of fixed and variable interest rate mortgages relative to total mortgage lending (and the attendant explanatory factors) in Box 6. Finally, Box 7 analyses the causes behind the recent dynamism of tourism and the prospect of this continuing in the future.

This box describes the main features of the latest update of the Banco de España's macroeconomic projections. Compared with the previous projections,[1] presented in December 2016, the latest ones include the impact of the changes in the technical assumptions observed between 17 November 2016 and 23 March 2017, with the exception of the assumptions relating to performance of the external markets where the cut-off date is 20 February 2017 (see Table 1).[2] The projections also incorporate all information known since the close of the previous projection exercise up to 24 March, including in particular the latest QNA (Quarterly National Accounts) estimates up to 2016 Q4.

The current projections envisage continued economic expansion in Spain throughout the three-year period 2017-2019. Growth will continue to be assisted by the competitive gains obtained since the onset of the crisis and the enduring favourable financial conditions, underpinned by the accommodative monetary policy stance. Together, these factors will allow the process of continued job creation to keep progressing. In addition, although some of these temporary growth drivers of the last two years, such as low oil prices or the expansionary fiscal policy, have tended to reverse, their lagged effects are still lending a certain amount of momentum to activity in the short term.

1 Macroeconomic projections for the Spanish economy (2016-2019): the Banco de España's contribution to the Eurosystem's December 2016 joint projection exercise.

2 The projections for the external markets (and for competitors' prices in their national currency) are taken from the March 2017 ECB staff macroeconomic projections for the euro area.

Based on our estimates, GDP could rise by 2.8% this year, before slipping to more moderate growth rates of 2.3% and 2.1%, respectively, in 2018 and 2019 (see Table 2), precisely as the effects of those temporary growth drivers wear off. As regards consumer prices, it is estimated that the annual rate of change of CPI will increase to 2.2% this year, driven by the uptick in the energy component that is largely related to the positive base effects linked to oil prices, although it is expected to decline moderately as the year progresses in line with oil prices on the futures markets.[3] When these base effects are exhausted at the beginning of 2018, the inflation rate will decelerate, to 1.4% in 2018, before rising slightly again, up to 1.6% in 2019, as a consequence of the decrease in cyclical slack in the economy.

Compared with the December 2016 projection exercise, the changes in the assumptions on which the projections are based are quite modest. The most notable change is the upturn in oil prices as a result of the agreements reached between the oil producing countries in late November and early December, shortly after the cut-off date for the last projections. Although crude prices have dropped again recently, the level projected for 2017 is still 6.3% higher, on average, than the previous projection.

The changes in the other assumptions are minimal. Specifically, the cost of credit financing for the private sector of the economy is

3 The reversal of a temporary increase in electricity prices at the beginning of the year also plays a key role in the gradual decline projected over the course of the year (see Box 4).

Table 1
INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS (a)

Annual rate of change, unless otherwise indicated

		March 2017 projections			Difference between current and December 2016 forecast		
	2016	2017	2018	2019	2017	2018	2019
International environment							
World output	2.9	3.3	3.5	3.6	0.1	0.1	0.1
World markets	1.7	3.5	3.9	3.9	0.4	-0.1	-0.1
Spain's export markets	2.2	3.7	3.7	3.6	0.5	0.0	0.0
Oil price in dollars (level)	44.0	52.4	52.1	51.9	3.1	-0.6	-2.7
Monetary and financial conditions							
Dollar/euro exchange rate (level)	1.11	1.07	1.07	1.07	-0.02	-0.02	-0.02
Nominal effective exchange rate against the non-euro area (b) (2000=100 and percentage differences)	113.6	112.0	112.2	112.2	-1.1	-1.0	-1.0
Short-term interest rate (3-month Euribor) (c)	-0.3	-0.3	-0.1	0.1	0.0	0.1	0.1
Long-term interest rate (10-year bond yield) (c)	1.4	1.8	2.2	2.6	-0.1	0.0	0.1

SOURCES: ECB and Banco de España.

a Assumptions cut-off date: 23 March 2017. The figures expressed as levels are annual averages; the figures expressed as rates are calculated on the basis of the related annual averages.
b A positive percentage change in the nominal effective exchange rate denotes an appreciation of the euro.
c For the projection period, the figures in the table are technical assumptions, prepared following the Eurosystem's methodology. These assumptions are based on futures market prices or on proxies thereof and should not be interpreted as a Eurosystem prediction as to the course of these variables.

expected to be very similar to that envisaged in the December 2016 projection exercise, in keeping with the steady paths traced by interbank market rates and government debt yields over the past quarter. Nor is the expected growth of Spain's export markets over the projection period significantly different from that considered in the previous projections. The changes are somewhat greater in the case of competitors' prices, which are expected to grow at a slightly higher pace than that envisaged in the December exercise, in line with the moderate depreciation in the euro exchange rate observed since then, and in relation to the fiscal policy assumptions.

The most significant change in the fiscal ambit is the inclusion of the changes in corporate income tax legislation contained in the package of extraordinary tax measures approved on 2 December 2016 by the Council of Ministers (Royal Decree-Law 3/2016) and ratified by Parliament on 15 December. Specifically, the government has quantified the impact of these measures, which seek to broaden the corporate income tax base (limiting tax losses and double taxation tax credit, reversing asset value impairment and placing limits on the ability to deduct own funds losses), at close to 0.5 pp of GDP. In addition, the measures approved include higher excise duties on alcoholic beverages and tobacco products and an increase in the maximum contribution base to the Social Security system.

At the cut-off date for the projection assumptions (which, as indicated above, was 23 March), the draft State and Social Security Budget for 2017 had not been submitted; the draft budget was finally approved by the Council of Ministers on 31 March.[4] Accordingly, like the December projections, these projections do not include the content of the draft budget. In consequence, also as in December, various technical assumptions have been used to estimate the tax variables. First, it has been assumed that the budget headings

4 The draft was submitted, therefore, between the cut-off date for the information used and the publication date of this Report, meaning that it was not possible to include the contents in the projections. In any event, the draft budget may naturally undergo changes in its passage through parliament.

Table 2
PROJECTION OF THE SPANISH ECONOMY'S MAIN MACROECONOMIC MAGNITUDES (a)

Annual rate of change in volume terms and as a % of GDP

		March 2017 projections			Difference between current and December 2016 forecasts		
	2016	2017	2018	2019	2017	2018	2019
GDP	3.2	2.8	2.3	2.1	0.3	0.2	0.1
Private consumption	3.2	2.4	1.6	1.5	0.3	0.1	0.0
Government consumption	0.8	0.8	0.8	0.8	0.0	0.0	-0.2
Gross fixed capital formation	3.1	3.3	4.4	4.4	-0.5	-0.2	0.0
Investment in capital goods	5.0	3.1	5.1	5.1	-2.0	-0.7	0.1
Investment in construction	1.9	3.7	4.4	4.5	0.1	0.0	0.0
Goods and services exports	4.4	6.1	4.8	4.8	1.9	0.3	0.2
Goods and services imports	3.3	5.2	4.4	4.4	1.5	-0.3	-0.2
National demand (contribution to growth)	2.8	2.3	2.0	1.9	0.1	0.0	0.0
Net external demand (contribution to growth)	0.5	0.5	0.3	0.2	0.2	0.2	0.1
Nominal GDP	3.6	3.8	3.6	3.7	0.4	-0.1	-0.2
GDP deflator	0.3	1.0	1.3	1.5	0.1	-0.3	-0.3
Consumer price index (CPI)	-0.2	2.2	1.4	1.6	0.5	-0.1	-0.1
CPI excluding unprocessed food and energy	0.8	1.1	1.5	1.8	0.1	0.1	0.0
Employment (equivalent jobs)	2.9	2.6	1.9	1.8	0.3	0.2	0.1
Unemployment rate (percentage of the labour force). End-of-period data	18.6	16.7	15.4	13.9	-0.3	-0.2	-0.5
Unemployment rate (percentage of the labour force). Average data	19.6	17.5	16.0	14.5	-0.2	-0.3	-0.5
Net lending (+)/ net borrowing (-) of the nation (% of GDP)	2.1	1.9	1.8	1.7	-0.1	-0.1	-0.1
General government net lending (+)/ net borrowing (-) (% of GDP) (b)	-4.5	-3.3	-2.8	-2.4	0.4	0.5	0.4

SOURCES: Banco de España and INE.
Latest QNA figure: 2016 Q4.

a Projections cut-off date: 24 March 2017.
b Does not include information on the draft State Budget for 2017 as it was submitted after the projections cut-off date.

subject to greater scope for discretion, notably including, by virtue of their volume, public investment and procurement, evolve in keeping with the nominal potential growth of the Spanish economy;[5] and second, that all other general government account items evolve, in the absence of measures, in keeping with their habitual determinants. Specifically, in the case of public revenue, irrespective of the inclusion of the legislative changes approved at end-2016, it has been assumed that it will grow in keeping with its tax bases, which chiefly depend on the macroeconomic environment. Likewise the expenditure items that offer less scope for discretion, such as pensions (where developments are essentially determined by the revaluation formula established by law, and by population ageing), unemployment benefits (which primarily depend on developments in unemployment) and the interest burden (affected by changes in government debt levels and interest rates).

Overall, it is estimated that the changes observed in the assumptions used in these and the December projections, considered in isolation, will result in a small upward revision in the rate of growth of GDP over the projection horizon. In the case of inflation, the new trajectory of oil prices dominates the revisions prompted by the changes in the assumptions. Prices have been revised up in 2017, in keeping with the higher crude prices on the spot markets compared with the levels considered in the December projections. However, for 2018 and 2019 the slope of the oil price curve on the futures markets has flattened somewhat; this will result in smaller percentage increases than envisaged in the December assumptions and, therefore, in a more moderate consumer price performance.

Nevertheless, although compared with the projections published in early December the positive impact on activity of the change in assumptions is very limited, GDP growth has been revised up by a larger amount (specifically by 0.3, 0.2 and 0.1 pp, respectively, in 2017, 2018 and 2019). The revision in the first half of 2017 is explained by the latest conjunctural information which points to a more upbeat pace of activity in the opening months of the year than projected in December. Notable in this respect are the strength of the survey-based soft data and of the monthly Social Security registrations in the first two months of 2017.

The revision made beyond the short-term is backed by two considerations. First, as indicated earlier, the assumptions relating to the performance of the external markets were prepared by ECB staff on the information available up to 20 February 2017, so they do not include the conjunctural information on the performance of the world economy released after that date and which, as indicated in Section 2 of this Report, is predominantly positive. Looking forward, this suggests that global activity and trade will both be stronger than was envisaged in the assumptions used in the projection exercise, prompting a more favourable assessment of the Spanish economy's external markets and, therefore, an upward revision of Spanish export growth.

5 On the latest in-house estimates, nominal potential growth will be around 2% in 2017 and slightly below 2.5% in 2018.

Second, competitiveness gains have been a key factor in the story of the economic upturn, but although they have played a crucial role in export sales, there was no clear proof that they had resulted in any import substitution. However, the latest QNA data, together with the microeconomic evidence available, are beginning to provide increasing signs that incipient import substitution is now under way. Accordingly, in this projection exercise, a somewhat less dynamic import performance than would derive from its traditional relationship with final demand has been considered.

As regards the composition of GDP on the demand side, it is estimated that GDP growth will essentially continue to be underpinned by the contribution of domestic demand, even though the slowdown in domestic demand observed in 2016 is expected to continue. Net external demand should continue to make a positive contribution to the increase in GDP over the entire projection horizon.

Among the components of domestic demand, in 2017 private consumption will be shaped by the decline in the rate of growth of households' real income, in a setting of higher inflation caused by the higher rates of change in the energy component. In this respect, the high-frequency indicators have started to point to the first signs of slowdown. However, as in the recent past, low interest rates, household wealth revaluation and, especially, the strength of job creation will continue to play an important role underpinning consumption. Given the duration of these factors and the temporary nature (in principle) of the rise in inflation, it is estimated that households will soften the impact on their real income in 2017, offsetting it in part by reducing their saving rate. In the rest of the projection horizon, household consumption is expected to grow at a slightly lower rate than household income, providing for a modest readjustment of saving. In consequence, consumption would increase by 2.4% in 2017 (0.8 pp less than in 2016), slowing to 1.6% in 2018 and 1.5% in 2019.

The high-frequency data on housing starts and housing market transactions point to a continuation of the gradual improvement in residential investment, which is expected to persist over the entire projection horizon on the back of a positive employment performance and the expectation that credit conditions will remain favourable and that housing prices will rise. As in recent years, however, the pace of the recovery is expected to be unequal across the country, stronger in the main cities and in the more tourism-oriented regions, although the latest figures available would seem to suggest that demand may decline somewhat in these regions as a consequence of the Brexit process. In any event, there has been no change in the assessment made in previous projection exercises that the scale of the strengthening of this demand component will be mitigated by the relatively low rate of new household formation.

Firms' expenditure on capital goods fell in the second half of 2016, most likely influenced by the negative impact of the new corporate income tax rules on firms' cash flows. The new rules provided, among other measures, for the reintroduction of (and increase in) minimum advance payments (in September) and a reduction in the limit on the offset of tax losses and a limit on tax credits to prevent international double taxation (in December). In the short term, investment by non-financial corporations is expected to grow moderately, driven by the continuation of these effects, although their impact will be predominantly temporary as in the main they are advance payments rather than a genuine increase in the tax burden. In a favourable setting for borrowing and against a backdrop of strong final demand, business investment, after slowing in 2017, is expected to pick up again thereafter.

In 2016 exports performed extremely well, posting a rate of growth that was significantly higher than that of the markets themselves and than that of euro area exports overall, assisted by the positive development of the tourism services component (see Box 7). Exports have been revised up for the projection period, in keeping with their recent favourable performance, with higher competitiveness gains relative to the rest of the world than in the previous forecasts and, especially, considering the favourable assessment of the performance of the external markets since the cut-off date for the information relating to this assumption (which, as indicated above, was 20 February). As regards the tourism component, the medium-term projection assumes no further increase over the projection period of the part of the recent flow of foreign visitors that is a consequence of heightened insecurity in certain alternative destinations. Moreover, as indicated earlier, the projections relating to imports incorporate the assessment that evidence is starting to emerge of an incipient process of import substitution, as yet of modest proportions, as a result of the competitive adjustment undertaken by the economy since the onset of the crisis.

Spain will continue to be a net lender to the rest of the world over the projection period. However, in 2017 the Spanish economy's surplus is expected to contract by 0.2 pp of GDP compared with the 2016 figure, as a consequence of higher oil prices, reaching 1.9% of GDP. For the following years it is estimated that the net lending position will hold steady around that level, in a setting in which a further deterioration in the terms of trade would offset the impact of the positive contribution of net exports to GDP growth.

Turning to the labour market, the projections envisage that employment generation will continue at a strong pace, giving rise to quite moderate increases in apparent labour productivity, in accordance with past experience of economic expansion in Spain.[6] Wage growth is expected to remain moderate, against the backdrop of a temporary rise in inflation in 2017, keeping unit labour costs contained and thus helping to sustain the process of employment creation. The increase in the employment rate will prompt a further decline in the unemployment rate, which by the end of the projection horizon is expected to be around 14%.

The rise in inflation, measured by the year-on-year rate of change in the CPI, observed since spring 2016 has gathered momentum in recent months, up to 3% in January and February (see Box 4). This is a consequence of the acceleration in the energy component, while the rate of growth of the CPI excluding unprocessed food and energy has continued to move, as it has since mid-2015, within a narrow band around a level just below 1%. On the assumptions underpinning these projections (and, in particular, given the expected trajectory of oil prices), the rates of change of the energy component should have peaked, decelerating as from March. In addition, it is assumed that, in line with past experience, the pass-through of higher crude (and electricity) prices to other prices in the economy and to wages will be modest, so the non-energy CPI should be scarcely affected. In this setting, it is estimated that the CPI excluding unprocessed food and energy will gradually rise, from 1.1% in 2017 to 1.8% in 2019, as the output gap gradually narrows and unit labour costs gradually rise. In turn, the rate of change of overall CPI is expected to accelerate to an average of 2.2% in 2017, as a consequence of the performance of the energy component, before decelerating to 1.4% in 2018 and 1.6% in 2019. The expected trajectory of energy prices, with slightly negative fluctuations in 2018 and 2019 as a result of the path expected to be followed by oil prices according to the futures markets, also explains the positive gap between core inflation, measured by the rate of change of the CPI excluding unprocessed food and energy, and overall inflation towards the end of the projection horizon.[7]

The risks surrounding these GDP growth projections are mainly on the downside. The sources of risk arise particularly in the Spanish economy's external context. Specifically, the recent positive trend in the financial markets seems to be discounting the start of a phase of higher growth and a disappearance of deflation risks, which may not be entirely founded. The current market buoyancy partly reflects the expectations that an expansionary fiscal policy will be implemented in the United States. However, this may either not be fully achieved, or may, through its possible interference with that country's monetary normalisation process, cause a reversal of recent capital flows into emerging economies.

In this regard, since last summer yields on securities traded on developed countries' sovereign debt markets have begun to rise, although it is still too early to determine what underlies this recent upward trend in interest rates or how far it will go. However, possible further tightening of the yield curve, particularly if it is sudden, could cause shocks on the financial markets, which, as mentioned, could, in particular, lead to an outflow of capital from those emerging economies with the highest levels of foreign currency debt, undermining activity in those countries and, consequently, demand for Spanish exports. Moreover, given the Spanish economy's high level of debt and its substantial foreign financing needs, the possible start of an upward cycle in interest rates could have a negative impact on some agents' income and the strength of their balance sheets.

The tendency to introduce protectionist barriers has also recently gained strength in some developed economies. The materialisation

6 Box 5 analyses the potential impact of the recently approved increase in the national minimum wage.

7 A difference that is also attributable, in part, to the projected slowdown, from the current high rates of growth, in the unprocessed food component.

of these incipient trends would have an adverse effect on global trade, which could be particularly detrimental to economies such as Spain's, whose recovery has relied heavily on export growth and which is still in the process of correcting its external imbalance.

Additionally, much uncertainty remains about the possible implications of the United Kingdom's exit from the EU, in a context in which the duration and outcome of the bilateral negotiations are as yet unknown. In this regard, the most recent data show little sign of any specific negative impact of the depreciation in sterling on the Spanish economy, except in the case of house purchases by British nationals, which slowed in the second half of 2016. Nevertheless, it cannot be ruled out that the uncertainty over the final shape of the relationship between the EU and the United Kingdom while negotiations are under way, or a potential negative effect on volumes of goods and services transactions once negotiations have been concluded, could have an adverse effect on Britain's imports from other European countries, which in Spain's case, could be exacerbated by the high level of exposure of its tourism and non-tourism service exports.[8]

Meanwhile the Chinese authorities are facing a difficult balancing act as they try to support activity by means of credit expansion, while seeking to rein in high levels of financial and non-financial private sector debt. A hypothetical disorderly correction of the imbalances over the projection horizon could put China's financial stability at risk and cause a sharp downturn in the country's activity, with adverse effects for the global economy as a whole.

Finally, the recent fragile growth in activity in some euro area countries has caused a weakening of some financial institutions' profitability. If this situation were to become more pronounced or excessively prolonged, it could have adverse impacts on their capacity to extend credit and, ultimately, on the stability of some parts of the European financial system, with the consequent negative impact on borrowing conditions and agents' confidence.

On the domestic front, last November a new government was formed following a lengthy caretaker period. This has reduced the risks associated with the potential negative impact of the provisional status of the executive branch on legislative activity, and on the budgetary process in particular. However, the uncertainty has not been entirely dispelled, given the lack of a stable parliamentary majority. In this regard, it should be recalled that the improvement in the Spanish economy's medium and long-term outlook for growth in activity and employment still relies on various structural reforms being pursued further. Any delay in implementing these reforms, or a possible reversal of those introduced since the start of the crisis, could have a negative effect on investor confidence in the Spanish economy and harm growth prospects.

In the fiscal policy sphere, the outstanding adjustment needed to restore the public finances to health is still significant. This is despite the current context of rapid growth in activity and low interest rates, highlighting the need to return to the path of budgetary consolidation, taking advantage of the current relatively favourable conditions to reduce the structural government deficit and public-debt-to-GDP ratio. A budgetary plan of this kind can entail costs in terms of short-term economic growth. However, it is necessary to moderate future financial costs associated with the public debt, reduce the economy's vulnerability to a potential tightening of financial conditions and restore a degree of flexibility to fiscal policy so it can respond to possible shocks.

Lastly, the historical evidence seems to suggest that the extent to which price changes in the energy component are passed through to wages and other prices in the economy would be relatively modest, in both Spain and the euro area. Nevertheless, due to the higher degree of energy dependence (see Box 4), and the presence of indexation clauses in collective bargaining agreements (despite their significant reduction in recent years; see Box 5), the Spanish economy may be more prone than its euro area partners to generate indirect and second-round inflationary effects on consumer prices and wages. Against this backdrop, the priority remains averting the risk of the recent upturn in inflation having a bigger spillover effect on labour costs and final prices in Spain than in other euro area countries, as this would cause a partial reversal of the competitiveness gains achieved in recent years.

The balance of risks regarding inflation is also moderately negative. On the external front, the downside risks derive from the possible materialisation of the negative events identified in relation to activity. From the domestic standpoint, the accumulated evidence from the past two years indicates persistent difficulty in translating a reduction in the cyclical slack in the economy into more dynamic price behaviour. This suggests that the anticipated upturn in the CPI excluding unprocessed food and energy over the projection period as a consequence of the additional increase in the degree of utilisation of the economy's resources may not fully materialise. Lastly, as discussed above, a risk of the opposite sign would be the possibility that the recent oil price rise be passed on to prices of other goods and services more strongly than suggested by the historical evidence. More generally, the partial reversal in early March of last autumn's oil price rise, against the backdrop of doubts as to how the various market suppliers will act, adds an extra element of uncertainty to these inflation projections.

8 See Box 5 in the Banco de España's September 2016 Quarterly report on the Spanish economy.

Last June the Republican majority in the United States House of Representatives presented a plan for an overhaul of the country's tax system. The feature of the plan that has sparked off most debate is the reform of corporate income tax.[1] Enacting the proposals for this tax would result in a radical shift in philosophy, turning this tax into a destination-based cash-flow tax (DBCFT), levied on cash flow generated by companies' operations in the United States.[2]

The plan aims to simplify the existing corporate income tax and eliminate the alleged discrimination against goods manufactured in the United States by countries whose tax systems include a form of value-added tax (VAT).[3] Key features of the reform are:

— The new tax would be levied on the cash flow generated by companies in the United States, with no deduction for purchases from non-residents (imports) but excluding income from sales to non-residents (exports) from taxable income. Corporate income tax is currently levied on US companies' profits regardless of where they are generated, although taxes on profits paid in other countries can be deducted in the United States.

— Reduction of the federal tax rate from 35% to 20%. The current rate is one of the highest among OECD countries, although there are numerous exemptions (such that the effective rate is 28.1%)[4, 5] and is not applicable to many businesses whose owners opt for their income to be taxed under personal income tax.

— Immediate total deduction (expensing) of the cost of capital investments. Nevertheless, deductions for capital goods acquired in the past that remain pending depreciation and amortisation would continue to be governed by the existing rules.

— Elimination of the deductibility of interest payments on all new loans. Consequently, interest on outstanding debt would continue to be deductible. The aim would be for funding decisions to be determined on the basis of economic rather than fiscal reasons.

— Limitation of the deduction for losses to 90% of taxable income, rather than the current 100%, with the possibility of indefinite carry forwards, updated at an appropriate rate. Also, elimination of all deductions, except those for R&D expenditure.

— Repatriation of accumulated foreign profits at a tax rate of 8.75% on cash profits or 3.5% on other profits, with the liability payable over eight years. It is estimated that US subsidiaries currently hold some $2 trillion in profits abroad. If companies decided to repatriate these profits under current legislation they would have to pay a tax rate of 35%, deducting taxes paid in the country in which the profits were generated from this amount.

Table 1 shows the estimate of the static[6] effect of this proposal on tax revenues over the coming decade (according to calculations by the Tax Policy Center)[7] broken down by the different aspects of the reform. The most significant impacts come from the revenue shortfall caused by the lower tax rate and the increase in revenue due to the "border adjustment", resulting from the fact that as the United States has a trade deficit, the increased revenues from taxes on imports would outweigh the drop in revenue caused by excluding exports from the tax base. The effect of eliminating the deductibility of interest is relatively modest as it only affects new debt and the calculations refer to the coming decade. On these estimates, the total net effect on tax revenues would be negative.

There is considerable uncertainty, however, as to whether the plan will ultimately be enacted, as it may lack sufficient support in the US congress. The plan also faces other obstacles: the highly heterogeneous effects on specific sectors may in some cases be negative, and parts of it may be on a collision course with World Trade Organization (WTO) rules.

To illustrate the controversy raised by the proposal in the US business world, due to the widely varying effects the reform could have on different types of companies, Table 2 shows the estimated static impact on post-tax profits and the taxes collected in two extreme hypothetical cases: a company highly dependent on imported inputs selling entirely to the domestic market, and an export-driven firm that does not buy inputs from abroad. Assuming that exchange rates remain constant, changes in post-tax profits show how the Republican proposal adversely affects imported goods, whose total value is considered taxable. By contrast, wage costs are tax deductible in the case of goods produced in the United States and exports are also excluded from the tax.[8] As a result, the hardest-hit companies would be those manufacturing

1 Among other measures, the reform also envisages changes to personal income tax, establishing three tax brackets instead of the current seven, and cutting the top tax rate from 39.6% to 33%. Half of all income from interest and dividends, as well as capital gains, would be exempt, and the top rate on this form of income would be 16.5%, instead of the 23.8% currently applicable to dividends and capital gains, and the 43.4% applicable to interest payments.

2 The source usually cited as the inspiration for this proposal is A. Auerbach (2010), "A modern corporate tax", Center for American Progress/The Hamilton Project.

3 The United States tax system does not envisage a tax equivalent to VAT. All states (except five) and some local governments collect taxes on the sale of final goods and services.

4 Seehttp://www.actontaxreform.com/wp-content/uploads/2016/09/International-Comparison-of-Effective-Corporate-Tax-Rates_FINAL_20160926.pdf, which includes a comparison of various studies on effective corporate income tax rates. The figure mentioned in the text comes from a study by the World Bank using 2014 data.

5 Some states have also established a complementary corporate income tax, which, according to 2012 estimates by the OECD, raises the effective federal tax rate by 4.1 pp.

6 The concept of «static effect» refers to the case where economic agents do not react to policy changes. This criterion is commonly used by the US Congressional Budget Office as a starting point in its analysis of the impact of legislative changes.

7 The Tax Policy Center is a think-tank that aims to provide independent analyses of tax issues. Document available at: http://www.taxpolicycenter.org/sites/default/files/alfresco/publication-pdfs/2000923-An-Analysis-of-the-House-GOP-Tax-Plan.pdf.

8 The World Trade Organization allows the use of border adjustments for indirect taxes, such as VAT, but not for direct taxes, such as corporate income tax. Therefore, numerous cases could be brought before the WTO by other countries on the basis of unequal treatment of the costs of internal and external inputs. Some countries may also opt to raise tariffs on US products.

Table 1
COMPARISON BETWEEN REPUBLICAN PROPOSAL AND CURRENT CORPORATE INCOME TAX LEGISLATION AND EFFECTS ON TAX REVENUE

	Current legislation	Republican proposal
Tax rate	35%	20%
Effect on tax revenue (10 years, $ billion)		-1,850
Border adjustment/tax base	No/total company profit	Cost of imported goods non-deductible and export revenue excluded/cash flow
Effect on tax revenue (10 years, $ billion)		+1,200
Profits abroad after entry into force of proposal (tax rate)	35% upon repatriation (taxes paid where subsidiary is located tax deductible)	0%
Effect on tax revenue (10 years, $ billion)		-90
Repatriation of retained foreign earnings built up before entry into force of proposal (tax rate)	35% upon repatriation (taxes paid where subsidiary is located tax deductible)	8.75% on liquidity positions; 3.5% on remainder
Effect on tax revenue (10 years, $ billion)		140
New capital expenditure	(Accelerated) depreciation over several years	100% depreciation at time of investment
Effect on tax revenue (10 years, $ billion)		-450
Elimination of exemptions	No	Yes
Effect on tax revenue (10 years, $ billion)		170
Net effect		
Effect on tax revenue (10 years, $ billion)		-880

SOURCES: Tax Policy Center and Banco de España.

Table 2
EXAMPLE UNDER DIFFERENT CORPORATE INCOME TAX REGIMES AND FOR DIFFERENT TYPES OF FIRMS (MANUFACTURING EXPORTERS AND RETAIL IMPORTERS)

	Sales in USA (I)	Exports (II)	Revenues (I + II)	Imports (III)	Costs (excluding imports) (IV)	Tax base	Tax revenues (tax rate x tax base)	Post-tax profits
Current corporate income tax (tax rate = 35%)						(I + II – III – IV)		
Manufacturing exporter	400	600	1,000	0	800	200	70	130
Retail importer	1,000	0	1,000	400	400	200	70	130
Current corporate income tax (but with tax rate = 20%)						(I + II – III – IV)		
Manufacturing exporter	400	600	1,000	0	800	200	40	160
Retail importer	1,000	0	1,000	400	400	200	40	160
Republican proposal (tax rate = 20%)						(I – IV)		
Manufacturing exporter	400	600	1,000	0	800	-400	-80	280
Retail importer	1,000	0	1,000	400	400	600	120	80

SOURCE: Banco de España.

products with a large import content and low proportion of wage costs, such as those in the automotive sector.

The anticipated effect of the introduction of this corporate income tax on the exchange rate is also a matter of considerable debate. Some people think that this measure could cause the dollar to rise by as much as the tax rate,[9] such that companies' costs would remain unchanged. In this case, there would be no competitiveness gains associated with changes in the terms of trade or any sector-specific differences in impact. However, although it is not the same type of tax, past experience from the introduction of VAT in certain countries has showed that adjustments in the nominal exchange rate are not immediate and prices are affected over the relatively long term.[10] There may, therefore, be transitory competitiveness gains that might improve the trade balance and, possibly, lead to a degree of sectoral reallocation of activity. This is without taking into account possible trade retaliation by other countries under the aegis of the WTO.

9 For example, let us suppose that the exchange rate between the dollar and the euro is parity ($1/€1) and that an importer purchases a product outside the United States at a price of €1. As a result of the tax the cost for the importer would be $1.2 (given that the tax rate is 20%). For the price to remain the same in dollar terms, the exchange rate would therefore need to rise to $0.83/€1.

10 See C. Freund y J. Gagnon (2017), "Consumption taxes, real exchange rates, and trade balance", Peterson Institute for International Economics, https://piie.com/system/files/documents/gagnon20170201ppt.pdf.

Following a long period of very low inflation rates, the pace of price increases in the euro area has stepped up notably in recent months, taking inflation to 2% in February. From the standpoint of monetary policy, and its medium-term inflation objective of close to but below 2%, it is crucial to disentangle the determinants of these developments and, in the words of the ECB president, to ascertain the extent to which this increase is self-sustaining, i.e. whether it would persist in the medium term, in a scenario in which the strong monetary stimulus introduced by the ECB in recent years were not required.

As can be seen in Chart 1, which depicts the contribution of the different components to the increase in the inflation rate since 2016, the recent dynamics would be attributable to two factors: first, the so-called comparison (or base) effects, namely the comparison with the abnormally low oil prices prevailing in early 2016; and further, certain surprises in the performance of the most volatile price components, in particular energy and food. In contrast with this behaviour, the least volatile inflation components have continued to post moderate and relatively stable growth.

The comparison effects largely explain both the recent behaviour and expected future pattern of euro area inflation in the coming months, whereby prices are estimated to grow at a rate close to 2% during the first half of 2017, to fall back subsequently, if there are no further surprises, to rates of around 1.5% (see Chart 2).

In the medium term several factors reinforce the idea that the current rise might be eminently transitory. Firstly, the increase in energy costs and the more recent depreciation of the euro have admittedly prompted an increase in the costs borne by firms in the early stages of production; but the pass-through of these pressures to producer and consumer prices appears to be very limited at present (see Chart 3). According to purchasing manager surveys, these dynamics would be in response to the fact that they still believe the situation to be one of moderate demand in a highly competitive environment.

Secondly, wage restraint remains prevalent in the euro area, even in those economies further along the cycle. The econometric models available – based mainly on the Phillips curve notion of wages, which positively relates wages with some measure of the economy's cyclical position – suggests that this restraint will continue for some time, in an environment in which the degree of slack still present in European labour markets will foreseeably diminish only at a very gradual pace (see Chart 4). Other factors also suggest that the risk of the rise in oil prices giving rise to second-round effects is limited at present. Hence, according to the data gathered by the ESCB Wage Dynamics Network[1], the number of firms that include indexation clauses in their collective bargaining agreements has fallen considerably across the whole of the euro area. For instance, in the case of France, the proportion of firms that adapted their wages to inflation before 2010 stood at 53%, while during the 2010-2013 period this percentage, according to the WDN, fell to 41.5%, mainly because collective agreements did not contain an indexation clause.

Finally, the indicators of inflation expectations estimated on the basis of market data are still consistent with relatively slow convergence towards levels closer to the medium-term reference of 2% (see Chart 5). It is nonetheless true that the rise in these indicators since last summer suggests that the risk of deflationary scenarios has declined considerably.

To conclude, there are two factors underpinning recent inflation dynamics: a leading component, the so-called base effects arising from the downward dynamics of oil prices in early 2016; and the *surprises* that have positively affected the prices of the most volatile components of the index. In the absence of second-round effects, which, moreover, may be expected to be limited in the current context of moderate growth and the persistence of a negative output gap, these factors are of an eminently transitory nature and, therefore, have very limited implications for the inflation outlook in the medium term, this term being the relevant one from the monetary policy standpoint to assess the price stability objective. This is duly reflected in the ECB's new forecasting exercise, which revises the December exercise's short-term inflation forecasts but holds the inflation levels for 2018 and 2019 at very similar levels to those projected at the end of last year (1.8% and 1.7%, respectively).

1 See http://www.ecb.europa.eu/pub/economic-research/research-networks/html/researcher_wdn.en.html.

Chart 1
CONTRIBUTIONS TO THE RISE IN INFLATION

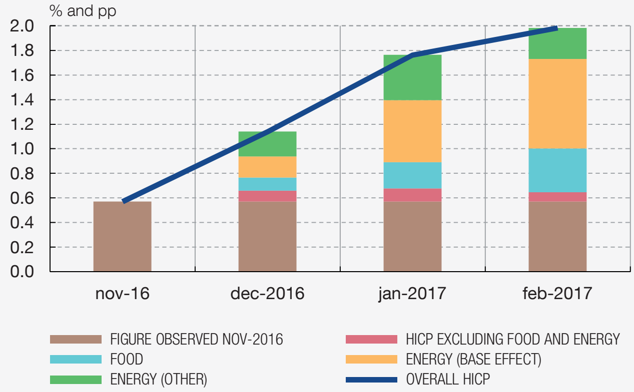


Chart 2
EURO AREA INFLATION FORECASTS

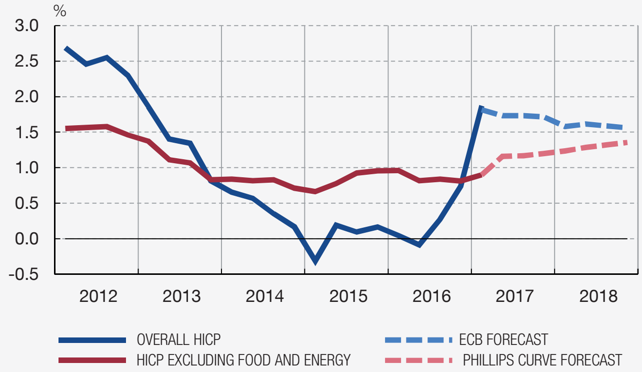


Chart 3
INFLATION INDICATORS. YEAR-ON-YEAR RATES OF CHANGE

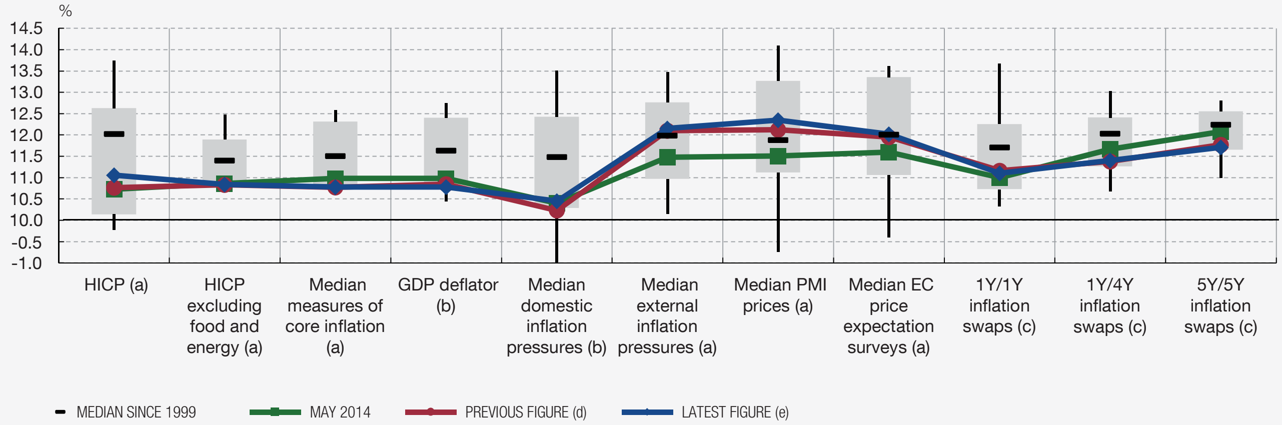


Chart 4
GROWTH IN COMPENSATION PER EMPLOYEE
(Deviations from the average of the period) Decomposition based on Phillips curve

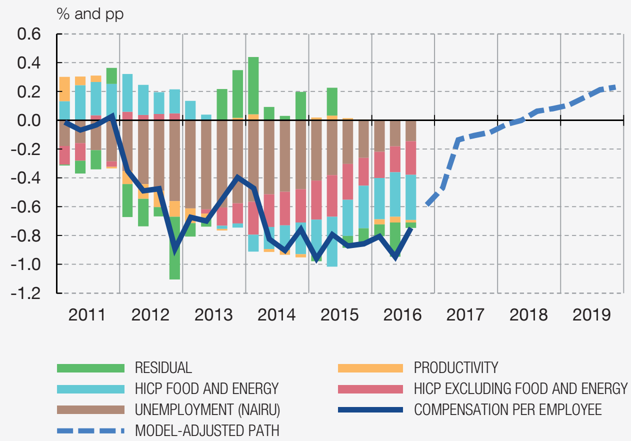
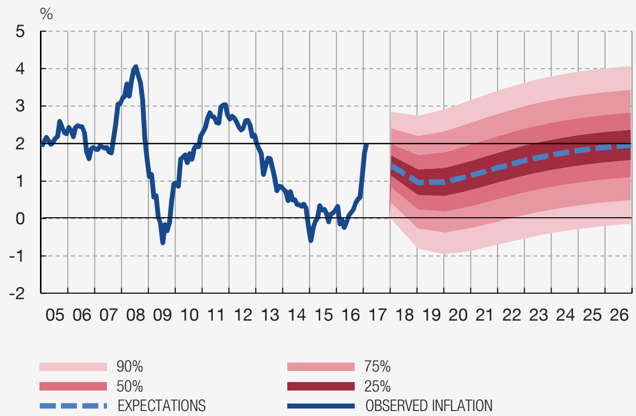


Chart 5
HICP AND EXPECTATIONS BASED ON INFLATION SWAPS



SOURCES: Eurostat, ECB and Banco de España.

- **a** 6-month moving average.
- **b** 2-quarter moving average.
- **c** 5-day moving average.
- **d** January 2017 for the monthly series, 2016 Q3 for the quarterly series and 16 February 2017 for the daily series.
- **e** February 2017 for the monthly series, 2016 Q4 for the quarterly series and 16 March 2017 for the daily series.

Inflation in Spain – proxied by the growth rate of the consumer price index (CPI) – has quickened notably in recent months. Specifically, in February 2017 it stood at 3%, up 4.1 pp on the April 2016 figure, the minimum rate for last year, and significantly higher than the averages for the last three years, in which the CPI posted negative rates of change.

To analyse inflation in recent years it is worth making an accounting decomposition of the annual CPI rate, distinguishing between the contributions to the overall index of, on one hand, the prices of energy products and, on the other, the contribution of other goods and services. As can be seen in Chart 1, the negative rate of change of the overall index from December 2014 to August 2016 is due, above all, to the downward trajectory of the energy component, while the contribution of the other products is positive. In this respect, the change in the overall index excluding energy moved on a slightly rising trajectory in recent years, posting increases of 0.7% and 0.9% on average in 2015 and 2016, respectively, and of 1.3% in February 2017.

The path of oil prices over the course of 2016, which feeds into the energy component of the CPI, largely helps explain the increase observed in the year-on-year rate of the overall CPI in the opening months of 2017, and why a subsequent slowdown over the rest of the year is expected. As Chart 2 shows, the level of oil prices touched bottom in the opening months of 2016, increasing thereafter, in particular in the closing months of the year, following the agreement by OPEC and other producers to reduce supply. However, based on futures market prices, oil is expected to stabilise at levels similar to current ones over the rest of 2017 (dotted line in Chart 2). This price pattern makes for a path of year-on-year rates in 2017 that peaks early in the year, and slows substantially in the following months (see Chart 2 once again), depicting what is known as a comparison effect[1] (or base effect). Given the high speed of transmission of crude oil price movements to those of oil derivatives, such as petrol and diesel, this moderation would likewise affect the year-on-year change in the energy component of the CPI. The overall index, meanwhile, also ultimately follows this profile.

Chart 3 shows a decomposition of the year-on-year rate of the overall CPI which highlights the significance of the comparison

1 Banco de España (2016) "The recent rise in inflation in Spain and the short-term outlook". Box 3. *Quarterly report on the Spanish economy.* December.

Chart 1
CONTRIBUTIONS TO THE YEAR-ON-YEAR RATE OF THE OVERALL CPI

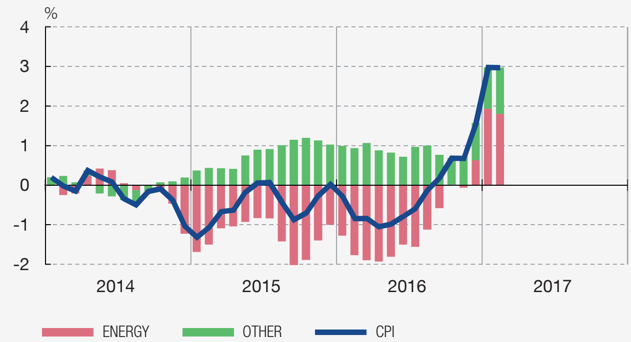


Chart 2
OIL PRICE (a)
Euro/barrel

Chart 3
CURRENT AND BASE EFFECTS ON THE YEAR-ON-YEAR RATE OF THE CPI (a)

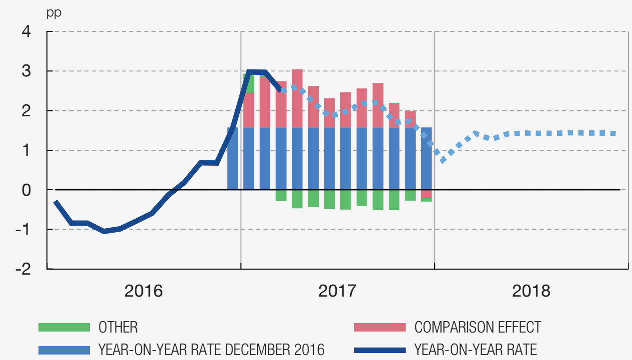
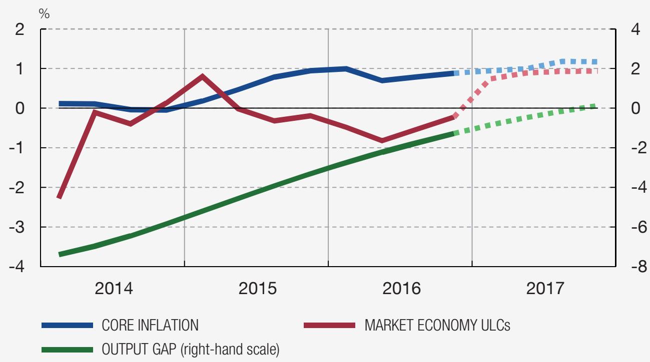


Chart 4
CORE INFLATION, OUTPUT GAP AND MARKET ECONOMY UNIT LABOUR COSTS (a) (b)



SOURCES: INE, Reuters and Banco de España.

a The dotted lines depict the forecasts.
b CORE INFLATION: CPI excluding energy and unprocessed food. OUTPUT GAP: percentage difference between actual and potential GDP. ULCs: unit labour costs.

effect when explaining the rise witnessed in January-February, along with the subsequent slowdown projected for the rest of 2017. In 2018, once this effect has petered out, the overall CPI is expected to stand below 1.5%.

Beyond these significant direct effects that crude oil price dynamics exert on the overall CPI, the evidence available to date for the Spanish economy suggests that their possible pass-through to the prices of non-energy products, i.e. indirect[2] and second-round[3] effects, would be limited.[4] In the specific case of wages, the risk of an increase in oil prices giving rise to second-round effects might be limited at this point in time. In particular, on the evidence provided by the ESCB Wage Dynamics Network[5], the number of firms with indexation clauses in their collective bargaining agreements has fallen during the crisis. Similarly, the proportion of workers covered by this type of clause in agreements signed in 2016 stood at 20%[6], compared with figures of close to 70% ten years ago.

In any event, although the empirical evidence to date does not reveal notable indirect and second-round effects, it cannot be ruled out that these may arise at some point, especially if there are further upward oil price shocks. In this respect, since Spain is a net oil importer, a rise in price for this commodity represents an income transfer from Spanish households and firms to foreign producers. Accordingly, any attempt through price and wage increases to avoid the adjustment to real incomes that the higher oil price entails will lead to persistently higher inflation rates, with the subsequent loss of competitiveness, employment and activity.

Against this background, the consumer price differential between Spain and the euro area has widened recently, turning positive since December last year. This differential increases in tandem with oil prices as a result of two factors. First, oil derivatives have a greater weight in the Spanish household consumption basket relative to the related products in the euro area. And further, the tax burden of oil derivatives is less in Spain than in the euro area, essentially because of the lower specific duties involved, which are of a fixed amount. This means that, in the face of a given change in the cost of this commodity, public sale prices of oil products react to a greater extent in Spain than in the euro area.

Finally, Chart 4 shows forecasts for core inflation (CPI excluding energy and unprocessed food)[7] for the coming months, which suggest a continuation of the very gradual growing trend of recovery posted by this indicator in the most recent period. This would be consistent with the continuation of the upturn in the Spanish economy, which would entail a progressive closing of the output gap and a reduction in unemployment during 2017, and with a modest increase in unit labour costs, under the assumption that indirect and second-round effects are moderate, in step with past patterns.

2 Indirect effects are those induced by changes in firms' marginal costs owing to a change in oil prices.

3 Consumer price changes derived from direct and indirect effects may entail revisions of agents' inflation expectations, which feed through to final prices, as a result of the determination of margins or wage bargaining.

4 In this respect, the simulations conducted with the Quarterly Macroeconomic Model of the Banco de España (MTBE) show that the influence on core inflation of changes in oil prices is very limited, which is consistent with modest indirect effects of crude oil price changes on inflation. For a fuller description of the evidence available, see Álvarez, L.J.; S. Hurtado; I. Sánchez and C. Thomas (2011), "The impact of oil price changes on Spanish and euro area consumer price inflation" in Economic Modelling 28 (1-2) pp. 422-431, and Hurtado, S.; P. Manzano, E. Ortega and A. Urtasun (2014), "Update and re-estimation of the Quarterly Model of Banco de España" in Occasional Paper No. 1403, Banco de España.

5 See http://www.ecb.europa.eu/pub/economic-research/research-networks/html/researcher_wdn.en.html.

6 In the first two months of 2017, the cumulative figure would be 26.8%.

7 The CPI forecasting procedures used are described in L. J. Álvarez and I. Sánchez (2017), "A suite of inflation forecasting models", Occasional Paper No. 1703, Banco de España.

NOTE: This box was published on the Banco de España website on 30 March 2017.

In early 2017, the government approved an 8% rise in the national minimum wage, bringing it to €707.6 per month (from €655.2), in 14 monthly payments. Moreover, on 22 November 2016, the Spanish Congress agreed to consider a legislative proposal on a phased increase of the national minimum wage to €800 per month by 1 January 2018 and €950 per month by 1 January 2020. This box aims to analyse the possible effects of these rises on employment and the wage structure.

The existence of a mandatory minimum wage below which employment contracts cannot be entered into is widespread among developed countries, the main aim being to enhance social equity. From a strictly economic standpoint, however, the theoretical literature emphasises that a minimum wage can also have an adverse impact on employment for certain groups of workers, especially those whose productivity level is below the minimum wage set by the authorities. Although the empirical evidence and the wide variety of findings available on the effects of minimum wage rises are not conclusive, increases in the minimum wage tend to be identified with adverse, albeit modest, effects on employment. For example, Belman and Wolfson (2014)[1], in compiling the findings of a broad range of studies, mostly relating to the United States labour market, have found adverse, but limited, effects on employment in about two thirds of them, with employment elasticity to the minimum wage of around-0.1% on average[2].

In the case of Spain, the estimates made by Galán and Puente (2015)[3] show that increases in the minimum wage between 2005 and 2010[4] significantly raised the probability of employment loss, although the impact on aggregate employment was limited, given the low percentage of workers affected by the national minimum wage in Spain[5]. In this study, which uses the microdata contained in the Social Security administrative labour records *(Muestra Continua de Vidas Laborales,* hereinafter MCVL), the group of workers affected by increases in the national minimum wage is defined as those whose wages in a given year are lower than the following year's national minimum wage. For this group of workers, employers must decide whether to adjust the wage to the new mandatory minimum or else terminate the employment relationship. To analyse the effects on employment for this group of workers, a model has been estimated on the probability of employment loss in the 12 months following a rise in the national minimum wage. In addition to different control variables, this model includes a measure of the existing gap between a worker's current wage and the new minimum wage. The coefficient of this variable can be interpreted as the effect of the minimum wage rise on the probability of employment loss[6]. As a result, the probability of employment loss following a rise in the minimum wage rose significantly for younger workers (aged 16 to 24), middle-aged workers (aged 33 to 45), and particularly for older workers (aged 45 or over). Thus, the average probability of affected workers losing their employment within a year rose from 11.2% to 24.9% in the 16-24 age band as a result of cumulative increases in the

1 D. Belman and P. Wolfson (2014). *What Does the Minimum Wage Do?,* W.E. Upjohn Institute for Employment Research, Kalamazoo, MI.

2 D. Neumark, J. M. Ian Salas, and W. Wascher (2014). In "Revisiting the Minimum Wage-Employment Debate: Throwing Out the Baby with the Bathwater?" *Industrial and Labor Relations Review,* 67 (Supplement), pp. 608-648, they stress that for certain groups of workers, such as younger, less qualified workers, these elasticities would be at least -0.2%.

3 "Minimum Wages: Do They Really Hurt Young People?", *B. E. Journal of Economic Analysis and Policy,* 15(1), pp 299-328.

4 There was a cumulative increase of 37.5% (18.7% in real terms) in the minimum wage.

5 Specifically, the wage rises implemented between 2005 and 2010 affected only 0.6% to 0.9% of all workers per year. These figures are higher among certain groups, such as younger workers (between 1.1% and 2.2%).

6 Account should be taken of the fact that this effect underestimates the possible effect on total job destruction, since it centres only on job losses, not on the creation of new jobs. This bias will be greater insofar as workers' productivity gains are higher owing to the experience they have gained, sufficient to offset increases in the national minimum wage. This offsetting effect is not available for workers seeking employment and, thus, for this group, the effects on job creation will be greater than on job destruction. Therefore, it is expected that the effect on employment for younger workers, who have the greatest experiential learning opportunities, will be underestimated.

Table 1
EFFECT ON EMPLOYMENT (a)

	Scenario 1: Minimum wage = €707.6			Scenario 2: Minimum wage = €800			Scenario 3: Minimum wage = €950		
Age	Workers affected (%)	Of whom, lose their employment (%)	Effect on total employment (%)	Workers affected (%)	Of whom, lose their employment (%)	Effect on total employment (%)	Workers affected (%)	Of whom, lose their employment (%)	Effect on total employment (%)
16-25	15.72	4.87	0.76	20.46	10.93	2.24	32.57	17.52	5.71
25-33	5.57	1.58	0.09	8.53	3.21	0.27	18.01	4.70	0.85
33-46	1.47	2.23	0.03	3.43	4.69	0.16	10.00	7.24	0.72
46-70	1.27	6.36	0.08	2.87	13.66	0.39	7.97	20.65	1.65
16-70	3.09	3.46	0.11	5.30	7.48	0.40	12.26	11.32	1.39

SOURCES: Ministry of Employment and Social Security and Banco de España.

a Prepared with data from the 2015 Social Security administrative labour records (MCVL) (full-time workers who have worked the full month). National minimum wage on a pro-rata basis (12 annual payments).

minimum wage during the period analysed (2005-2010)[7], while the corresponding impact on workers aged 45 or over was much greater, with the probability rising from 11.2% to 49.9%[8].

This analysis can be used as the basis for estimating the potential effect of the aforementioned newly approved rise in the minimum wage[9]. To this end, a microsimulation exercise has been performed using the estimated probabilities, where each worker affected by the new minimum wage is assigned to one of the following two groups: workers who keep their employment and whose wages increase to match the new mandatory minimum amount, or workers who lose their employment. This exercise has been carried out for the minimum wage already approved in 2017 and also for the two proposals mentioned earlier, which involve raising the national minimum wage to €800 and €950.

Table 1 shows the results of this simulation for the three minimum wage increases considered. In terms of currently affected workers, the rise approved in 2017 gives a percentage of 3.1%, above the figures estimated for the 2005-2010 period (around 0.75% per year). By age group, the differences are considerable, since 15.7% of younger workers would be affected by the minimum wage rise, compared with a much lower figure of around 1%, among older workers. Naturally, these figures are higher for the scenarios of additional increases in the national minimum wage until 2020. These results show that, in the event of an increase of up to €950 per month, the percentage of affected workers would reach 12.3%, with almost a third being younger workers.

As regards the loss of employment resulting from these increases, a relatively limited potential impact is estimated for the economy as a whole. Specifically, the aggregate effect on employment would be a fall of 0.1% in the case of the minimum wage increase approved in 2017, and of 1.4% for the proposed rise to be achieved by 2020[10]. For workers affected by the increase, the potential loss of employment could reach 3.5% in the case of that approved in 2017, and 7.5% and 11.3% in the case of the proposed increases of €800 and €950, respectively. By groups of workers, the probability of employment loss for workers affected by the national minimum wage is higher among younger workers and higher still among older workers.

This exercise allows for the estimation of the impact of the increase in the minimum wage on total labour income and its distribution. As can be observed in Chart 1.1, in aggregate terms, the minimum wage rise has a limited impact on aggregate wage income, since the positive effects on workers who remain employed tend to be offset by the loss in wage income of those who lose their jobs. However, the changes are more significant as regards the distribution of wage income across different population groups. In particular, there are substantial differences by age band, with higher average income among younger workers, for whom the wage rise more than offsets employment losses. In contrast, for the group of workers aged 45 or

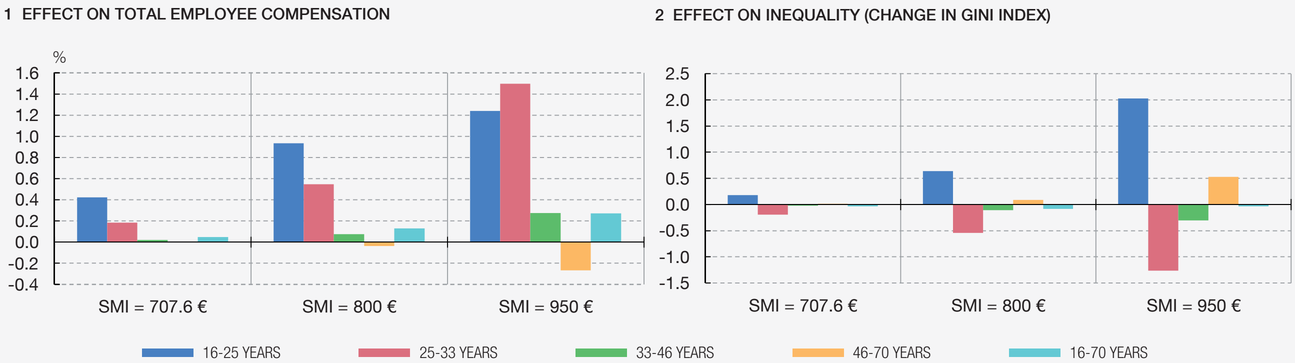
7 This probability is the result of simulating the cumulative increase in the minimum wage between 2005 to 2010 on the wage distribution observed in 2004.

8 Overall, the results would imply an elasticity of employment to minimum wage of around -0.2% for younger workers, in line with studies conducted on other countries, albeit very limited for aggregate employment, given given the low percentage of workers affected by the national minimum wage in Spain. However, it should be noted that the effects of the minimum wage on employment are not linear, since the number of affected workers for each additional euro is greater the higher the previous minimum wage level. Special caution is therefore needed when extrapolating elasticities to future rises in the national minimum wage, since they will generally be greater than previously estimated.

9 Specifically, for each affected worker in 2015 (the latest available year of the MCVL), the probability of employment loss is calculated on the basis of the worker's age and the difference between his/her current salary and the new national minimum wage considered. For part-time workers or those who have not worked a full month, the new minimum is adjusted to the corresponding proportion of time worked.

10 This non-linear effect arises for the reasons set out in footnote 8.

Chart 1
EFFECT ON TOTAL EMPLOYEE COMPENSATION AND INEQUALITY (a)



SOURCES: Ministry of Employment and Social Security and Banco de España.

a Prepared with data from the 2015 Social Security administrative labour records (MCVL) (full-time workers who have worked the full month). National minimum wage on a pro-rata basis (12 annual payments).

over, employment losses are so high that labour income declines. With respect to the impact on wage inequality, Chart 1.2 shows the effects of the three scenarios using the estimated variation of the Gini index[11]. The analysis shows that the aggregate inequality relative to wage income distribution hardly varies although the changes in inequality by age group are significant, with higher inequality among both younger and older workers, particularly in the scenarios of additional increases in the national minimum wage.

Overall, the results presented in this box suggest a low aggregate impact on employment of the recent rise in the national minimum wage, given that the group of workers potentially affected by the increases in the national minimum wage is small. However, its impact on the probability of employment loss among certain groups, such as younger and older workers, is significant. It should be stressed that the effects of these increases are relatively limited since the minimum wages which are binding for most jobs in Spain are those agreed on in collective bargaining processes, and are currently higher than the mandatory minimum wage. These effects could be greater if the increases in the national minimum wage were to be applied to broader groups of workers, for example, if they were used as the basis for collective bargaining.

11 The Gini index is a measure of the degree of inequality across the entire income distribution. The more inequality, the higher the index. A totally even distribution would give an index of 0 while a totally unequal distribution, with all income concentrated in one individual, would give an index of 1.

Traditionally in Spain, households' acquisitions of housing have predominantly been financed with variable interest rate loans. This means that the cost of funds changes periodically throughout the life of the loan, on the basis of the benchmark used (generally the 12-month Euribor). The attractiveness for banks of this option is that it ties the changes in the revenue obtained on loans granted to those in its funding costs, since the latter are habitually renewed with great frequency, in line with interbank market yields, given the prevalence of short-term operations. By being able to mitigate interest-rate risk, banks can offer very-long-dated maturities, with the subsequent reduction in the repayment instalments borne by borrowers. In fixed-rate lending operations, this risk can be covered in the swaps markets, but the horizon over which these contracts were available until very recently did not extend beyond 10 or 15 years. One advantage that is occasionally indicated as being favourable to borrowers under the variable-rate arrangement is that, under normal conditions, the expected average cost over the life of the loan is lower (see Chart 1), as no risk premium by term[2] is included. However, the fact that the cost of financing of variable-rate loans fluctuates throughout the life of the operation adds uncertainty as to its future course.

Within the euro area, Spain is among the group of countries in which the significance of variable-rate financing (in particular, with initial reset periods of less than one year) is greatest, along with Portugal, Italy and Ireland. This is unlike other European economies such as France, Germany and the Netherlands, where these operations are a minority option. Nonetheless, since early 2010, the weight of new loans in which the cost is reset before one year has elapsed (see Chart 2) has progressively diminished in Spain. In an initial phase, to mid-2015, there was an increase in the proportion of loans with initial rate fixation periods of between one and five years. Subsequently, the over-five-years segment – in which fixed-rate contracts are included – began to grow.[3] As a result, the segment with initial reset of up to one year has declined from accounting for 80-90% in 2010 to scarcely 50% at present. This tendency towards the lengthening of interest rate reset terms has also been observed in other euro area countries, with greater intensity in those economies in which operations up to one year were predominant, such as Italy and Portugal, although this has also been the case, albeit to a lesser extent, in other countries where initial rate fixation periods of over five years were more prevalent (see Chart 3).

The change observed in the structure of reset terms for new housing loans in Spain and in the other euro area countries has been accompanied, in the recent period, by a reduction in the spread between the interest rate applied to loans with an initial rate fixation of over five years and the initial cost where terms are reset in less than one year, which may have boosted borrowers' demand for the first interest-rate type (see Charts 4 and 5). This development has been assisted by both the flattening of debt market yield curves, which has enabled banks to offer comparatively more attractive terms in fixed-rate operations, and the improvements in the infrastructure of derivatives markets, including most notably the growing use of clearing houses, which allow banks to hedge against longer-dated interest rate risk.

These changes in the structure of the mortgage market have some substantial consequences. The increase in the weight of transactions whose terms are reset at over five years, with higher interest rates than in those where reset is at less than one year, tends to translate into a rise in the synthetic cost of borrowing (which is calculated weighting the volume of new loans by their initial interest rates), irrespective of movements in yields in each segment. This development can be clearly discerned in Chart 6, which compares the observed value of this indicator with that which would have prevailed in the event of the term structure as at December 2010 having been maintained. It can be seen how, in the most recent period, this composition effect has meant that the synthetic indicator underestimates the improvement in financing conditions.

In the longer term, the most significant consequence of the change in the structure of the mortgage markets is that household financing costs will become less sensitive to interest rate movements, thereby limiting the scope of the effects associated with monetary policy decisions (in particular those that operate through the income effect of interest-rate changes). However, given the long-dated maturities of outstanding debt and how recent the changes in the composition of new lending business are, the impact on the overall credit portfolio is still very limited. Thus, in December 2016, 96.6% of the outstanding balance of loans for house purchase in Spain was at a variable rate, and 85.2% used the 12-month Euribor as a benchmark.

1 New loans include contracts formalised for the first time; renegotiated loans, provided that the borrower plays an active part; restructured loans, if they are at market interest rates; and those in which there has been a subrogation of the debtor.

2 The risk premium by term is the price paid for not incurring interest rate risk.

3 This tendency is observed not only in loans formalised for the first time but also in renegotiated loans

STRUCTURE BY INTEREST RATE RESET PERIODS ON NEW HOUSING LOANS (a)

Chart 1
INTEREST RATES ON NEW LENDING BY RESET PERIOD, SPAIN

Chart 2
DISTRIBUTION BY RATE RESET PERIOD, NEW LENDING, SPAIN

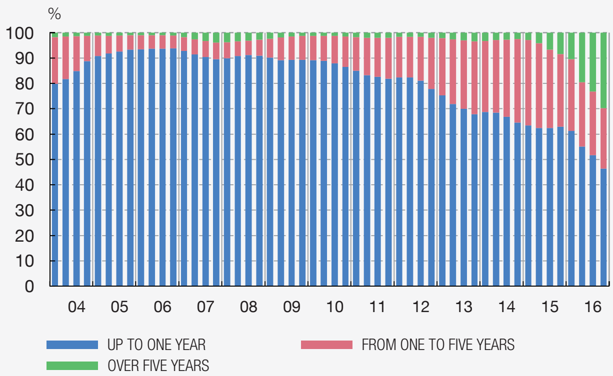


Chart 3
DISTRIBUTION BY RATE RESET PERIOD, NEW LENDING, COMPARISON EURO AREA COUNTRIES

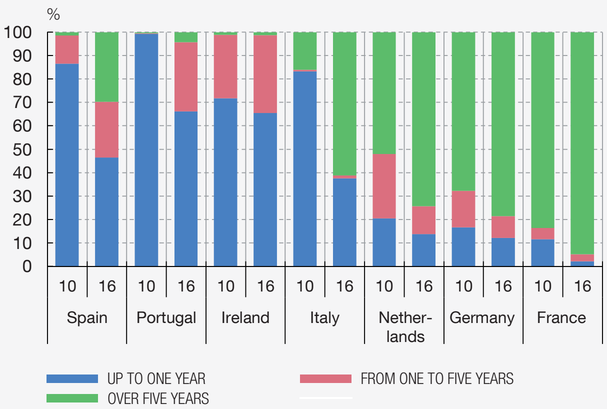


Chart 4
PERCENTAGE OF LOANS WITH RESET PERIOD AT MORE THAN FIVE YEARS AND SPREAD OVER FIVE YEARS / UP TO ONE YEAR, SPAIN

Chart 5
PERCENTAGE OF LOANS WITH RESET PERIOD OF UP TO ONE YEAR AND RATE SPREAD BY RESET PERIOD, COMPARISON EURO AREA COUNTRIES

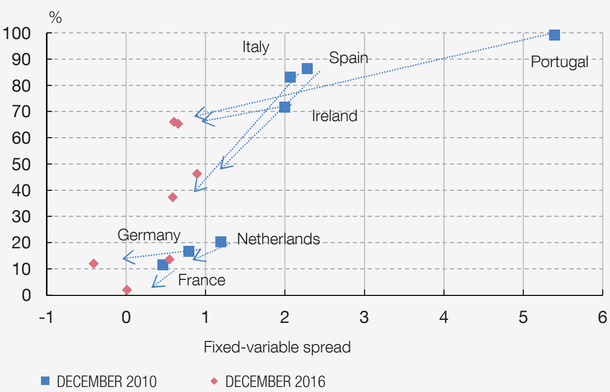
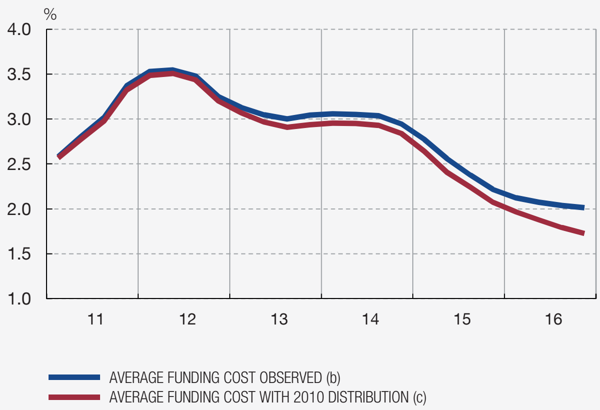


Chart 6
AVERAGE COST OF NEW HOUSING LOANS, SPAIN



SOURCES: ECB and Banco de España.

a The values depicted in the charts are a rolling average of the figures for the past twelve months of the year ending in each quarter; for loans, simple averages; and for interest rates, weighted averages (by lending volume). These data correspond to new loans approved in the month.
b Average cost with rate reset periods existing in each period.
c Average cost with rate reset periods as at December 2010.

NOTE: This box was published on the Banco de España website on 29 March 2017.

Non-resident tourism in Spain was notably buoyant in 2016. Specifically, foreign tourist arrivals were 10.3% up on the already-high level recorded in 2015, reaching an all-time peak of 75.6 million visitors, which also led to a significant 9% increase in total foreign tourist expenditure, taking it to €77.6 billion, the highest figure in the time series. Also, the increase in tourist arrivals in Spain outpaced the much more moderate growth rate of the volume of world tourism, by 6 pp.

This positive performance of non-resident tourism, accompanied by a fresh increase in domestic tourism demand (albeit more moderate than in 2015) enabled tourism GDP to increase by almost 5%, in accordance with the Exceltur indicator, meaning that it exceeded GDP growth for the economy as a whole, as has been the case since 2010 (see Chart 1).[1] The strength of tourism would largely explain the better relative economic performance in 2016 of the regions where the weight of tourism is greater.[2]

The performance of non-resident tourism had already been favourable in 2015, boosted by the improvement of its main determinants, such as the recovery in the developed economies (accounting for approximately 90% of our markets), the notable depreciation of the euro (specifically, the nominal effective exchange rate – NEER – against the group of non-euro developed countries was 9.3% weaker in 2015 as a whole), and the decline in oil prices, which lowered transport costs. In 2016 some of these transitory factors tended to lose momentum: developed economies slowed moderately (see Chart 2), while the NEER tended to appreciate and oil prices to increase, although these two variables remained at levels clearly lower than those seen in 2014 (see Chart 3). Additionally, against a backdrop of insecurity in some competing regions, Spain's appeal as a safe-haven tourist destination has been a determining element, particularly in 2016. Beyond these less persistent factors, improvements in Spain's economic competitiveness built up in recent years through the

1 Exceltur's Synthetic Indicator of Tourism GDP (ISTE) is constructed as a linear combination of a set of variables related to tourism demand, both domestic (private consumption and resident overnight hotel stays) and foreign (foreign tourist arrivals, revenues from tourism and travel of the Balance of Payments and GDP of the main tourist origination markets). This indicator allows an approximation to the real growth of internal tourism in Spain.

2 The Balearic and Canary Islands and the Valencia region were, according to AIReF estimates, the regions which grew the most in 2016.

PERFORMANCE AND DETERMINANTS OF REVENUES FROM TOURISM

Chart 1
ACTIVITY IN THE TOURISM SECTOR

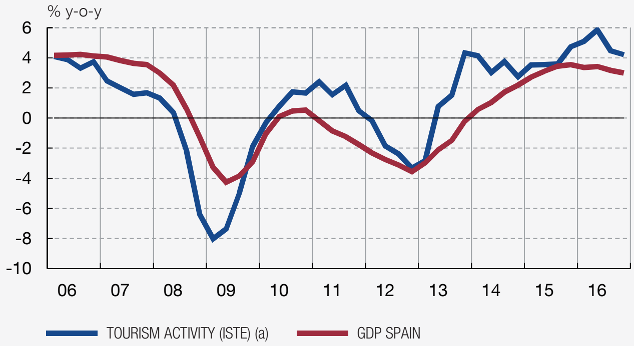


Chart 2
TOURISM ORIGINATOR GDP

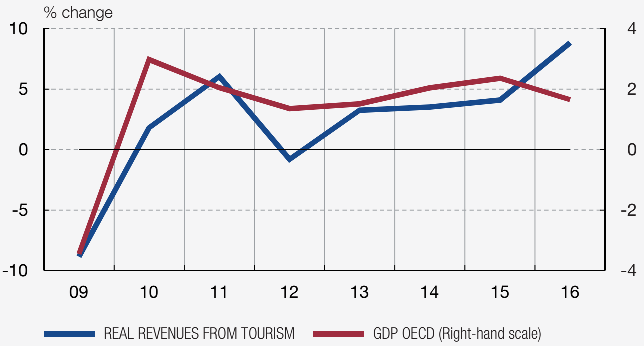


Chart 3
EXCHANGE RATE AND OIL PRICES

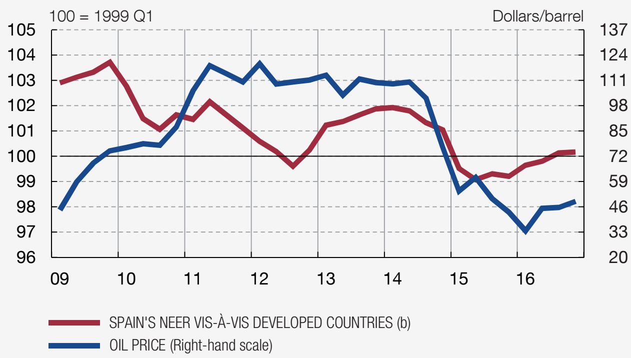
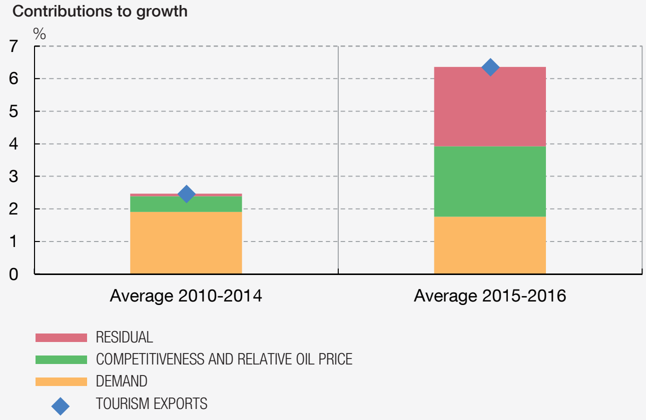


Chart 4
REAL EXPORTS OF TOURIST SERVICES
Contributions to growth



moderation of labour and financial costs have likewise favoured our country's tourism potential.

Using a simple econometric model which approximates the performance of QNA real tourist revenues based on several explanatory factors,[3] changes in the income of tourist countries of origin (GDP), price-competitiveness and exchange rates (PREL by its Spanish abbreviation) and oil prices (PRPETR) would account for around two-thirds of the growth of tourism in the two-year period 2015-2016 and the remaining third would relate to other factors not explicitly included in the model (see Chart 4).

3 Specifically, a single-phase error correction mechanism is estimated for the logarithm of QNA real exports of tourist services, with quarterly data for the period 2000-2015. Tourism demand is approximated using an indicator of the real GDP in the main markets from which tourists visiting Spain originate. The competitiveness variable measures changes in relative prices in Spain (CPI) compared with customer and competitor countries. The cost of travelling to a destination is approximated by the price of oil relative to the cost of living in tourists' countries of origin.

In an attempt to identify these additional factors, it is useful to consider the performance of the so-called tourism competitiveness index prepared by the World Economic Forum, which summarises the performance of different variables explaining a country's ability to compete in world tourism markets (see Chart 5). Spain led the ranking based on this indicator for the first time in 2015. In comparison with 2008, there were notable improvements in two specific areas which would have been strengthened by Spain's traditional lure as a tourist destination, based on its weather, natural resources or infrastructure.

Firstly, as noted above, progress was significant in security, against a background of high conflict in certain competing geographical areas. Specifically, in the aftermath of the Arab Spring of 2011, insecurity swept across the main competitor destinations in North Africa (such as Tunisia and Egypt) and in 2016 extended into Turkey, the sixth most popular tourist destination until then and which would have lost around 30% of its foreign visitors last year (see Chart 6). Secondly, the sector has notably and robustly

PERFORMANCE AND DETERMINANTS OF REVENUES FROM TOURISM (cont.)

Chart 5
TOURISM COMPETITIVENESS INDEX. SPAIN: MAIN CATEGORIES (c)

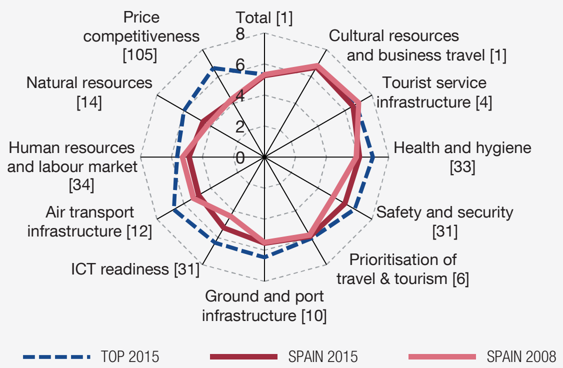


Chart 6
INTERNATIONAL TOURIST ARRIVALS

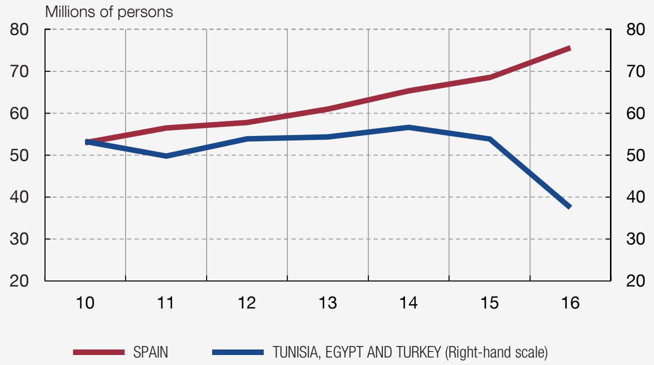


Chart 7
TOURISTS STAYING OVERNIGHT IN HOTELS

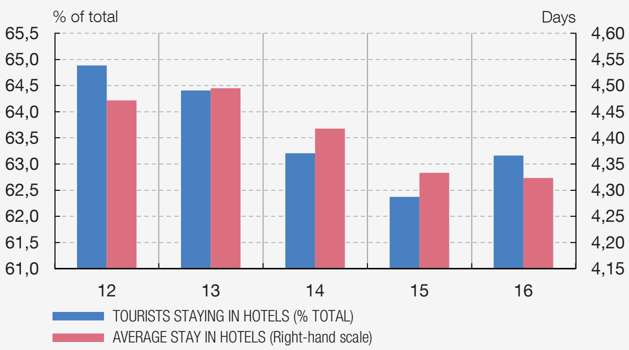
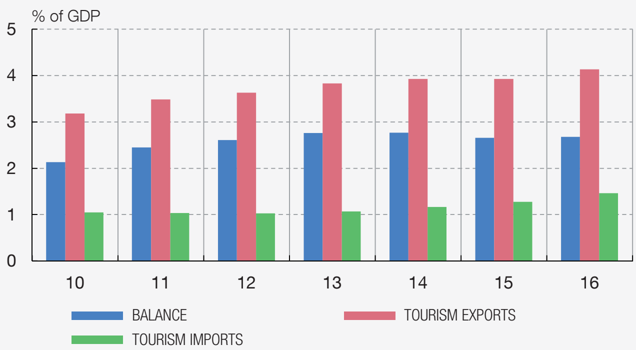


Chart 8
TOURISM SURPLUS



SOURCES: INE; Exceltur, Eurostat, UNWTO and World Economic Forum (WEF).

a Synthetic Indicator of Spanish Tourism GDP, prepared by Exceltur.
b An increase in the index represents a loss of competitiveness and vice-versa.
c In brackets, Spain's position in the ranking by category.

adapted to the new digital consumption habits. Additionally, in terms of revenue, the favourable performance of tourism in 2016 is related to the profile of tourists arriving in Spain, more of whom chose to stay in more expensive accommodation. Specifically, hotels, which are associated with a higher average daily outlay, gained weight in the total, while the average length of stay in this type of accommodation stabilised, interrupting the declining trend of these two variables in recent years (see Chart 7). Also, in 2016 there was an increase in the weight of holiday packages, usually involving overnight stays in hotels, which are more expensive than apartment rentals, the latter being more popular among independent travellers, whose share in the total has decreased. The counterpoint to this is the distribution by country of origin, with a notable recovery of German tourists, whose average destination expenditure is high, whereas the French market slowed slightly, and the daily average expenditure of French visitors is usually lower. Finally, the British market accelerated notably (from 5.1% in 2015 to 12.4%) while the average expenditure per tourist increased somewhat, despite the heavy depreciation of the pound against the euro following the outcome of the British referendum on its permanence in the European Union.[4]

The momentum of tourism exports in 2016 led to an increase in the share in GDP (in nominal terms) to above 4% (a figure not seen since 2001). However, the notable rise in tourism imports, to 1.5% of nominal GDP, prevented the tourism surplus from improving, and it stabilised at around 2.7% of GDP (see Chart 8). Looking ahead, traditional determinants as a whole can be expected to continue contributing to the growth of tourism in a manner similar to that seen in recent years. In the longer term, the challenge remains of raising the added value of services offered, which would especially help to enhance recent visitor loyalty.

4 In part, these developments could be a result of the strong substitution effect among destinations which, in the case of British tourism flows, were seen from Turkey to Spain.

2.1 External environment of the euro area

In the last three months the international economic and financial setting has continued to be marked by heightened political uncertainty which, so far, has not been reflected in the financial indicators. Markets — both sovereign fixed-income and stock markets and higher-risk segments — continued to perform favourably, while long-term interest rates in the advanced economies stabilised and volatility diminished. Oil prices, which evidenced substantial stability until the first week of March, fell sharply thereafter and held at a level 10% below that at the end of the preceding quarter. National Accounts figures for 2016 Q4 show that GDP grew above expectations in the advanced economies, except in the United States. In the emerging economies, meanwhile, performance was clearly mixed, with vigorous growth in Asia, which was conducive to a moderate rise in international trade, and a further slowdown in Latin America. Lastly, inflation in the last three months increased both in the advanced economies — although the underlying rates and expectations scarcely changed — and in certain emerging economies, excluding Latin America where the declining trend continued.

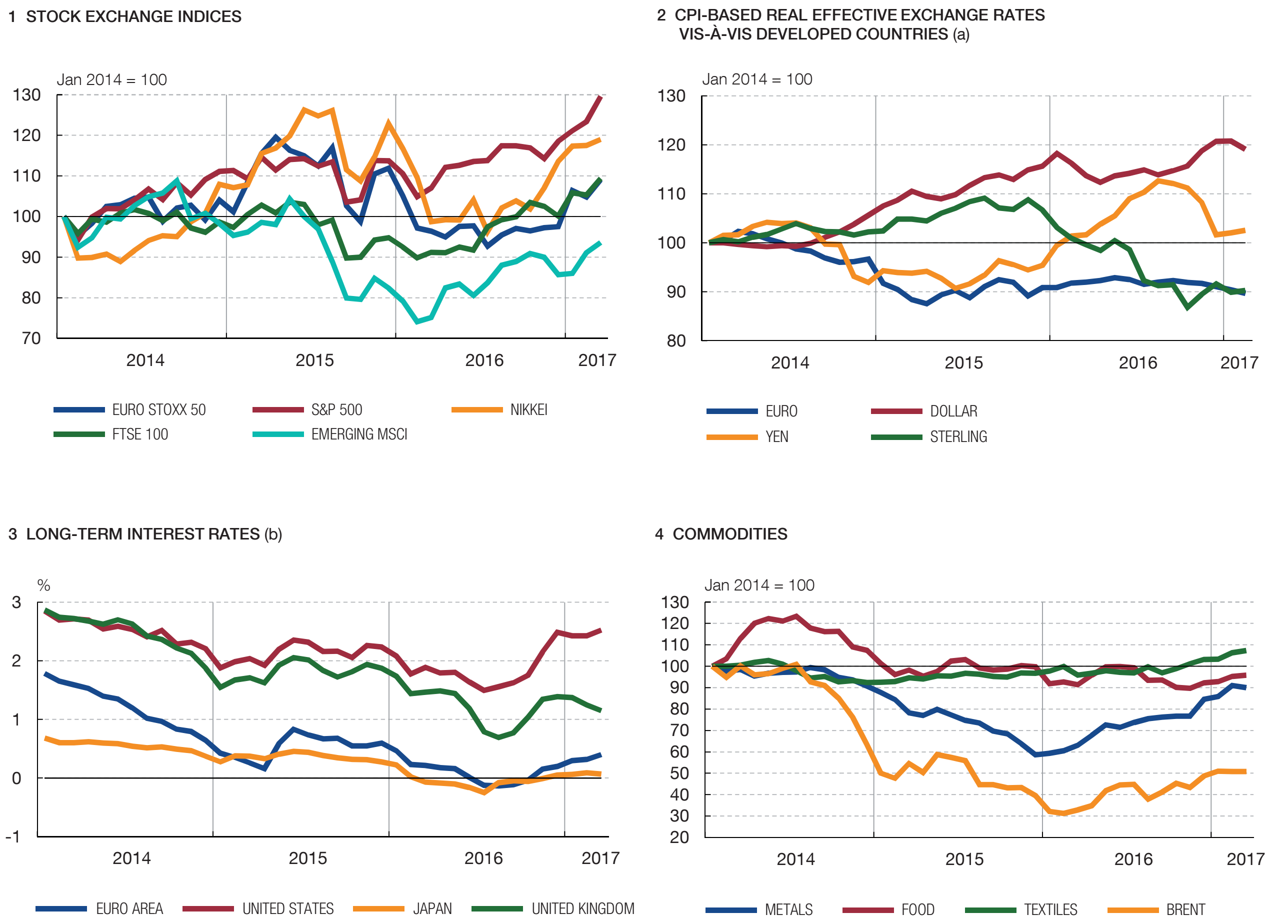
More specifically, financial markets performed favourably over the last three months. Stock markets rose (especially in the United States, where they posted historical highs, but also in the emerging economies, where on average they were 8% up in late March on the November 2016 level) and debt markets normalised somewhat, which helped squeeze higher-risk asset spreads, including those of the emerging economies (especially in Latin America). These developments were against a background of low volatility and some appetite for risk, which is in contrast to the heightened political uncertainty both in the United States — where there are doubts over the timing and scope of the new Administration's measures — and in Europe, owing to Brexit and successive upcoming elections in 2017.

With regard to exchange rates, the dollar began the year depreciating substantially against the currencies of the main developed economies and most of the emerging countries, in a setting in which interest rate spreads held stable. Mid-February then marked a turning point, with the US currency appreciating. The rise in US policy rates on 15 March, the third since December 2015, exerted upward pressure on long-term rates and further boosted the dollar. Notable on the emerging markets was the depreciation of the Turkish lira by more than 3%, faced with a deteriorating domestic and external political outlook, and, in the opposite direction, the appreciation of the Mexican peso, by close to 9% since the start of 2017, following its heavy depreciation in the wake of the US election result. In this latter case, the possibility of a less adverse scenario in respect of the trade restrictions imposed by the new US Administration, rises in the policy rate and the implementation of an exchange rate hedge programme to reduce volatility all appear to have played a significant role. The soundness of markets was also reflected in a pick-up in capital flows towards the emerging economies and in an increase in these economies' bond placements, in a market dominated by commodities corporations and sovereign issuers.

During the quarter commodities prices rose 1.1%, at the aggregate level, with divergences across the different components. Metals climbed by 4.7%, on account of the recovery in Chinese demand and the prospect of a US infrastructure plan, as well as certain supply constraints in Chile, and food prices fell by 1.3%. The per-barrel price of Brent oil held from end-2016 in a narrow range around $55 dollars, but following the release of higher-than-

FINANCIAL MARKETS AND COMMODITIES

CHART 2



SOURCE: Datastream and Banco de España.

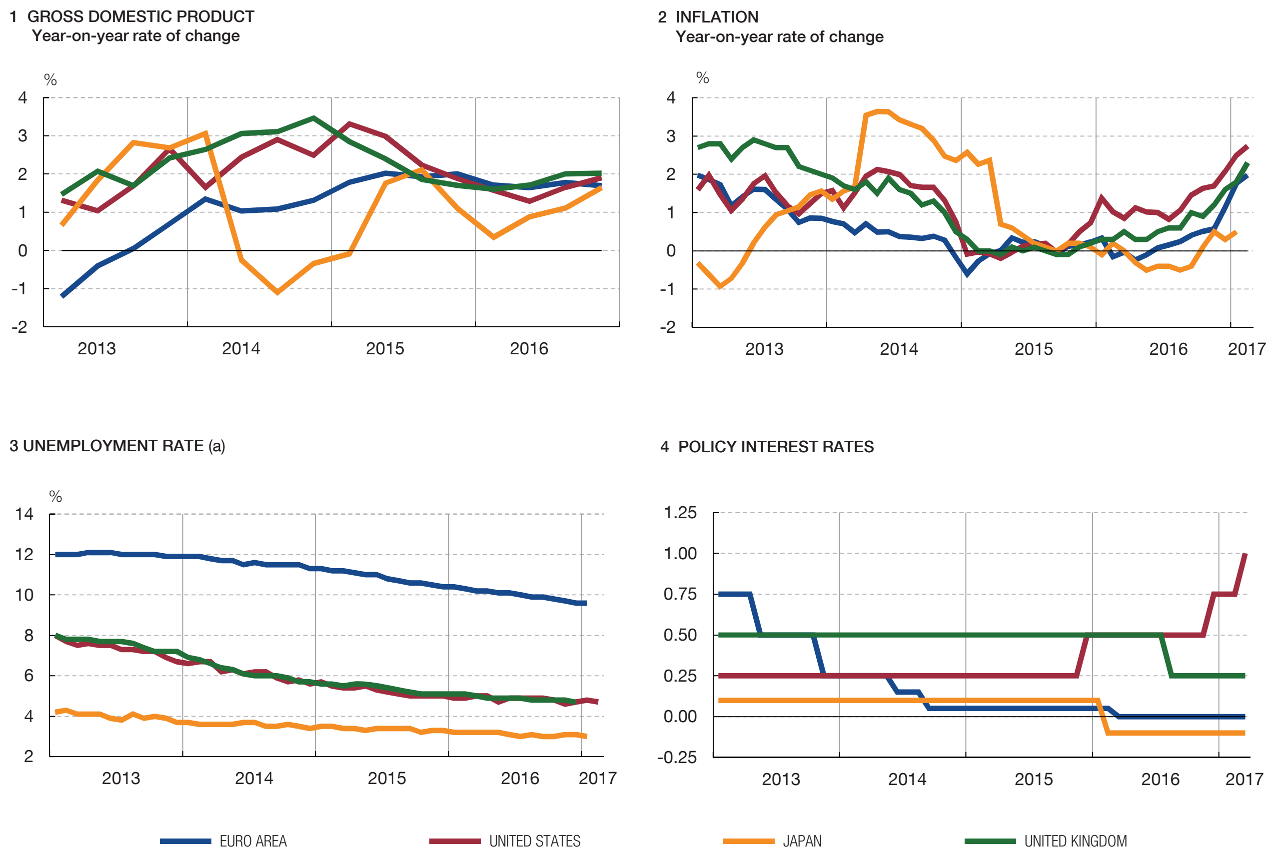
a An increase in the index represents an appreciation of the currency.
b Ten-year government debt yields.

expected US inventories data, on 8 March, there was an abrupt correction in the price of crude (and the related futures) to $51 dollars per barrel, the level around which it has since fluctuated.

Economic activity in the non-euro area advanced economies provided a favourable surprise once again in 2016 Q4. In the United Kingdom, GDP growth in Q4 was 0.7% quarter-on-quarter, 0.1 pp up on Q3; and in Japan, the annualised quarter-on-quarter rate stood at 1.2%, slightly down on the figure for Q3. In both cases, the unexpected strength of the external sector offset some weakening in domestic demand, especially in private consumption. The exception was the United States, where GDP grew at an annualised quarter-on-quarter rate of 1.9% (3.5% in the previous quarter), chiefly owing to the weakness of the external sector, since both consumption and private investment remained notably buoyant. The inflation rate in these economies rose throughout the quarter (to 2.7% in the United States and 2.3% in the United Kingdom in February, and to 0.4 % in Japan in January), although both core inflation rates and inflation expectations held on a more stable path. Against this background, neither the Bank of Japan nor the Bank of England made changes to their monetary policies. Conversely, as indicated, the Federal Reserve raised the target range for the federal funds rate by 25 bp (to 0.75%-1%) in mid-March, the third increase in the current cycle of normalisation initiated in December 2015,

DEVELOPED ECONOMIES: MAIN MACROECONOMIC INDICATORS

CHART 3



SOURCES: Datastream and Banco de España.

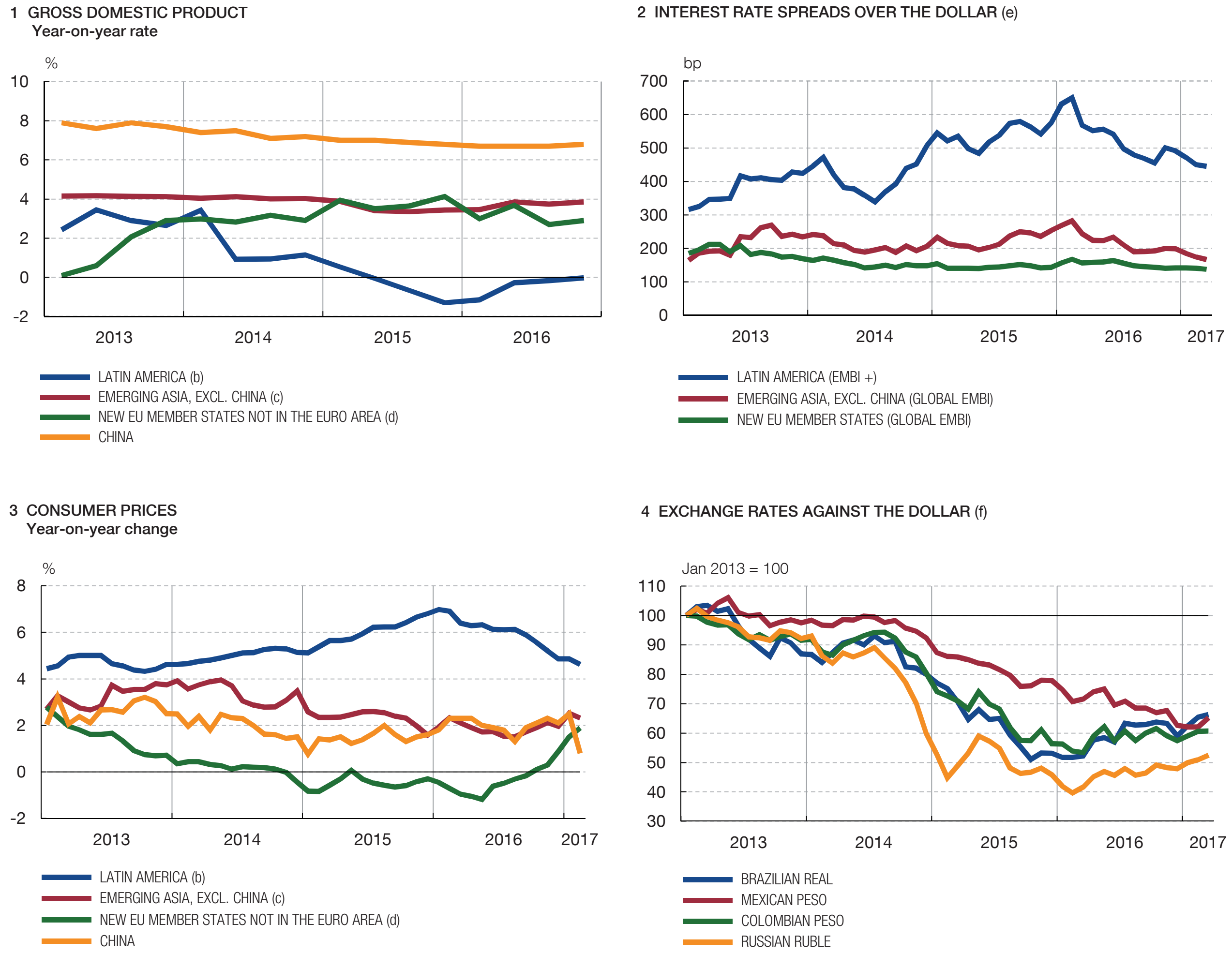
a Percentage of labour force.

and a development widely anticipated by the markets since late February. Moreover, from a short-term perspective, there has been an alignment between the Federal Open Market Committee (FOMC) members' projections and those of the financial markets as regards policy rate movements, with two further rises expected over the rest of this year.

Activity in the emerging economies in late 2016 was more mixed. In China, government support measures once more propped up GDP growth, which posted a year-on-year rate of 6.8% in Q4. Meanwhile, in the rest of emerging Asia there was a notable slowdown in activity in India (7% year-on-year, 0.3 pp down on the previous quarter), which was however less than expected following the government's demonetisation decree. In the new EU Member States not belonging to the euro area, GDP growth increased in Q4 as a result of the greater buoyancy of consumption and, in Poland and Romania, of the expansionary fiscal measures. In Latin America, data for Q4 were positive in Colombia and Mexico, and worse than anticipated in Chile and, especially, Brazil, which ended 2016 with a 3.6% decline in activity, similar to that of the previous year. Inflation generally moved on a rising trend in the emerging regions of Europe and Asia, but continued to fall in the five main Latin American countries with inflation targets (more markedly so in Brazil, thanks to regulated prices), with the exception of Mexico, owing to the depreciation of the peso and the rise in petrol prices. Turning to monetary policy, the main changes were concentrated in Latin America, where the central banks of Brazil, Colombia and Chile cut policy rates while the Mexican central bank raised theirs. In other regions there was a notable rise in

EMERGING ECONOMIES: MAIN MACROECONOMIC INDICATORS (a)

CHART 4



SOURCES: Datastream, Banco de España, IMF and JP Morgan.

a The aggregate of the different areas has been calculated using the weight of the countries that make up these areas in the world economy, drawing on World Bank information.
b Brazil, Chile, Colombia, Mexico and Peru.
c Malaysia, South Korea, Indonesia, Thailand, Hong Kong, Singapore, Philippines and Taiwan.
d Poland, Hungary, Czech Republic, Bulgaria, Romania and, from July 2013, Croatia.
e JP Morgan EMBI spreads. Latin America includes Argentina, Brazil, Colombia, Ecuador, Mexico, Panama, Peru, and Venezuela. Asia includes China, Indonesia, Iraq, Kazakhstan, Malaysia, Pakistan, Philippines, Sri Lanka and Vietnam. The data on the new EU Member States relate to Hungary, Poland and Romania and, from July 2013, Croatia.
f A decrease in the index represents a depreciation of the currency against the dollar.

policy rates in Turkey, faced with the increase in inflation pressure on its currency, and in China, where the small increases in its new lending facilities are in response to the authorities' aim to preserve financial stability.

2.2 The euro area and the monetary policy of the European Central Bank

In the euro area the latest economic developments suggest a progressive firming of the recovery, which is expected to spread to all the countries in the area, albeit with differing intensity. The signals emitted by the short-term indicators, which have stood at highs for almost five years, have also been positive. This indicates that activity might have quickened in the opening months of 2017, despite the presence of several geopolitical factors casting a shadow of uncertainty over the global economy and the EU itself. However, this acceleration is not expected to extend to the coming quarters. The latest forecasts available, including the ECB's macroeconomic projections exercise in March, do not point to significant changes in the economic outlook for the area, whereby the current moderate growth path will continue over the 2017-2019 horizon.

Inflation rose to 2 % in February, driven by the increase in oil prices and, above all, the automatic effect arising from the comparison with the low energy prices recorded in early 2016 (the so-called *base effects*[1]). By contrast, core inflation held stable at levels still some way off the 2% reference, and no pressures in price and wage formation are apparently discernible (see Box 3). In this respect, the ECB March projections exercise added very few changes, beyond 2017, to the medium-term inflationary outlook that the Governing Council had analysed last December, when far-reaching monetary policy decisions were taken.

In this setting of moderate growth and rising inflation, which is considered temporary, the ECB Governing Council decided to hold its benchmark interest rates unchanged, confirming that rates are expected to hold at current or lower levels over a prolonged period that runs beyond the horizon for the asset purchase programme. The Council also reiterated its commitment to continue with net asset purchases at a monthly pace of €60 billion to December 2017 or beyond, and even to increase them were it necessary, until it should see a sustained adjustment in the inflation path consistent with its medium-term objective. Further, the Council stressed the need, in the current circumstances, for economic policies to contribute more resolutely to strengthening economic growth.

ECONOMIC DEVELOPMENTS

On National Accounts figures, euro area GDP grew by 0.4% in 2016 Q4 (see Table 2), placing growth for the year as a whole at 1.7%, a similar rate to that observed the previous year. In terms of components, the increase in output in the final stretch of the year was once again underpinned by consumption, private and government alike. Additionally, gross fixed capital formation rose, driven by all its components. The contribution of net exports was negative, since the increase in exports was offset by an even bigger increase in imports. Country by country, the growth in economic activity was, while generalised, uneven. Thus, while activity quickened in Germany and France to 0.4%, underpinned above all by domestic demand, in Italy it continued to grow at a very moderate rate (0.2%), due above all to the sluggishness of Italian private consumption and net external demand.

Although the information available is as yet partial, the qualitative indicators released point to a possible quickening in economic activity in the euro area at the start of 2017. On the supply side, the European Commission's (EC) business confidence indicators, together with the survey-based opinions of purchasing managers in the PMI indicator, evidenced a continuation in Q1 of the rise dating back to autumn 2016 in both industry and in services. Both these indicators are at six-year highs. Along these same lines, job-creation expectations reflected in the EC surveys continued to be favourable in industry and construction. On the demand side, consumer confidence improved in the first two months of the year as a whole, although the lagged quantitative indicators revealed something of a slowdown. Accordingly, retail sales fell back once again in January and new car registrations grew at a more moderate pace, while the unemployment rate held in January at 9.6%. In the case of investment, the degree of capacity utilisation edged up slightly in this quarter, and the assessment of firms' order books — both those intended for the domestic market and for export — improved.

1 See Box 3, Quarterly report on the Spanish economy, December 2016.

EURO AREA ECONOMIC INDICATORS (a)

TABLE 2

	2015			2016				2017
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
National Accounts (quarter-on-quarter growth)								
Gross domestic product	0.4	0.3	0.5	0.5	0.3	0.4	0.4	
Contributions to quarter-on-quarter change in GDP (pp)								
Domestic demand, excluding stocks	0.3	0.5	0.6	0.6	0.5	0.1	0.4	
Stockbuilding	-0.1	0.2	0.2	-0.2	-0.2	0.2	0.1	
Net foreign demand	0.3	-0.4	-0.2	0.1	0.0	0.2	-0.1	
Other indicators								
Unemployment rate	11.0	10.7	10.5	10.3	10.1	9.9	9.7	9.6
HICP (year-on-year rate of change)	0.2	-0.1	0.2	0.0	0.1	0.4	1.1	2.0
CPI excl. unprocessed food and energy (year-on-year rate of change)	0.8	0.8	0.9	1.0	0.8	0.8	0.9	0.9

SOURCES: Eurostat, ECB and Banco de España.

a Information available up to 21 March 2017.

In the medium term, the outlook is for the continuity of the relatively modest pace of recovery in the area, which will be underpinned by the sound performance of private consumption (boosted by favourable financing conditions) and of exports (driven by the improvement in world trade and the depreciation of the euro). Foreseeably, however, the impact of higher fuel prices on real disposable income will somewhat diminish the momentum of the first of these aggregate demand components. This scenario is reflected in the latest Eurosystem projections exercise, which revised the growth forecasts for 2017 and 2018 marginally upwards by 0.1 pp to 1.8% and 1.7%, respectively, leaving the rate projected for 2019 unchanged at 1.6% (see Table 3). The growth outlook for the area remained subject, albeit with less intensity than some months back, to downside risks associated with the uncertainty stemming from US economic policies, the Brexit negotiations, the forthcoming elections this year in some of the core euro area countries and the fragility of certain banks.

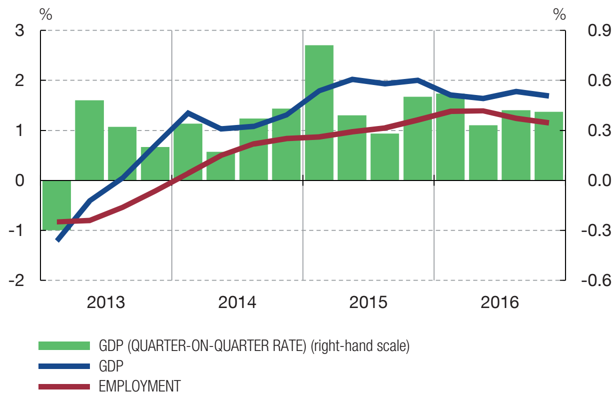
As regards prices, inflation stood at 2% in February, after accelerating strongly for three months. This increase has been boosted by the growth of energy and unprocessed food prices. By contrast, core inflation has held stable at 0.9%. There are no signs either that the increase in inflation is feeding through to price and wage formation processes in a setting in which demand pressures are limited (see Box 3). In this respect, the latest ECB forecasts revise the inflation figures for 2017 substantially upwards to 1.7%, but they hold the forecasts for 2018 and 2019 relatively stable at 1.6% and 1.7%, respectively.

On 22 February this year the EC published its In-Depth Reviews (IDRs) of the 13 Member States which, according to the Alert Mechanism results, could evidence macroeconomic imbalances. In line with the findings of these reviews, the Commission maintained its assessment for the prior year, except in the case of Finland, for which it concluded that the country presents no imbalances for the purposes of the Macroeconomic Imbalance Procedure (MIP). Thus, certain countries (Germany, Ireland, Spain, the Netherlands, Slovenia and Sweden) have economic imbalances, which the EC qualifies as excessive in the cases of Bulgaria, France, Croatia, Italy, Portugal and Cyprus. Broadly, the EC reports warn about the adverse consequences for the internal adjustment of the euro

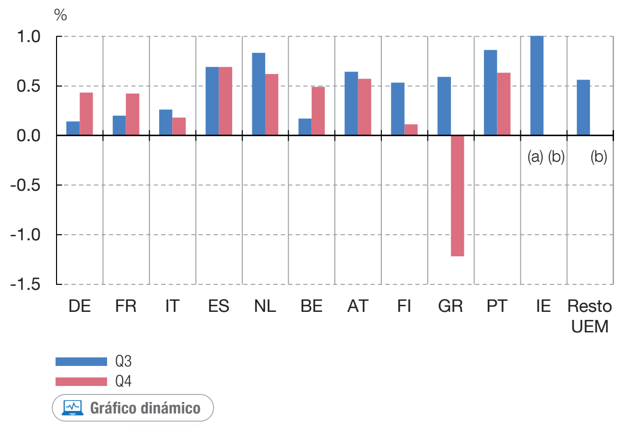
EURO AREA. ACTIVITY INDICATORS

CHART 5

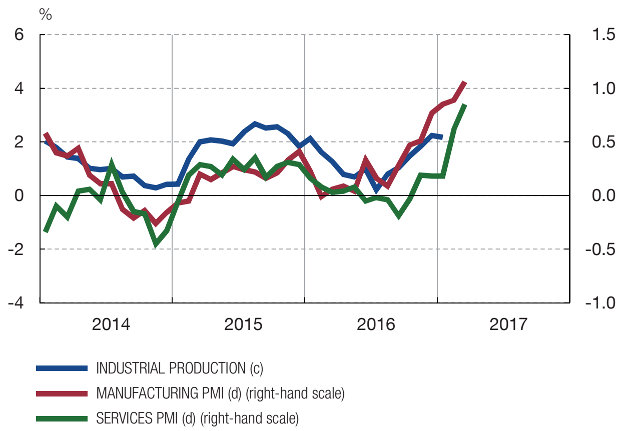
1 OUTPUT AND EMPLOYMENT
Year-on-year growth



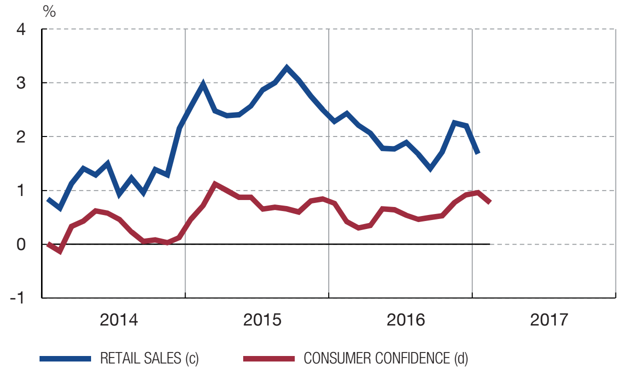
2 GDP BY COUNTRY
Quarter-on-quarter growth



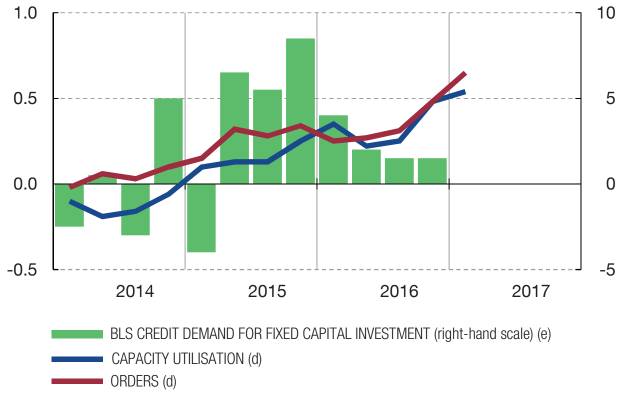
3 INDUSTRIAL ACTIVITY AND SERVICES INDICATORS



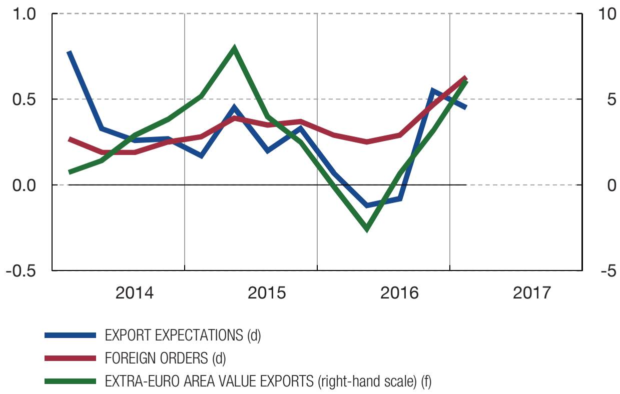
4 CONSUMPTION INDICATORS



5 INVESTMENT INDICATORS



6 EXPORT INDICATORS



SOURCES: Eurostat, Markit Economics and Banco de España.

- **a** Scale of axis is limited so as not to distort the chart with the Q3 figure for Ireland, which is 4.0%.
- **b** Q3 figure not available.
- **c** Year-on-year rates, based on the non-centred quarterly moving average of the seasonally adjusted series.
- **d** Normalised series for the period represented.
- **e** Bank Lending Survey. Indicator = percentage of banks reporting a considerable increase + percentage of banks reporting some increase × 0.5 – percentage of banks reporting some decrease × 0.5 – percentage of banks reporting a considerable decrease. A positive value denotes an increase.
- **f** Year-on-year rates of the original series. Quarterly average.

Download

GDP and HICP GROWTH FORECASTS FOR THE EURO AREA

TABLE 3

	2017		2018	
	GDP	HICP	GDP	HICP
European Central Bank (March 2017)	1.8	1.7	1.7	1.6
European Commission (February 2017)	1.6	1.7	1.8	1.4
IMF (January 2017)	1.6	–	1.6	–
OECD (March 2017)	1.6	–	1.6	–
Consensus Forecast (March 2017)	1.6	1.7	1.5	1.4
Eurobarometer (March 2017)	1.6	1.6	1.6	1.4

SOURCES: ECB, European Commission, Consensus Forecast, IMF, MJ Economics and OECD.

area that arise from the persistence of high current account surpluses in some countries and from the large volumes of non-performing loans that continue to weigh on the financial sector in some Member States.

On this occasion, moreover, the EC conducted an analysis of the implementation status of recommendations since it began to apply this procedure. The analysis reveals a highly uneven degree of ambition across the member countries in the application of these recommendations. Broadly, most progress is observed in the financial sector, in labour markets and in the consolidation of public finances. Conversely, progress in the business environment and in the creation of a framework conducive to investment is more limited and uneven across the different countries. The area where reform has least progressed is the services sector.

In the fiscal domain, the EC published a report on Italy in which it analysed its degree of compliance with the Stability and Growth Pact's (SGP) debt criterion, warning on the need to implement further measures to enable the commitments undertaken to be met. A proposal to fine Austria for proven irregularities in the public debt data sent to Eurostat in 2012 and 2013 was also submitted to the Council. Lastly, the EC gave a favourable assessment of the degree of transposition of the Fiscal Compact (which essentially introduces the obligation to incorporate the rule imposing a balanced budget throughout the cycle and an independent fiscal council into national fiscal frameworks), although it highlighted shortcomings affecting the independent fiscal councils of Spain, Greece and Slovenia.

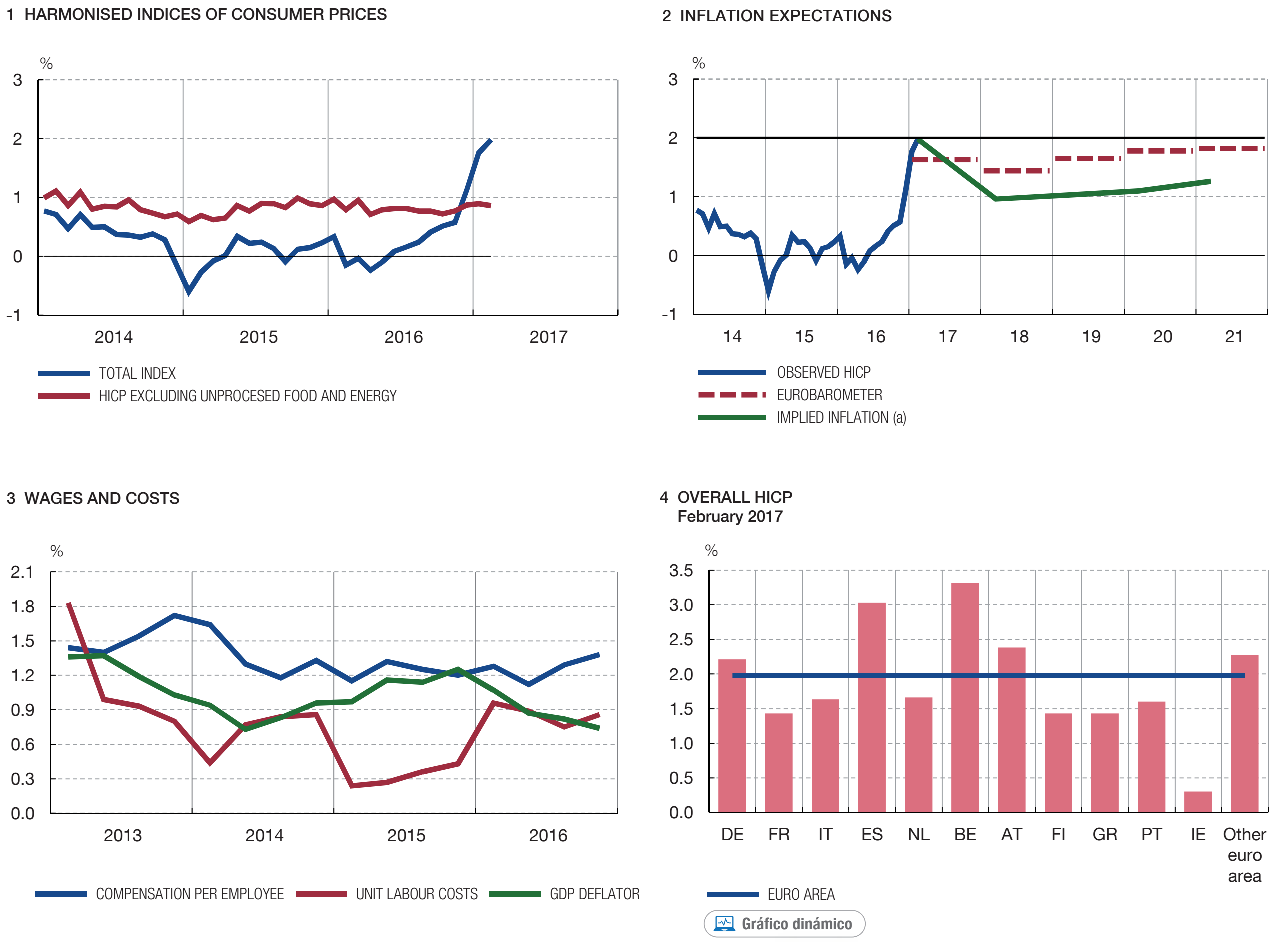
To commemorate the 60th anniversary of the signing of the Treaties establishing the European Union, the EC published a *White Paper on the future of Europe* on 1 March. Its aim here was to initiate a debate on the strategy to move towards greater integration of the European Union countries. During this semester, the Commission will publish five additional policy papers on the development of Europe's social dimension, the deepening of Economic and Monetary Union, harnessing globalisation, the future of European defence and the future of European Union finances.

FINANCIAL DEVELOPMENTS AND MONETARY POLICY

Despite the increase in political uncertainty witnessed since mid-2016, the performance of euro area financial markets remained relatively favourable. The rise on stock markets initiated in autumn last year continued and the favourable financing conditions prevailing both for households and firms held stable. The increase in uncertainty only affected sovereign debt spreads over Germany, undergoing a sustained rise throughout 2017 Q1 which was partly corrected in late March.

EURO AREA. PRICE INDICATORS
Year-on-year percentage changes

CHART 6



SOURCES: Eurostat and ECB.

a Implied inflation calculated from inflation swaps.

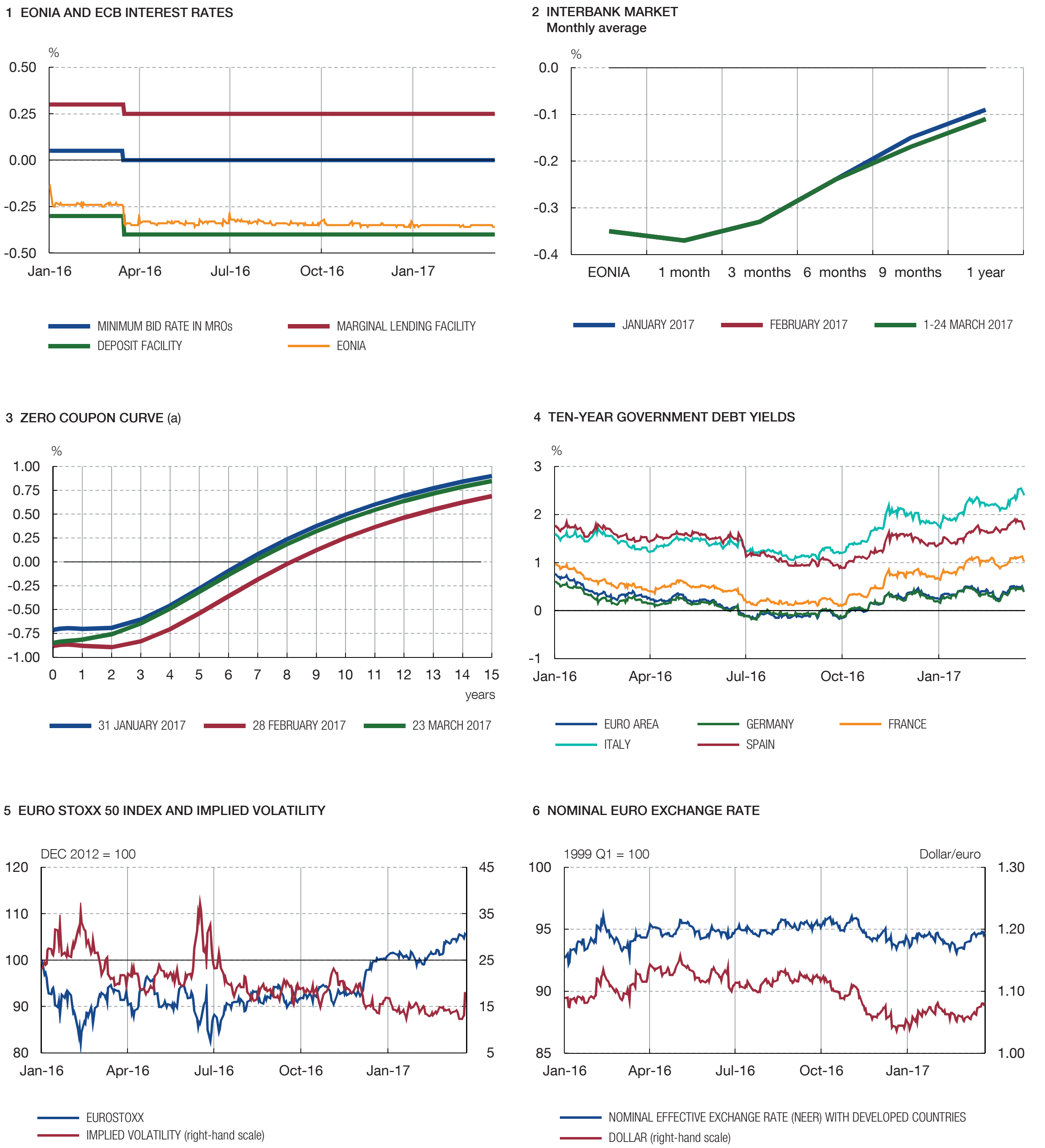
Download

The ECB Governing Council on 9 March held reference interest rates unchanged at 0%, for the main refinancing operations, and at 0.25 % and -0.40 %, respectively, for the marginal lending facility and the deposit facility. It reiterated its expectation for rates to remain at present or lower levels for an extended period of time, well past the horizon of its net purchases under the asset purchase programme (APP). With regard to the APP, the Council insisted on its commitment to make purchases at the current monthly pace of €80 billion until the end of March, continuing thereafter at a monthly pace of €60 billion until December 2017 or, where necessary, beyond, until the Council sees a sustained adjustment in the path of inflation consistent with its medium-term objective. To ensure a smooth implementation of the sovereign bond purchase programme, the Council resolved at its first meeting of the year to amend some of its technical parameters, shortening the minimum residual maturity of eligible one-year bonds and authorising, insofar as this may prove necessary, purchases of debt with a yield lower than the deposit facility rate.

The authorisation of purchases below the deposit facility rate was immediately reflected in the short-term yield on German debt, meaning that two-year bonds came to stand at

POLICY INTEREST RATE AND FINANCIAL CONDITIONS

CHART 7



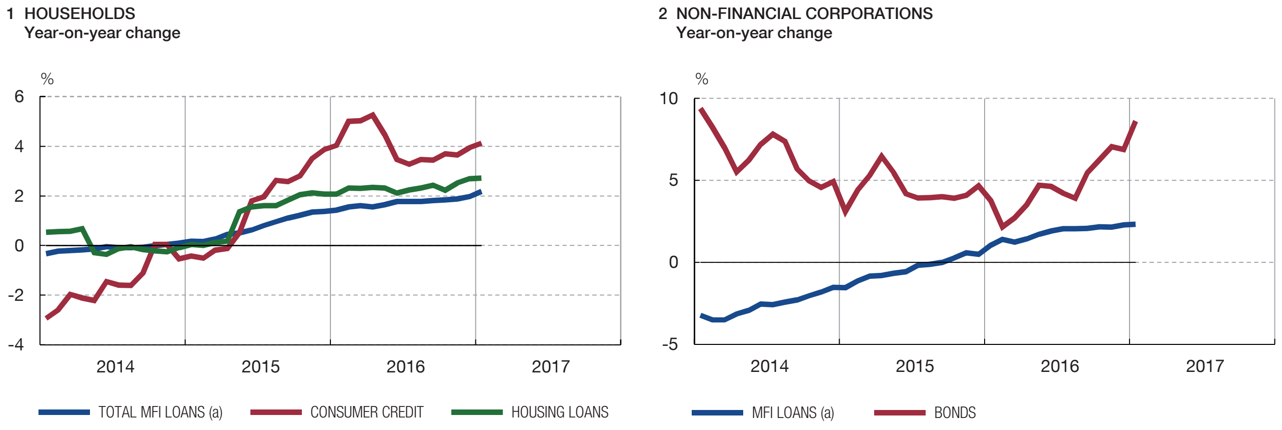
SOURCES: ECB and Banco de España.

a Estimated by the European Central Bank using swap market data.

an all-time low of -0.9 %. The yield spread of US 10-year government bonds over the German Bund corrected in recent days the rise recorded mid-quarter, standing at around 215 bp as at the cut-off date for this Report, slightly below the levels reached in early January. Sovereign spreads within the euro area tended to widen, particularly in the cases of Italy, France, Belgium and Portugal, albeit with a degree of volatility in this latter instance.

PRIVATE SECTOR BORROWING

CHART 8



SOURCE: ECB.

a Adjusted for securitisation and other transfers.

Download

Stock markets continued on the rising trend recorded late last year. The Eurostoxx 50 posted a rise of 4% during the quarter, against a background of low volatility.

On the currency markets, the exchange rate of the euro held relatively constant against the main currencies. In Q1, it traded at around £0.86 per euro and $1.06 per euro, although it appreciated slightly against the dollar in the closing days of March. This relative stability was also extensive to the nominal effective exchange rate, which depreciated marginally by 0.1% during the quarter.

Loans to the private sector held on a gradually recovering path. In the case of loans granted to households, the pace of expansion quickened in January to 2.2% year-on-year, while the growth of loans to non-financial corporations held stable at 2.3%. As regards the monetary aggregates, the year-on-year rate of M3 continued to show the stable growth characterising it over the past 18 months, standing in January at 4.9%. M1, after seeing its decelerating path initiated in late 2015 interrupted in November, posted year-on-year growth of 8.4% that month.

3 THE SPANISH ECONOMY

In 2016 Q4 Spanish GDP grew by 0.7% quarter-on-quarter, the same rate as in Q3 (see Chart 9). GDP growth in Q4 was primarily based on domestic demand, which made a somewhat higher positive contribution than in the preceding quarter, of 0.6 percentage points (pp). The greater buoyancy of this aggregate stemmed from the acceleration in investment (apart from the capital goods component) and from continuation of the favourable behaviour of private consumption, which offset the slight decline in government consumption, in contrast to its growth in Q3. Meanwhile, the positive contribution of external demand was down from the previous quarter (to 0.1 pp), against the background of a slightly stronger recovery in imports than in exports, following the decline in both flows in Q3. In year-on-year terms GDP grew by 3%, down 0.2 pp from the previous quarter, while employment growth moderated by 0.2 pp, to 2.7%. During 2016 as a whole GDP grew by 3.2%, the same rate as in 2015, while employment slowed a little, by 0.1 pp, to 2.9%.

According to the latest data, the rate of growth of GDP in Q1 was somewhat higher than the 0.7% rate observed in the previous quarter and continued to be underpinned by domestic demand. The indicators available for the external sector in Q1, albeit still very incomplete, point to a slightly positive contribution from external demand. Finally, employment is estimated to have grown at a high rate in Q1, after weakening somewhat towards the end of 2016.

The increase in consumer prices in Q1 was marked by a sharp acceleration in December and January, following the moderate growth rate that dated back to last May. In February, the annual rate of change in consumer prices stabilised at the high level of 3%. This behaviour stemmed from the recent acceleration in energy prices and the base effects associated with the fall in such prices a year ago. The changes in the other components were more moderate, with an acceleration in the case of food prices and a slight slowdown in services prices. As a result, the CPI excluding unprocessed food and energy rose in February at a similar annual rate to December, of 1%, while the CPI accelerated by 1.4 pp, to 3%.

In 2017 to date, the financing costs of resident agents in the case of long-term bond issuance continued to rise. In particular, the interest rate on Spanish ten-year sovereign debt increased from 1.4% at the end of 2016 to 1.7% as at the date of this report going to press. As the yield on the German bond with the same maturity increased to a lesser extent during this period, the spread between these two yields widened by 15 bp, to 130 bp (see Chart 10). The rise in the cost of bond issuance for corporations was mitigated by the behaviour of their credit risk premiums, which have fallen since the end of 2016, both in the case of financial and non-financial corporations. At the same time, there was barely any change in interbank market rates, so that twelve-month EURIBOR remained in negative territory (-0.11%). In equity markets, the IBEX 35 rose by 10.2%, outperforming the Eurostoxx 50, which increased by 4.7%.

The average cost of bank credit for the non-financial private sector did not change significantly during the final part of 2016 or in January (the latest period for which data are available), remaining at low levels. Against this background, following moderate growth in activity on credit markets in 2016 Q4 (with the exception of the segment of loans to corporations of more than €1 million, in which volume continued to fall, affected by the

MAIN DEMAND AGGREGATES. CONTRIBUTIONS TO GDP GROWTH (a)

CHART 9

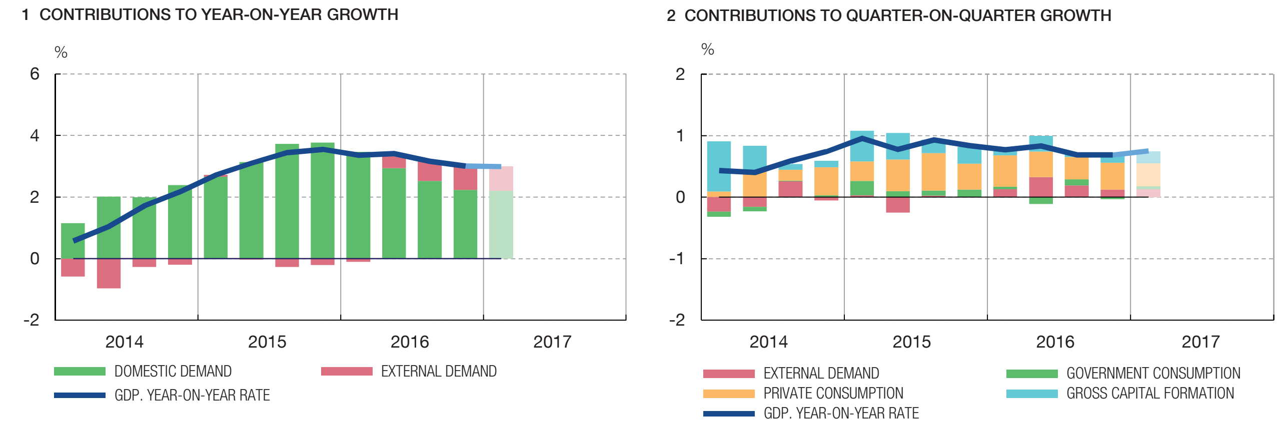


Gráfico dinámico

SOURCES: INE and Banco de España.

a Seasonally adjusted series.

Download

greater attraction of securities issuance), in January there was a general upturn in the volumes of new credit. This behaviour in terms of volumes allowed the fall in the outstanding amount of bank lending to households and corporations to moderate slightly between September and January. In the case of larger companies the financing through bond issuance accelerated, so that the aggregate financing from these two sources grew at a small positive year-on-year rate in January. Finally, during the latter months of 2016, the financial position of households and non-financial corporations continued to strengthen, as a result of the increase in their wealth and the reduction in their debts.

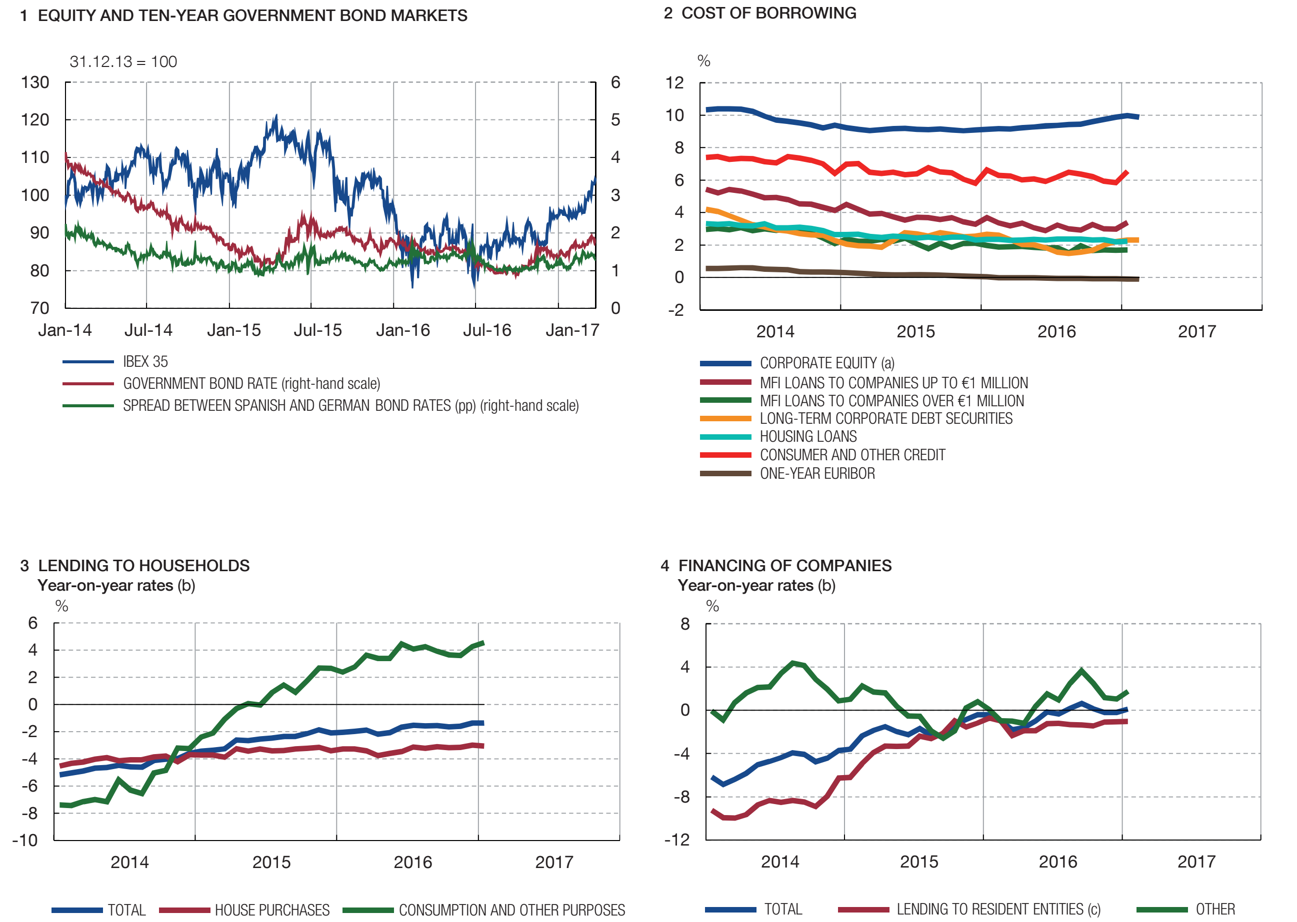
3.1 Household spending decisions

According to the latest information received, household consumption continued to grow at a high rate in Q1, albeit somewhat below the 0.7% rate in the preceding quarter, against a background of continued strong employment generation and accommodating financial conditions. Thus, the qualitative indicators continued to show favourable behaviour on average in January and February in most cases, especially the consumer goods PMI and the services confidence index. However, consumer and retailer confidence indicators deteriorated in February. In the case of retailers, the average level over the period January-February was even lower than that of the final quarter of 2016. The latest quantitative information has been mixed. In terms of the three-month moving quarter-on-quarter rate to February private vehicle registrations continued to grow at a high rate, while the growth in social security registrations moderated slightly. On less up-to-date data, for the period to January, retail trade and consumer-good industrial production indices slowed somewhat, while consumer goods imports remained buoyant (see Chart 11).

In the case of residential investment, the available indicators point to a slight moderation in the growth of this component of household demand in Q1, following an acceleration in the previous quarter, against a background of gradual recovery in new construction permits. On the demand side, housing transactions according to notarial statistics amounted to more than 38,000 transactions, in terms of monthly averages, during 2016 as a whole, resulting in an increase of around 14% on 2015. The increase in house sales, which continued to be concentrated in the second-hand segment, stemmed from both purchases by foreigners (around 17% of the total) and from acquisitions by Spanish

FINANCING CONDITIONS

CHART 10



SOURCES: Bloomberg, Reuters, Datastream, MSCI Blue Book, INE and Banco de España.

a The cost of equity is based on the three-stage Gordon dividend discount model.
b Credit includes off-balance sheet securitisation and loans transferred to Sareb.
c Loans from resident credit institutions and specialised lending institutions.

Download

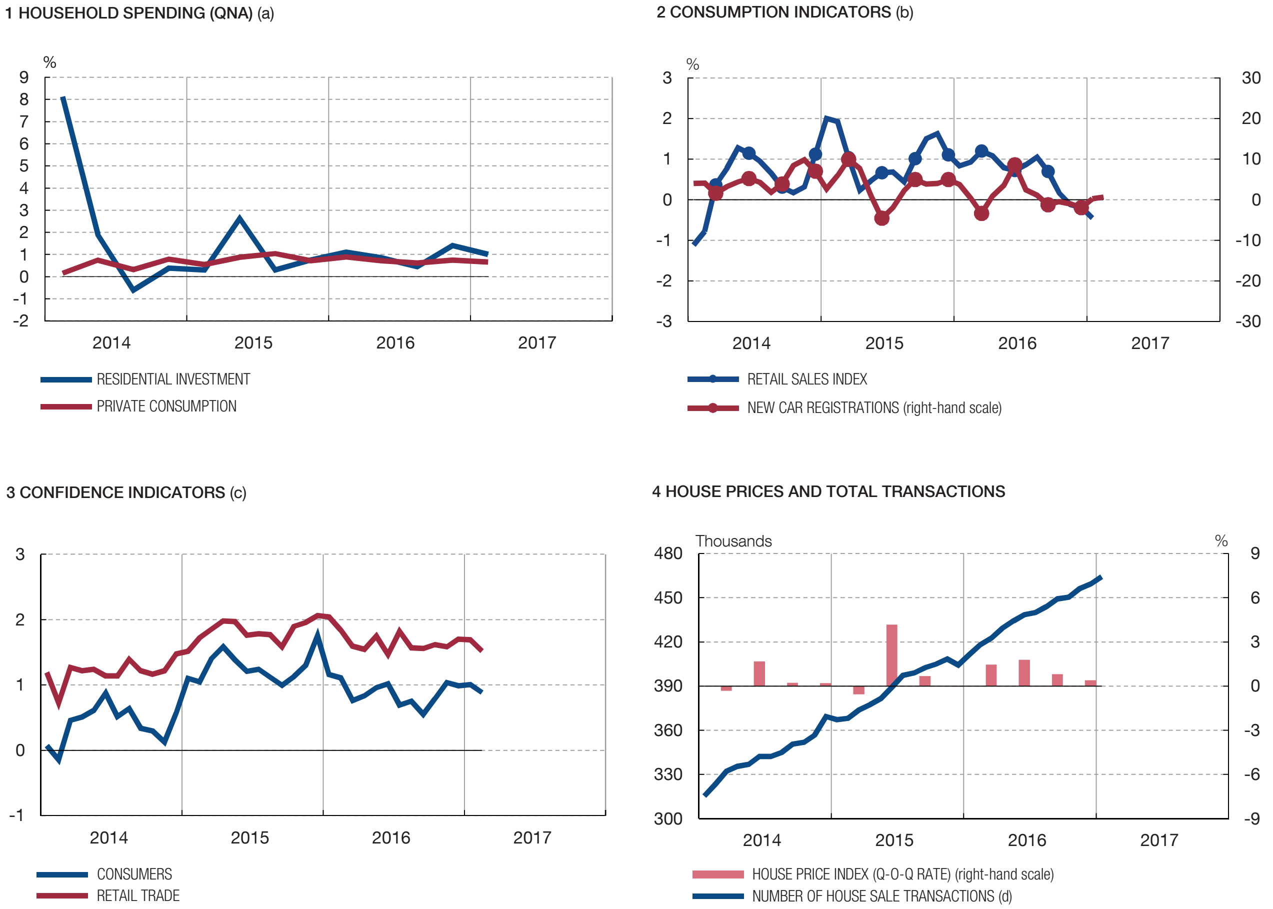
residents. At the same time, the prices of un subsidised housing, according to INE data, increased in Q4 by 4.5% year-on-year and by 0.4% with respect to the previous quarter, with the price increase in 2016 as a whole amounting to 4.7% (see Chart 11.4).

The most recent information on household borrowing costs does not show a clear trend. According to the latest information available, from January the average interest rate on new loans for house purchase stood at 2.2%, while that on consumer credit and other lending stood at 6.5% (see Chart 10). In the former segment there has recently been a change in the structure of the interest rate review periods for new loans, with those granted at a fixed rate gaining in weight (see Box 6). Since, at the present juncture, the cost of loans in this latter case is higher than the initial interest rate of variable rate loans, this change in composition translates into a certain rise in the indicator that measures the average cost of new loans to households for house purchase, which does not necessarily reflect a tightening of financial conditions in this segment.

As regards the volumes of new loans, following a certain moderation in their growth in 2016 Q2, especially in the housing segment, there was a rise in activity in January. The

HOUSEHOLD SPENDING

CHART 11



SOURCES: INE, European Commission, ANFAC, Centro de Información Estadística del Notariado and Banco de España.

a Quarterly rates calculated using seasonally adjusted series.
b Rate of change of moving average of three terms with three time lags, calculated using the seasonally adjusted series. The dots represent quarter-on-quarter rates.
c Normalised indicators (difference between the indicator and its mean value, divided by the standard deviation).
d 12-month moving sum.

Download

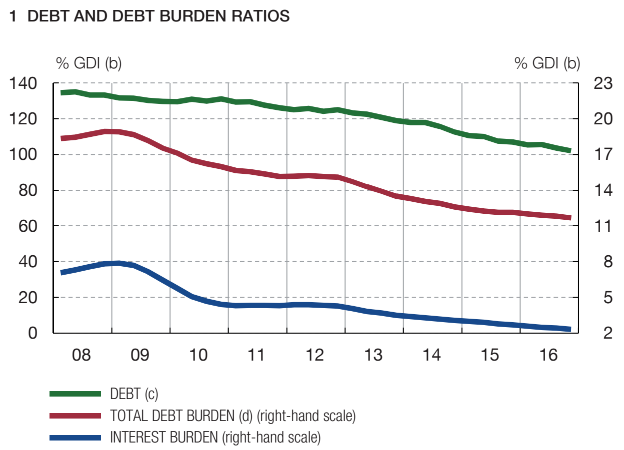
information from the latest editions of the Bank Lending Survey (BLS) suggests that the slowdown in the credit market in the second half of 2016 was mainly linked to demand factors, since, according to this source, there was a decline in the buoyancy of new applications in both segments.[1] For 2017 Q1, banks expected, on the supply side, a slight tightening of credit standards in the case of loans for house purchase and no change in those for consumer credit and other lending and, on the demand side, an increase in credit applications in both segments. In terms of outstanding amounts, the increase in new loans in January contributed to a moderation in the year-on-year rate of decline of household debt, to 1.4%, from 1.6% in September. By type of loan, lending for house purchase continued to contract at the same year-on-year rate, of 3.1%, while the year-on-year growth of consumer credit and other lending accelerated from 3.9% in September to 4.5% in January.

Finally, the financial position of households continued to improve in the final quarter of 2016. Thus, the debt ratio and the debt burden of households fell relative to their gross

1 See *Encuesta sobre Préstamos Bancarios en España: enero de 2017*.

INDICATORS OF THE FINANCIAL POSITION OF HOUSEHOLDS AND NPISHs (a)

CHART 12



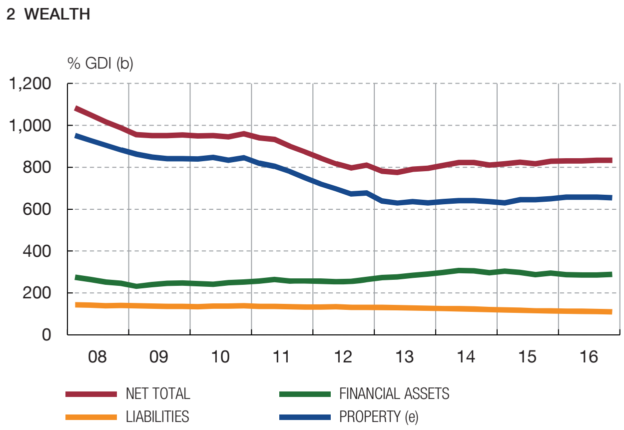


Gráfico dinámico

SOURCES: INE and Banco de España.

a Last data point in each series is an estimate.
b Cumulative data from four quarters.
c Includes MFI lending and off-balance securitised lending.
d Estimate of interest payments and capital repayments.
e Valuation based on estimated trends in housing stock, built surface area and price per square metre.

Download

disposable income (see Chart 12), as a result of the decline in their debt, the growth in their income and, in the latter case, the reduction in the average cost of their liabilities. The net wealth of households continued to expand, as a result of the increase in their real-estate and financial wealth, driven by the rise in the value of their assets and the decline in their liabilities.

3.2 Business activity and investment

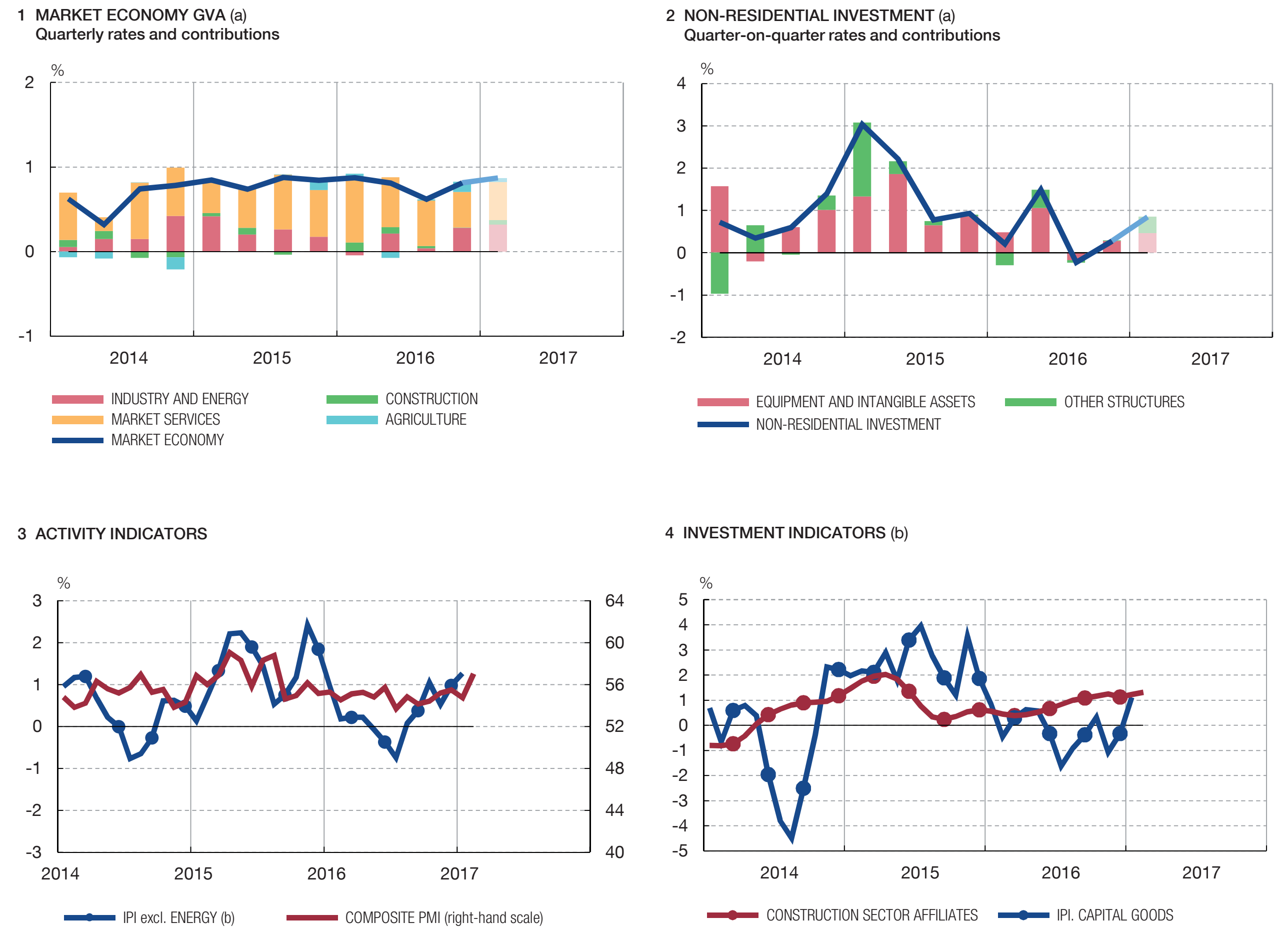
Business activity, approximated by the value added of the market economy, is estimated to have increased its growth rate slightly in Q1. The favourable tempo of activity at the beginning of the year seems to have been widespread across the different market sectors, except for agriculture (see Chart 13).

In the light of the contemporaneous information on industry and energy, growth of activity in this sector in Q1 may prove to be somewhat higher than in the final stretch of last year. In most cases the qualitative indicators continued to improve following a moderate weakening in mid-2016. Consequently, the European Commission's industrial confidence indicator, the manufacturing PMI and order books, particularly orders from abroad, posted average levels in the period January-February which were higher than their respective averages in the previous three months. Similarly, quantitative indicators performed favourably, both the industrial production index (whose rise in January was underpinned by the more positive trend of the capital goods and energy components) and the social security registrations of this sector, (whose growth rate remained stable to February) in terms of the three-month moving quarter-on-quarter rate (see Chart 13).

According to the latest information received on market services, growth in the activity of this sector in the early stages of the year seems to be similar to that observed in 2016 Q4. Of the qualitative indicators, the services PMI and the confidence indicator of this sector (compiled by the European Commission) in terms of their average for the first two months of the year were higher than their respective averages in the period October-December.

COMPANY DECISIONS

CHART 13



SOURCES: INE, Ministerio de Fomento, Markit, OFICEMEN and Banco de España.

a Seasonally adjusted series.
b Rate of change of moving average of three terms with three time lags, calculated using the seasonally adjusted series. The dots represent quarter-on-quarter rates.

Download

As for quantitative indicators, and according to State Tax Revenue Service figures, the sales of large corporations providing non-financial services remained robust, whereas the services business activity index lost some momentum in terms of the three-month moving quarter-on-quarter rate constructed with data to January. The rate of increase of social security registrations in this sector softened between December and February.

The growth rate of the value added of firms in the construction sector seems to have increased in Q1 in contrast with some deceleration in 2016 H2. Among the coincident indicators on intermediate consumption, cement consumption and industrial production of non-metallic minerals (both based on data to January) quickened, especially in the case of cement consumption. Likewise, the rate of increase of the number of social security registrations in this sector rose between December and February. By type of construction work, the most recent information on new housing approvals seems to point to a smaller increase in this segment, whereas the decline in government procurement in civil engineering projects eased. Overall, this information seems to indicate that growth in construction activity in Q1 has continued to be supported by the residential component.

In this setting of positive developments in business activity as a whole, investment in capital goods is estimated to have gathered pace in 2017 Q1 to post a quarter-on-quarter rate of slightly less than 1% in contrast with its deceleration in 2016 H2. Thus, among the qualitative indicators, the industrial confidence index and the foreign order book of this sector continued to gain momentum in January and February. The manufacturing PMI and, to a greater degree, that of capital goods decelerated in February, although only in the case of capital goods is the average in Q1 slightly lower than in the preceding quarter. Quantitative indicators recovered somewhat after weakening in the second half of the past year. Therefore, in terms of the three-month moving quarter-on-quarter rate, the IPI and capital goods imports gathered steam in January after showing some sluggishness in previous months. Similarly, the growth rate of commercial vehicle registrations increased between December and February (see Chart 13).

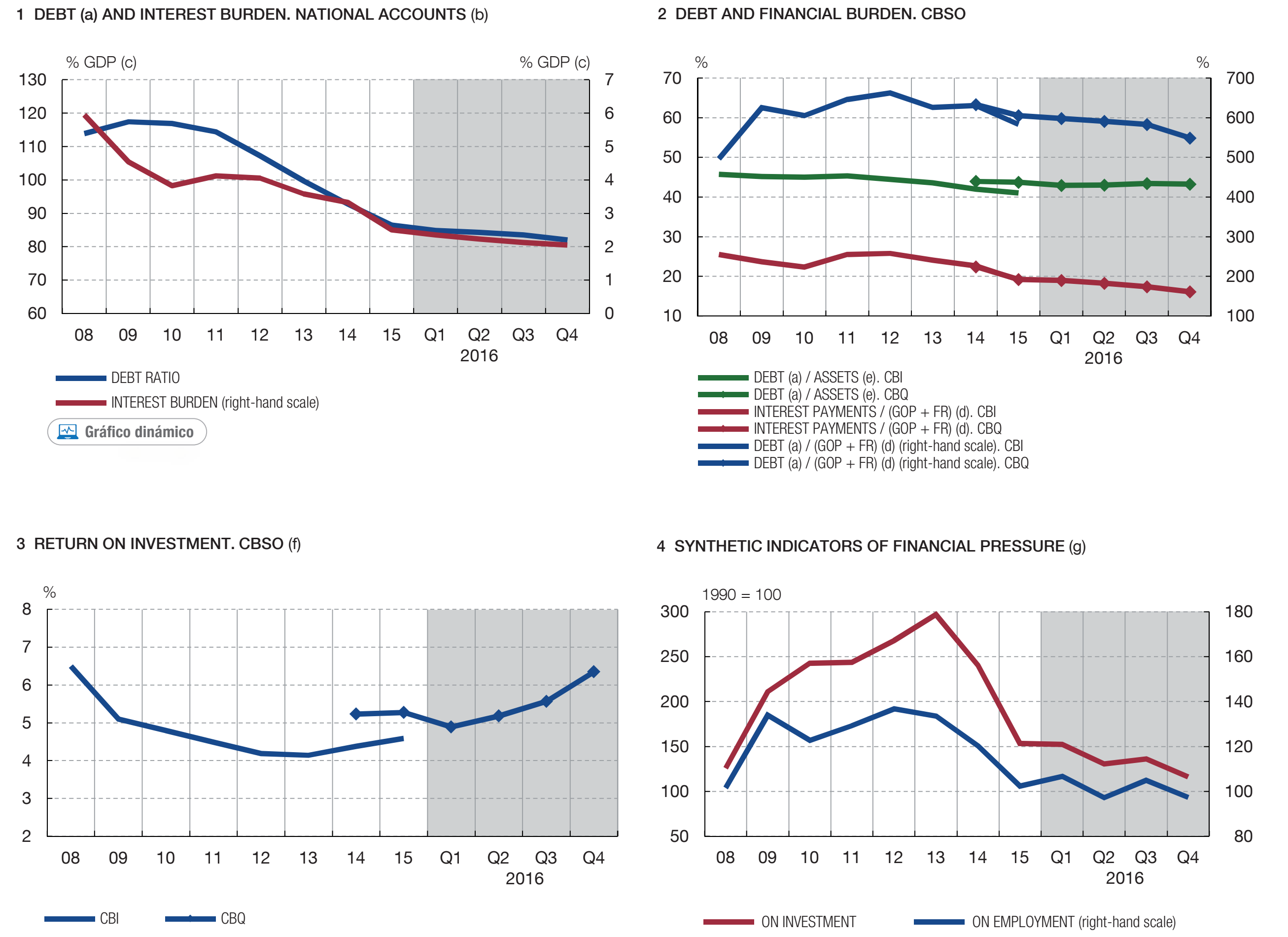
Information from recent months on the financing conditions of the corporate sector, in line with household financing developements does not show a clear trend in the average costs of new bank loans to non-financial corporations, aside from the usual variations. On the most recent data referring to January, the average interest rate on loans for less than €1 million, a segment in which SME transactions are essentially concentrated, stood at 3.4%, while the average interest rate on loans above the foregoing figure was 1.7% (see Chart 10). By contrast, long-term market-based debt financing became slightly more expensive between December and February (up 11 bp to 2.3%), while the cost of equity financing remained stable over that period.

In this setting, the volume of new lending for amounts of less than €1 million rose slightly in 2016 Q4 in year-on-year terms, while that of loans for €1 million and more, mainly used by large corporations, continued to fall, albeit at a lower rate. In January there was an increase in activity in both segments. According to the latest edition of the BLS (2016 Q4), demand factors continued to explain the different trends in loans by amount in a setting in which lending standards remained unchanged. Therefore, according to the banks surveyed, requests for funds from SMEs increased during the last three months of 2016, whereas those from large corporations fell. As a result of these developments in activity on credit markets, the fall in the balances of bank loans to non-financial corporations eased from 1.3% in September to 1% in January. The breakdown by type of loan (available to 2016 Q4) shows that the year-on-year rate of decline in credit extended to the construction sector remained at approximately 10% and the fall in loans for real estate services stepped up to 11.3% (from 10% in Q3). Conversely, the contraction in credit extended to industry and other services in that period eased by 0.5 pp and 3.1 pp to 3% and 0.5%, respectively.

The lower demand for bank credit by large corporations is linked, in part, to the greater appeal of market-based debt financing; the issuance of which rose in recent months. In particular, debt securities financing, including debt securities issued by non-resident subsidiaries, showed more dynamism between September and January (its rate of increase rose by 2.5 pp to 8.6%). Consequently, financing obtained through fixed-income issues and bank loans extended by resident institutions switched to posting slightly positive growth rates in January.

Lastly, the balance sheet position of firms continued to improve in the last three months of 2016. In particular, the debt ratio and interest burden as a percentage of GDP continued to decline, boosted by the increase in GDP, the fall in debt and, in the case of the interest burden, also due to the decrease in the average cost of debt (see Chart 14). According to the Central Balance Sheet Data Office Quarterly Survey (with information from 2016), as a

INDICATORS OF THE FINANCIAL POSITION OF NON-FINANCIAL CORPORATIONS CHART 14



SOURCES: INE and Banco de España.

a Interest-bearing borrowing.
b The last data point in each series is an estimate.
c The GDP data series is seasonally adjusted.
d Gross operating profit (GOP) plus financial revenue (FR).
e Defined as total inflation-adjusted asssets less non-interest bearing liabilities.
f Defined as ordinary net profit / net assets.
g Indicators calculated on the basis of annual CBSO data, or of quarterly data where no annual data are available. A value of more (less) than 100 denotes higher (lower) financial pressure than in the base year, and vice versa.

Download

result of the upward trend in activity together with the favourable performance of financial costs and revenues, the ordinary profits of sample firms grew at a high rate which led to a further increase in aggregate ordinary profitability indicators.

3.3 The external sector and balance of payments

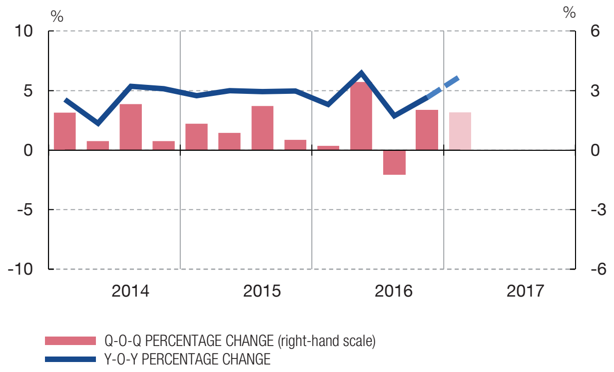
Based on the limited information available - referring only to January - net external demand is estimated to have made a slightly positive contribution to the quarter-on-quarter growth of GDP in the first quarter of the year, in line with the previous quarter. These developments are seemingly against a backdrop of quickening foreign trade in goods and services following its upturn in 2016 Q4. Trade transactions with the rest of the world are also estimated to have increased their year-on-year growth rate in 2017 Q1 (see Chart 15).

Customs data for January showed that foreign trade stepped up in a context characterised by the usual volatility of these series. Real goods exports climbed by 16.5% in January on a year-on-year basis, which was notably higher than their growth rate in December and in

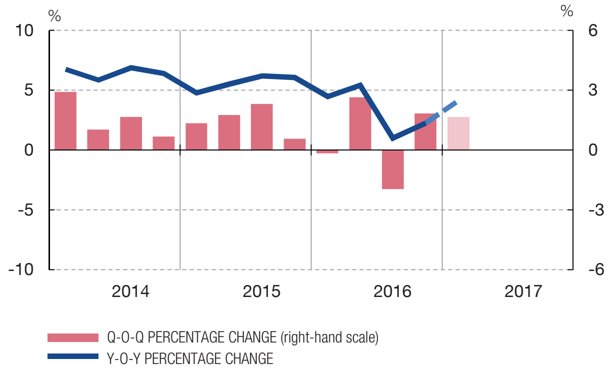
FOREIGN TRADE AND BALANCE OF PAYMENTS

CHART 15

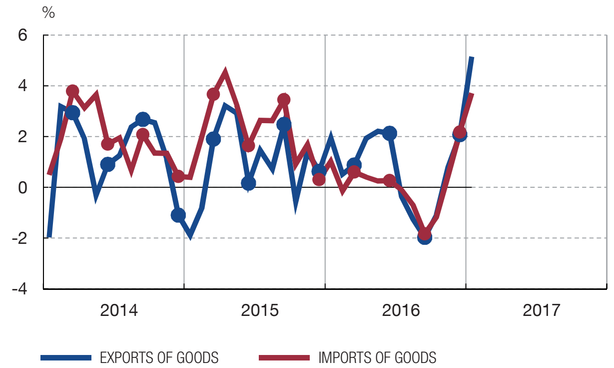
1 EXPORTS OF GOODS AND SERVICES (a)



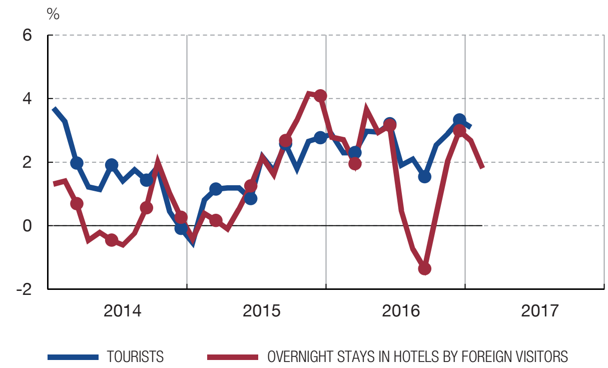
2 IMPORTS OF GOODS AND SERVICES (a)



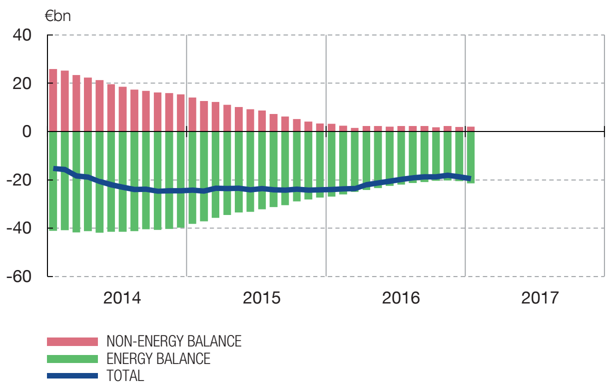
3 CUSTOMS INDICATORS (b) (c)



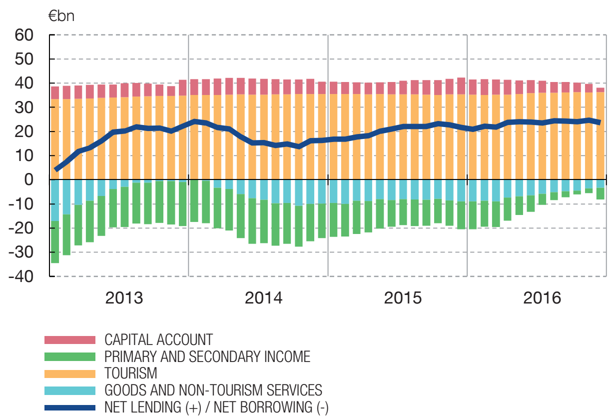
4 TOURISM INDICATORS (c)



5 FOREIGN TRADE IN GOODS
Cumulative figures for the last twelve months



6 BREAKDOWN OF THE CURRENT AND CAPITAL ACCOUNT BALANCE (d)
Cumulative figures for the past twelve months



SOURCES: INE, Ministerio de Economía y Competitividad and Banco de España.

a QNA data at constant prices. Seasonally adjusted series.
b Series deflated using export (IPRIX) and import (IPRIM) price indices for industrial products.
c Rate of change of moving average of three terms with three time lags, calculated using the seasonally adjusted series. The dots represent quarter-on-quarter rates.
d Data conform to the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* (BPM6).

Download

2016 Q4 (2.5% and 4.3%, respectively). This quickening, albeit widespread across the different product types, was sharper in capital and intermediate goods; noteworthy, in particular, among the latter was the acceleration of energy goods. By geographical area, exports to the EU and, to a greater degree, those to the rest of the world were most buoyant in January. Similarly, real goods imports accelerated considerably in January to reach a year-on-year rate of increase of 11.2% (2.8% in December, which was close to the rate for 2016 Q4 as a whole). By product group, the higher growth of imports also influenced the different product types with energy quickening more noticeably.

On the most recent information relating to the first two months of the year, inbound tourism seems to have remained highly robust in early 2017, a characteristic it displayed throughout last year, buoyed by the redistribution of tourism flows due to geopolitical instability in certain geographical areas[2]. In particular, overnight stays in hotels and inflows of foreign tourists continued to record strong year-on-year growth rates, noteworthy was the vigour of certain major tourism-generating markets, such as the United Kingdom and other traditionally less relevant markets, such as Italy and the United States. Likewise, nominal tourist expenditure is estimated to have maintained the buoyancy observed in recent months.

The net lending of the Spanish economy has continued to expand recently. Specifically, the surplus on the balance of payments stood in 2016 at 2.1% of GDP, 0.1 pp higher than in 2015. This widening is mainly explained by the reduction in the energy deficit, which is linked to lower oil prices for most of 2016 compared with 2015, and, to a lesser degree, the improvement in the income deficit which is related to the decline in interest rates. Despite the strength of foreign tourist arrivals, at historical highs, there has been no improvement in the tourism balance owing to the higher outbound tourism expenditure of Spanish residents. The increase in the current-account surplus had little effect on net lending as it was offset by a decline in the surplus on capital account.

The information on cross-border financial flows of 2016 Q4, excluding the transactions of the Banco de España, shows that residents decreased their liabilities vis-à-vis the rest of the world by €5.4 billion, as a result of a reduction in the other investment balance which was higher than the increase of portfolio and direct investment liabilities. In turn, resident agents' assets abroad rose by €16.2 billion, an increase which was distributed across the various headings. Thus, the net balance of the financial account (the difference between the net change in assets and in liabilities), excluding the Banco de España, turned positive again and reached €21.5 billion. These developments continued to be greatly affected by the private sector's financing capacity and the Eurosystem's liquidity provision policy. Since the balance of cross-border financial transactions was once again higher than the nation's net lending in that period, this was reflected in a further increase of the Banco de España's debit position vis-à-vis the rest of the world. Spain's overall net financial flows vis-à-vis the rest of the world were also positive, amounting to 3.1% of GDP (7.9%, excluding the Banco de España). The resident sectors made net investments in assets in the rest of the world at the same time as they reduced their liabilities vis-à-vis the external sector, excluding the central bank (see Chart 16).

As for the international investment position, the latest information for 2016 Q3 shows that the net debit position of the economy rose by €13.2 billion compared with the previous quarter. In terms of GDP, this made for a figure of 88.7% in 2012, 0.4 pp up on June. The

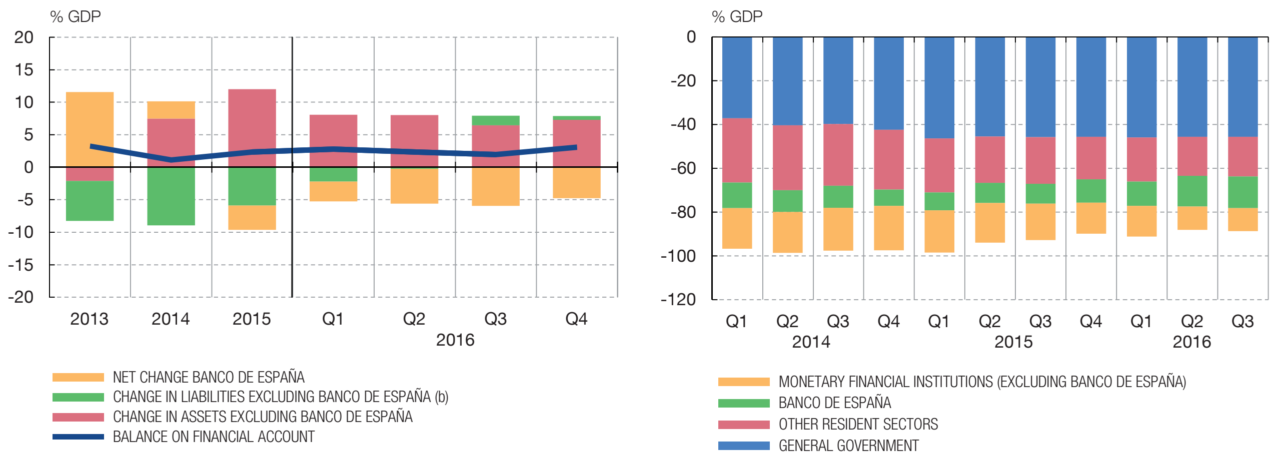
2 See Box 7 of this Bulletin.

BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION

CHART 16

1 FINANCIAL ACCOUNT OF THE BALANCE OF PAYMENTS (a)

2 INTERNATIONAL INVESTMENT POSITION (c)



SOURCE: Banco de España.

a Four-quarter cumulative quarterly data.
b Sign changed.
c Assets minus liabilities vis-à-vis the rest of the world.

Download

net debit balance vis-à-vis the rest of the world increased because the net financial transactions during the period, amounting to €8.5 billion, were not sufficient to offset the unfavourable impact of other flows, amounting to €21.7 billion. Other flows essentially reflected the striking appreciation of the liabilities issued by resident agents and held by foreign investors, particularly those linked to equity instruments. Conversely, the nation's gross external debt fell by 0.2 pp in terms of GDP to 171.2%.

3.4 The labour market

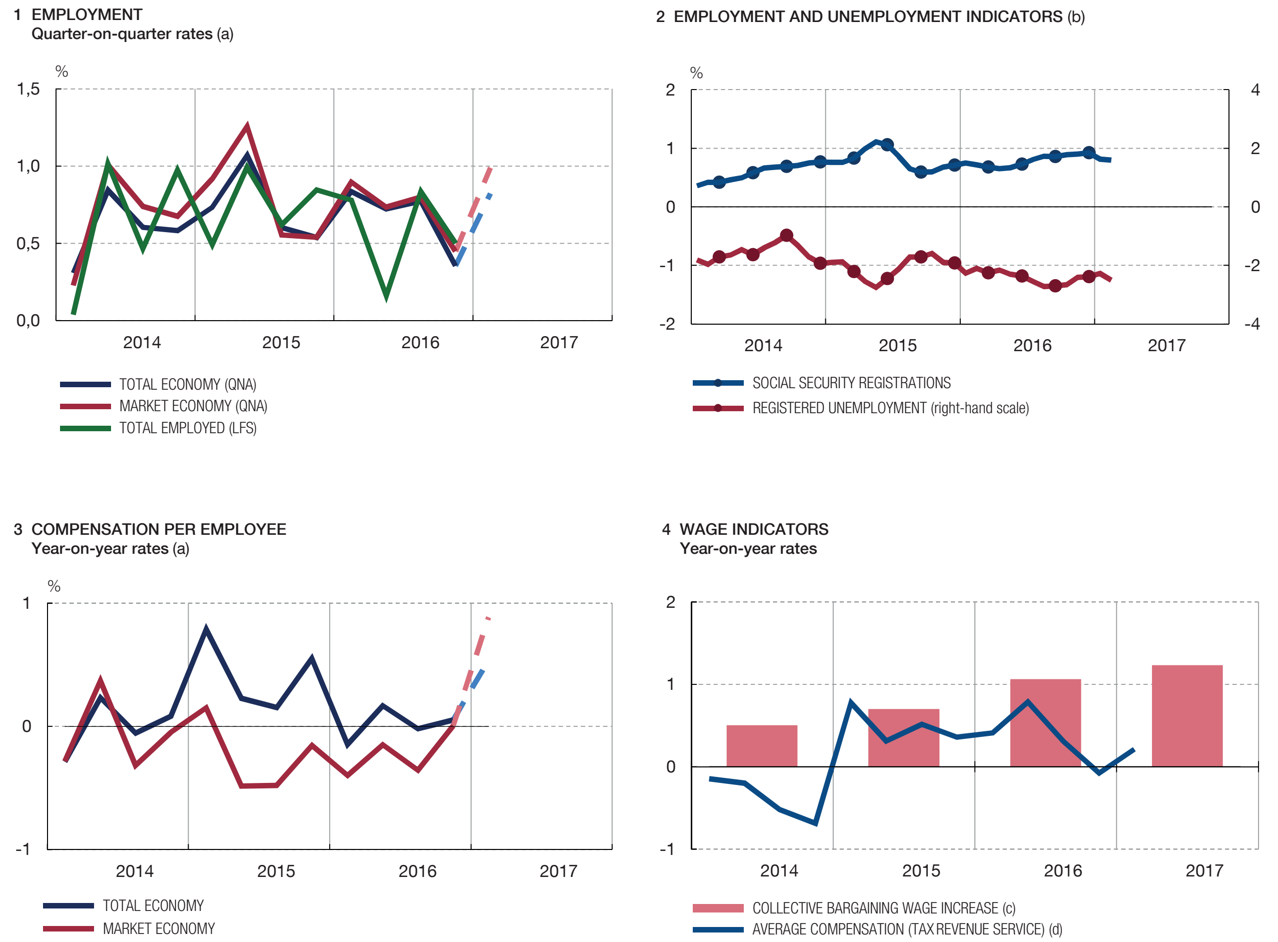
Social security registrations remained highly buoyant until February which resulted in growth of 0.8% in terms of the three-month moving quarter-on-quarter rate, which was slightly lower than the increase in Q4. By activity, the moderation of the growth rate of registrations reflected the easing in services activity across the board and that in agriculture, in particular. Overall, this information would suggest employment growth in 2017 Q1 of approximately 0.8% in QNA terms, in contrast with the moderate rise of 0.4% in the preceding quarter. Employment could grow at a slightly higher rate in the market economy than in the whole economy (see Charts 17.1 and 17.2).

The rate of decline of unemployment registered by the National Public Employment Service (SEPE by its Spanish abbreviation) increased slightly between December and February in terms of the three-month moving quarter-on-quarter rate. The contracts registered at SEPE quickened in the first two months of the year, reaching a year-on-year growth rate of 11.2% on average in this period (compared with 7.1% in 2016 Q4). Permanent contracts remained more buoyant than temporary ones, with average year-on-year increases in the January-February period of 14% and 10.9%, respectively, and, consequently, the share of permanent contracts in total contracts rose to 10.4% in February, 0.3 pp up on a year earlier.

As for wages, the information on collective bargaining to February indicates a year-on-year increase in wage rates of 1.2% in the agreements reached until that date, representing a slightly higher increase that the rate of 1.1% agreed for the whole of 2016. The

EMPLOYMENT AND WAGES

CHART 17



SOURCES: INE, Ministry of Employment and Social Security, and Tax Revenue Service.

a Rates of change based on adjusted series. Employment QNA, measured in equivalent employment terms.
b Rate of change of moving average of three terms with three time lags, calculated using the seasonally adjusted series. The dots represent quarter-on-quarter rates.
c With data to February 2017. Excludes indexation clauses.
d Gross quarterly data. Last quarter, only data for January 2017.

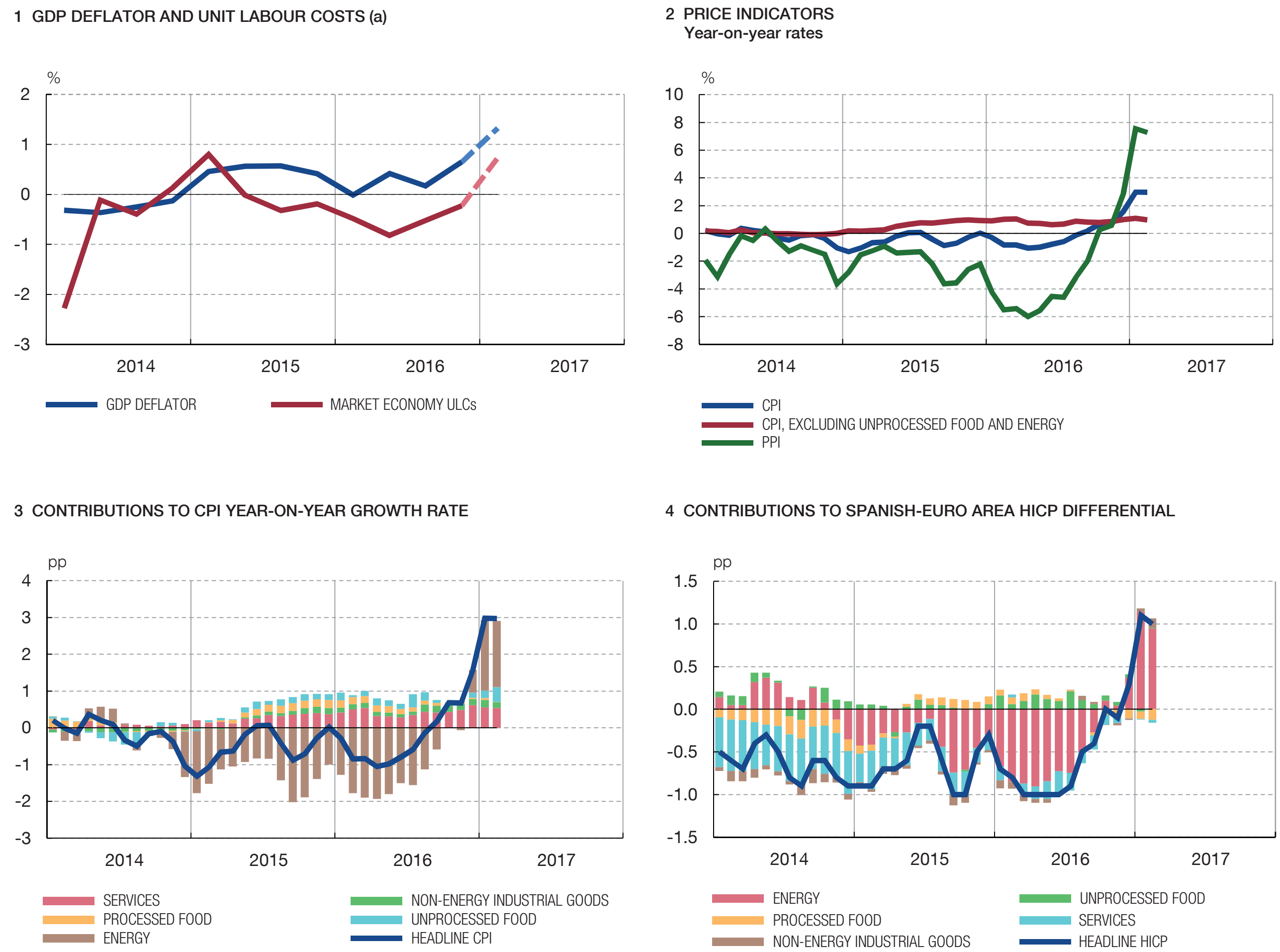
Download

agreements reached in the first two months cover slightly more than 3.5 million employees, a similar figure compared to the same period of the previous year. As so little time has elapsed in 2017, practically all of these employees are subject to multi-year agreements entered into in previous years for which the average increase in wage rates stood at 1.2%. The newly signed agreements account for hardly 0.8% of employees with agreements in force and for which the wage settlement amounts to 1.4%[3]. Other wage indicators showed very moderate increases. Thus, average gross compensation at large corporations grew by 0.2% in year-on-year terms in January after falling slightly in Q4 (-0.1%). In QNA terms, compensation per employee for the whole economy increased in Q4 by 0.1% year-on-year, and this change was zero in the market economy following a year and a half of declines. In 2017 Q1 compensation is expected to quicken to some degree (see Charts 17.3 and 17.4).

3 Contrary to other years, this year no agreement with wage recommendations has been reached so far between the social agents, which could delay the progress of collective bargaining at the beginning of this year.

PRICES

CHART 18



SOURCES: INE, Eurostat and Banco de España.

a Year-on-year rates of change based on seasonally adjusted series.

Download

3.5 Price developments

In 2017 Q1 it is estimated that the import deflator will quicken notably, largely owing to the rise in the prices of oil and other commodities on international markets with respect to their levels a year earlier. Likewise, the year-on-year growth rate of domestic producer prices, approximated by the GDP deflator, will foreseeably increase in Q1, albeit less sharply than in the case of imported goods prices (see Chart 18).

The CPI's year-on-year rate of change reached 3% in February, its highest level since October 2012 and 1.4 pp higher than in December (see Chart 18). Recent developments in overall inflation have been influenced considerably by the rising trend in energy prices as a result of the higher prices of electricity and oil derivatives, as well as by the comparison effects associated with previous declines in these prices[4]. The year-on-year growth rate of the CPI excluding unprocessed food and energy stood at 1% in February, the same as in December. As for its components, the year-on-year growth rate of services and processed food prices eased by 0.3 pp and 0.2 pp to 1.3% and 0%, respectively, between December and February. The year-on-year growth rate of non-energy industrial goods prices stood at

4 See Box 3 of the Quarterly Report on the Spanish economy in the Economic Bulletin of the Banco de España, December 2016, and Box 4 of this bulletin.

0.6%, the same as in December. These consumer price developments took place against a background of very small increases in national producer prices and in the prices of non-energy industrial goods imports, although for processed food the rises were more prominent, especially in terms of import prices.

As for the more volatile consumer price components, energy prices quickened sharply between December and February, which represented an increase in their year-on-year rate of change of almost 12 pp to 16.8%. This performance reflected increases in heating and vehicle fuel prices as well as rises in electricity and gas prices which were generally sharper than in January. In turn, the CPI excluding unprocessed food accelerated between December and February, as a result its year-on-year rate of change rose by more than 3 pp to 5.4%. The recent rise in fresh fruit and vegetable prices had a particular impact on these developments.

Between December and February, the year-on-year rates of change in the HICP in Spain and the euro area climbed by 1.6 pp and 0.9 pp to 3% and 2%, respectively. Consequently, the inflation differential, which had been favourable to Spain prior to December, turned positive in that month and widened to 1 pp in February, mainly in response to the higher rise in energy prices in Spain than in the euro area. The change in the differential in terms of the CPI excluding unprocessed food and energy was of a much smaller magnitude, nevertheless, it turned positive to stand at 0.2 pp (-0.1 pp in December). Among the core inflation components, the differential in non-energy industrial goods (favourable to Spain) turned positive, which the widening of the differential in processed food and services (favourable to Spain) failed to offset.

24.3.2017.

Chronology of Analytical Articles. 2017 Q1.

SURVEY OF HOUSEHOLD FINANCES (EFF) 2014: METHODS, RESULTS AND CHANGES SINCE 2011

Published on 24 January 2017

This article presents the main results of the Survey of Household Finances 2014, which show the financial position of Spanish households at the end of 2014. It also describes the most significant changes observed in the period from end-2011 to end-2014.

MACROECONOMIC UNCERTAINTY: MEASUREMENT AND IMPACT ON THE SPANISH ECONOMY

María Gil, Javier J. Pérez and Alberto Urtasun

Published on 2 February 2017

This article characterises the level of uncertainty in the Spanish economy. Various indicators are analysed, distinguishing their source: financial market volatility, degree of disagreement between agents on the economic situation and economic policy uncertainty.

Aggregate uncertainty in the Spanish economy increased in 2016, although it remained at levels below the average for the 2008-2013 recession.

The changes in uncertainty captured by financial indicators are shown to have a higher impact on economic activity, and particularly on investment.

Finally, it is illustrated how a significant part of the macroeconomic effect of the heightened uncertainty in the past year originated outside the Spanish economy.

TOWARDS EFFICIENT CAPITAL FLOW MANAGEMENT

Ángel Estrada, Luis Molina, Paula Sánchez and Francesca Viani

Published on 9 February 2017

Financial globalisation has advanced notably in recent decades. In principle, greater integration should raise the degree of economic efficiency. However, the empirical evidence suggests that, for this to occur, countries should have well-designed economic institutions and sufficiently developed local financial markets. Moreover, these flows may jeopardise financial stability in certain circumstances, whereby the economic authorities need to draw on criteria and instruments to withstand such situations. These tools should be used as part of a broader programme of measures that includes the macro and microeconomic adjustments required. Furthermore, international cooperation emerges as a necessary complement to globalisation.

SERVICES REGULATION, INPUT PRICES AND EXPORTS

Mónica Correa-López

Published on 16 February 2017

This article analyses the economic implications of a change in the regulatory framework designed to promote competition among firms, assessing the impact that barriers to competition in the services industry have on the cost of inputs and the exports of manufacturing firms in Spain.

The estimates presented reveal that the reductions in barriers to competition over recent decades have had a significant impact on the real exports of manufacturing firms, especially larger ones, as a result of greater competition in the supply of their inputs.

The results underline the fact that further improvements in the degree of competition may influence the competitiveness of the Spanish economy as a whole.

GLOBAL FUNDING TRENDS IN CAPITAL MARKETS IN 2016

Alberto Fuertes, José Manuel Marqués and Luis Molina

Published on 23 February 2017

Bond issuance increased moderately in the developed markets in 2016, partly due to the ongoing fiscal consolidation in the main economies. Placements by companies with better credit quality and by the banking sector were notably buoyant.

Across countries, however, there were significant differences, both in terms of the conditions of supply of bonds by issuers (the cyclical position of each economy, the need for deleveraging by businesses and the public sector, and the regulatory requirements in the financial sector) and in terms of the factors affecting the demand of investors (risk appetite, the search for yield in a context of negative interest rates and the role of central banks in bond purchases).

With regard to the emerging economies, they continued to have access to the markets. However, the volatility observed in foreign exchange markets led to a certain preference for foreign-currency issuance, especially in US dollars.

THE NATURAL INTEREST RATE: CONCEPT, DETERMINANTS AND IMPLICATIONS FOR MONETARY POLICY

Alessandro Galesi, Galo Nuño and Carlos Thomas

Published on 2 March 2017

This article defines the natural interest rate, analysing the concept and its role in monetary policy conduct.

Estimates of the natural interest rate place it at historically low and even negative levels. Demographics and growth, but also the recent financial crisis with weak aggregate demand, deleveraging, etc., are identified as factors related to this decline.

Lastly, the article highlights the difficulties that a natural rate of this type may pose to central banks in achieving their objectives, and it discusses potential monetary policy-related solutions, such as QE and changes in the monetary policy objective.

SITUATION OF AND OUTLOOK FOR THE WORLD ECONOMY AT THE START OF 2017

Associate Directorate General International Affairs

Published on 16 March 2017

Global growth in 2016 disappointed analysts once again. Moreover, three far-reaching events occurred which, nevertheless, did not have an immediate major impact.

At the start of the year, the Chinese financial markets experienced turbulence relating to the challenges the Chinese authorities face in implementing their structural reform programme.

In June, the United Kingdom voted in favour of leaving the European Union, which means the loss of an influential partner in the process of European construction.

Lastly, in November, the Republican candidate Donald Trump won the US presidential elections. This might entail a change in macroeconomic policies and check the process of globalisation. These events reveal a global economic setting shrouded in great uncertainty for the future.

RESULTS OF NON-FINANCIAL CORPORATIONS: SUMMARY 2016 YEAR-END DATA

Álvaro Menéndez and Maristela Mulino

Published on 22 March 2017

Most sectors and companies in the Central Balance Sheet Data Office Quarterly Survey saw an expansion in productive activity and employment in 2016.

Buoyant activity, coupled with favourable trends in financial costs and revenues, enabled companies' ordinary profits to grow rapidly. This meant a further increase in aggregate levels of ordinary profits.

Lastly, companies' financial position continued to strengthen, translating into a drop in indebtedness and debt burden ratios.

ECONOMIC NOTES

Chronology of Economic Notes. 2017 Q1

POPULATION OF SPAIN: LATEST DEVELOPMENTS AND PROJECTIONS

Pilar Cuadrado

Published on 19 January 2017

CHANGES IN THE DEGREE OF FINANCIAL PRESSURE BORNE BY SPANISH NON-FINANCIAL CORPORATIONS: 2007-2016

Álvaro Menéndez and Maristela Mulino

Published on 9 March 2017

BANCO DE ESPAÑA PUBLICATIONS

The Banco de España publishes various types of documents providing information on its activity (economic reports, statistics, research papers, etc.). The full list of Banco de España publications can be found on its website at http://www.bde.es/f/webbde/Secciones/Publicaciones/Relacionados/Fic/Catalogopublicaciones.pdf.

The list of articles published in the Economic Bulletin since 1990 can be consulted at http://www.bde.es/f/webbde/Secciones/Publicaciones/InformesBoletinesRevistas/BoletinEconomico/indice_general_ingles.pdf.

Most of these documents are available in pdf format and can be downloaded free of charge from the Banco de España website at http://www.bde.es/webbde/en/secciones/informes/. Requests for others should be addressed to publicaciones@bde.es.

ISSN: 1579 - 8623 (online edition)

ACRONYMS AND ABBREVIATIONS

ABS	Asset-backed securities
BCBS	Basel Committee on Banking Supervision
BE	Banco de España
BIS	Bank for International Settlements
BLS	Bank Lending Survey
BOE	Official State Gazette
BRICs	Brazil, Russia, India and China
CBA	Central Balance Sheet Data Office Annual Survey
CBQ	Central Balance Sheet Data Office Quarterly Survey
CBSO	Central Balance Sheet Data Office
CCR	Central Credit Register
CDSs	Credit default swaps
CESR	Committee of European Securities Regulators
CNE	Spanish National Accounts
CNMV	National Securities Market Commission
CPI	Consumer Price Index
CSPP	Corporate sector purchase programme
DGF	Deposit Guarantee Fund
EBA	European Banking Authority
ECB	European Central Bank
ECOFIN	Council of the European Communities (Economic and Financial Affairs)
EDP	Excessive Deficit Procedure
EFF	Spanish Survey of Household Finances
EFSF	European Financial Stability Facility
EMU	Economic and Monetary Union
EONIA	Euro overnight index average
EPA	Official Spanish Labour Force Survey
ESA 2010	European System of National and Regional Accounts
ESCB	European System of Central Banks
ESFS	European System of Financial Supervisors
ESM	European Stability Mechanism
ESRB	European Systemic Risk Board
EU	European Union
EURIBOR	Euro interbank offered rate
EUROSTAT	Statistical Office of the European Communities
FASE	Financial Accounts of the Spanish Economy
FDI	Foreign direct investment
FROB	Fund for the Orderly Restructuring of the Banking Sector
FSB	Financial Stability Board
FSF	Financial Stability Forum
GDI	Gross disposable income
GDP	Gross domestic product
GFCF	Gross fixed capital formation
GNP	Gross national product
GOP	Gross operating profit
GVA	Gross value added
HICP	Harmonised Index of Consumer Prices
IASB	International Accounting Standards Board
ICO	Official Credit Institute
IFRSs	International Financial Reporting Standards
IGAE	National Audit Office
IIP	International Investment Position
IMF	International Monetary Fund
INE	National Statistics Institute
LTROs	Longer-term refinancing operations
MFIs	Monetary financial institutions
MIP	Macroeconomic imbalance procedure
MMFs	Money market funds
MROs	Main refinancing operations
MTBDE	Banco de España quarterly macroeconomic model
NAIRU	Non-accelerating inflation rate of unemployment
NCBs	National central banks
NFCs	Non-financial corporations
NPBs	National Productivity Boards
NPISHs	Non-profit institutions serving households
OECD	Organisation for Economic Co-operation and Development
OJ L	Official Journal of the European Union (Legislation)
ONP	Ordinary net profit
OPEC	Organisation of Petroleum Exporting Countries
PMI	Purchasing Managers' Index
PPP	Purchasing power parity
QNA	Quarterly National Accounts
SDRs	Special Drawing Rights
SEPA	Single Euro Payments Area
SGP	Stability and Growth Pact
SMEs	Small and medium-sized enterprises
SPEE	National Public Employment Service
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TFP	Total factor productivity
TLTROs	Targeted longer-tem refinancing operations
ULCs	Unit labour costs
VAT	Value Added Tax

COUNTRIES AND CURRENCIES

In accordance with Community practice, the EU countries are listed using the alphabetical order of the country names in the national languages.

BE	Belgium	EUR (euro)
BG	Bulgaria	BGN (Bulgarian lev)
CZ	Czech Republic	CZK (Czech koruna)
DK	Denmark	DKK (Danish krone)
DE	Germany	EUR (euro)
EE	Estonia	EUR (euro)
IE	Ireland	EUR (euro)
GR	Greece	EUR (euro)
ES	Spain	EUR (euro)
FR	France	EUR (euro)
IT	Italy	EUR (euro)
HR	Croatia	HRK (Croatian kuna)
CY	Cyprus	EUR (euro)
LV	Latvia	EUR (euro)
LT	Lithuania	EUR (euro)
LU	Luxembourg	EUR (euro)
HU	Hungary	HUF (Hungarian forint)
MT	Malta	EUR (euro)
NL	Netherlands	EUR (euro)
AT	Austria	EUR (euro)
PL	Poland	PLN (Polish zloty)
PT	Portugal	EUR (euro)
RO	Romania	RON (New Romanian leu)
SI	Slovenia	EUR (euro)
SK	Slovakia	EUR (euro)
FI	Finland	EUR (euro)
SE	Sweden	SEK (Swedish krona)
UK	United Kingdom	GBP (Pound sterling)
JP	Japan	JPY (Japanese yen)
US	United States	USD (US dollar)

CONVENTIONS USED

M1	Notes and coins held by the public + sight deposits.
M2	M1 + deposits redeemable at notice of up to three months + deposits with an agreed maturity of up to two years.
M3	M2 + repos + shares in money market funds and money market instruments + debt securities issued with an agreed maturity of up to two years.
Q1, Q4	Calendar quarters.
H1, H2	Calendar half-years.
bn	Billions (10^9).
m	Millions.
bp	Basis points.
pp	Percentage points.
...	Not available.
—	Nil, non-existence of the event considered or insignificance of changes when expressed as rates of growth.
0.0	Less than half the final digit shown in the series.