



SPAIN

Article IV consultation on Spain (IMF)

The IMF considers that the recovery of the Spanish economy is solid and that its imbalances are being reduced. As a result the IMF has revised upwards its predictions for growth for 2016 and 2017 (3.2% and 2.3%, respectively).

At the same time, it says there are some structural weaknesses (unemployment, duality in the labour market, the high level of public debt...) and recommends re-imposing gradual fiscal consolidation by means of an adjustment of 0.5% of GDP per year (+/- 5,500 million euros).

Macroeconomic situation and the objectives of budgetary stability (Ministry of the Economy)

The new macroeconomic projections approved by the Government foresee growth of 3.2% in 2016 and 2.5% in 2017, with greater equilibrium between internal and external demand, in line with the recent review of the Bank of Spain. At the same time, FUNCAS has increased its forecasts to 3.3% in 2016 and 2.4% in 2017.

Macroeconomic scenario 2016-17 (I)
% annual change, unless other indicated

02.12.16

Real GDP

Household final consumption expenditure
PPAA final consumption expenditure
GDFD
Domestic demand (*)
Exports of goods and services
Imports of goods and services
External balance (*)

Forecasts			
	2015	2016	2017
Real GDP	3.2	3.2	2.5
Household final consumption expenditure	2.9	3.4	2.7
PPAA final consumption expenditure	2.0	1.0	0.9
GDFD	6.0	4.6	3.4
Domestic demand (*)	3.3	3.1	2.4
Exports of goods and services	4.9	5.8	5.9
Imports of goods and services	5.6	6.0	5.9
External balance (*)	-0.1	0.1	0.1

Among the measures it recommends, with regard to income:

- ▲ of special and environmental taxes.
- Gradual ▼ of exemptions and tax rates restructuring of VAT.

On the spending side, it recommends more efficient spending on health and education. It also notes the need for reforms in the system of financing the regional autonomous communities and in the labour market.

Macroeconomic scenario 2016-17 (II)

02.12.16

% annual change, unless other indicated

Unemployment rate
General government net lending/borrowing (%GDP)
Current account balance

Forecasts			
	2015	2016	2017
Unemployment rate	22.1	19.6	17.6
General government net lending/borrowing (%GDP)	-5.1	-4.6	-3.1
Current account balance	1.3	2.0	1.8

* Contribution to GDP growth

Source: INE and Ministerio de Economía, Industria y Competitividad, 2016

As for the aims of the deficit negotiated with the European Commission...

Deficit objectives

% GDP

Central Administration
AACC
LLCC
Social Security
AAPP Total

	2016	2017	2018	2019
Central Administration	-2.2	-1.1	-0.7	-0.3
AACC	-0.7	-0.6	-0.3	0
LLCC	0	0	0	0
Social Security	-1.7	-1.4	-1.2	-1
AAPP Total	-4.6	-3.1	-2.2	-1.3

Source: Ministerio de Hacienda y Función Pública, 2016

Non-financial expenditure ceiling 2017 (Ministry of the Economy)

The Government has set the expenditure ceiling in 2017 at 118,337 million euros, or 5,000 million less than in 2016, which is explained by the saving in interest on the debt (some 2,000 million), the effects of the agreement on unavailability of credit by the Ministries (2,000 million) and the closing of accounts for the financial year (1,000 million).

Labour market November 2016

Registered unemployment has dropped 8.66% year-on-year, to 3,789,823 persons, the lowest level in seven years. The average Social Security affiliation was 17,780,524 persons

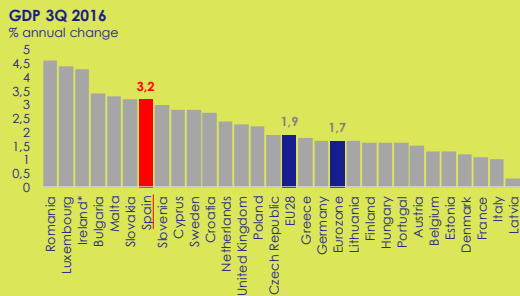
At the same time, tax measures have been approved to collect 7,500 million euros more. Among these measures: a limit on fiscal benefits in the Corporate Tax (4,650 million euros), an increase in special taxes (150 million), the creation of a new tax on sweetened drinks (200 million), the limitation on cash payments, and a new VAT system (2,000 million).

(a year-on-year increase of 3.24%). The number of new contracts registered was 1,743,708, an increase of 8.65%. Open-ended contracts grew 16.6% year-on-year, more than double the rate of temporary contracts (7.9%).

EUROPE

Growth in the 3Q of 2016 (Eurostat)

In the 3Q of 2016, GDP in the Eurozone grew 1.7% year-on-year and in the UE28 by 1.9%.



ECB program of purchase of sovereign debt

The ECB has extended for nine months, until December of 2017, its purchase of sovereign debt program. Nevertheless, starting in April, its volume will drop from 80,000 to 60,000 million euros per month. In parallel, it has approved some changes, such as making it

European Central Bank (ECB) forecasts

The ECB has adjusted its predictions for growth in the Eurozone. In 2016 and 2017 it is expected to be 1.7%, and in 2018 on the order of 1.6%.

With regard to inflation, it sees a hike of 0.2% in 2016, and 1.3% in 2017, becoming 1.7% in 2019, principally because of the rise in the prices of petroleum.

possible to acquire debt falling due in one year (before that, the minimum was two) and with profitability of less than -0.4% (below the application fee).

It maintains the interest rates and the deposit facility at historic lows, at 0% and -0.4%, respectively.

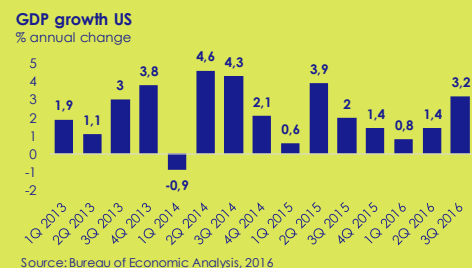
INTERNATIONAL

USA economy

The GDP in the United States grew faster than anticipated in the 3Q (3.2% year-on-year vs. 1.4% in the 2Q), mostly from exports, investments and private consumption.

At the same time, the Federal Reserve has increased interest rates by 25 bp, boosting federal fund rates to a target range of between 0.5

and 0.75%, up from 0.25 to 0.5% since Dec. 2015.



Petroleum prices

Twelve petroleum-producing countries, non-members of OPEP, have agreed to reduce their production by 0.6 million barrels per day (mbd), something which, along with the 1.2 mbd cutback by OPEP, makes a total of 1.8 mbd, or 2% of the world total. This reduction surpasses by 50% the growth in global demand for petroleum expected in 2017 (1.2 mbd).

Their eventual aim is to raise the price of petroleum, something that, so far this year, has risen by 55% (6.5% after this latest accord). At present the barrel of Brent has surpassed the maximum of 57 dollars from the middle of July

2016, while the price of Texas has reached 54.06 dollars.

Oil prices (Brent)



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