



SPAIN

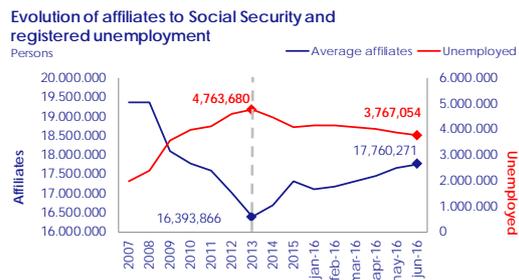
Growth

According to the Bank of Spain, our economy increased 0.7% in the 2Q of 2016 (as against 0.8% in the 1Q of 2016), fundamentally due to a slow-down of business investment. In addition, they foresee a diminishing strength of tailwinds for our economy: the lower oil prices, the depreciation of the euro and the fiscal policy, with contributions to GDP of 0.6, 0.6 and 0.5 points, respectively.

Likewise, the Bank of Spain forecasts a rise of 2.7% this year, 2.3% in 2017, and 2.1% in 2018. In contrast, the Government has reviewed its predictions for 2016 and are now up to 3% (vs. 2,7% estimated in April).

Labour Market, June 2016

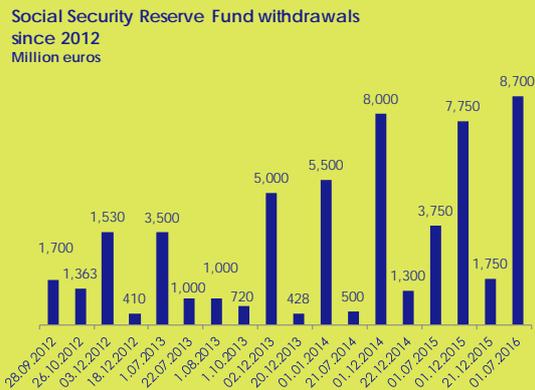
Registered unemployment was at 3,767,054 persons (48,579 in terms of seasonally adjusted), with 124,349 less unemployed than in May, the second largest reduction in history. The average number of affiliates reached 17,760,271 persons, 3% more year-on-year, far from the 19.4 million of June 2007.



Source: Circulo de Empresarios based on data from the Ministry of employment and social security, July 2016

Social Security Reserve Fund

The 1st of July of 2016, 8,700 million were withdrawn from the Fund to guarantee a punctual extra payment of contributory pensions, approximately 5,000 million more than in the same date of the previous year. The actual balance of the pension savings, at acquisition price, it's about €25,276 million (2.33% of GDP). According to the Círculo de Empresarios' last estimates, if the pace of withdrawals were to continue, the Reserve Fund will be dried up in 2018.



Source: Social Security's Treasury, 2016

PMI (June 2016)

According to the PMI Markit Index, the manufacturing sector improved its pace of growth, increasing up to 52.2 points (51.8 in May) due to output growth, despite slower new order progress of the national market.

In the Eurozone this index reached its maximum in six months, 52.8 points (51.5 in May).

By countries, the evolution has been divergent:

Manufacturing PMI

	May	June	Evolution
Germany	52.1	54.5	▲
Austria	52.0	54.5	▲
Italy	52.4	53.5	▲
Ireland	51.5	53.0	▲
Spain	51.8	52.2	▲
Netherlands	52.7	52.0	▼
Greece	48.4	50.4	▲
France	48.4	48.3	▼

Source: Markit, 2016

For its part, in the service sector, the Business Activity Index registered 56 point in June (55.4 in May), the greatest advance since November.



Brexit – Some consequences

- Downward revision of short-term growth forecast, for UK and the EU.

Impact of Brexit on GDP

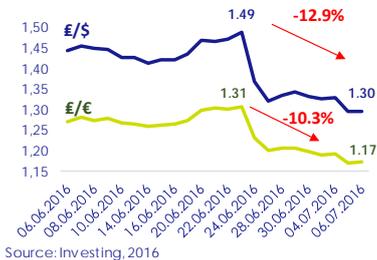
Media prevs. economistas consultados: % variación anual

	United Kingdom		Eurozone	
	2016	2017	2016	2017
Brexit	1.4	0.7	1.6	1.4
No-Brexit	1.9	2.1	1.6	1.7
Difference	-0.5	-1.4	0	-0.3

Source: Deloitte, 2016

- The pound sterling hits new lows against the dollar (\$1.30), minimums since 1985, and under €1.20.

Exchange rate of the pound against the euro and the dollar



Source: Investing, 2016

- In the stock markets the escape from the equity market and the search of haven assets have situated the 10-year bond yield below 0 (-0.199%).
- Fear of a housing bubble burst. The sectors that have been hit the hardest in London's stock market were real estate and the financial sector. These losses are extended to fund agents. In particular, three of the major real estate British funds, due to the rise of money withdrawals and to a potential "problem of liquidity", have cancelled temporarily the refunds to their participants (blocking nearly €11,000 million).
- The Bank of England has cut €6,800 million capital requirements to the banks in order to increase the credit of the private sector up to 177,000 million.
- A likely weakening of the political unity in the EU caused S&P to downgrade UK's credit rating from AAA to AA and EU's from AA+ to AA.

The IMF forecasts a reduction of the British GDP between 1.5 and 4.5 pp until 2019 if they leave the EU.

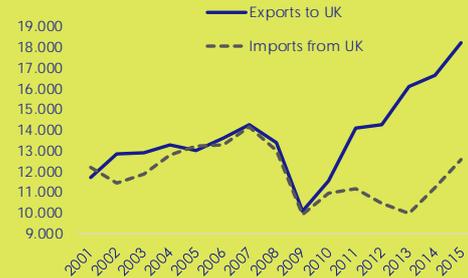
In the long-term the economic activity will depend largely on the new relationship that will be established if the Brexit is finally materialized.

The drop of the pound reduces the purchasing power of the British, which could have a **negative impact on Spain** since they represent 23% of the total of foreign tourists (68.1 million), which spend an equivalent of 1.35% of the Spanish GDP (€14,081 million), and 21.34% of total foreign home sales.

For its part, the euro also lost 3.5% against the dollar.

- The EU will lose its second largest contributor to EU budget, with €11,341.6 million in 2014 (8% of the EU's total budget and 0.52% of UK GDP), receiving € 6,985 million (0.31% of GDP).
- For UK, trade with the EU represents 45% of its exports and 53% of its imports. For its part, Spain maintains a significant trade surplus with the UK.

Trade flows Spain-United Kingdom
Million euros



Source: Datacomex, Ministry of Economy and Competitiveness, 2016

- 1.3 million British workers in the EU and the 3 million European residents in the UK (200,000 Spanish), 2/3 with regular employment, will have uncertainty over the final status.

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