

2 THE CURRENT AND CAPITAL ACCOUNT BALANCES IN 2008

2 The current and capital account balances in 2008

2.1 Introduction¹

In 2008, the external transactions of the Spanish economy took place against the backdrop of the global economic and financial crisis. The economic situation worldwide deteriorated as the year progressed, but most especially in Q4 when several countries recorded very negative rates of growth of GDP, a pattern that continued in the first part of 2009. In this setting, international trade progressively lost momentum, with a sharp decline in the closing months of 2008 that was heightened by the widespread difficulties on the financing markets, despite the measures taken by monetary and public authorities worldwide. In the year as a whole, world GDP grew at a rate of 3.2%, as opposed to 5.2% in 2007, while trade grew by some 3%, as opposed to almost 7% a year earlier.

The Spanish economy underwent a brusque adjustment in the second half of 2008, similarly to that seen in other developed countries, closing the year in recession; this situation continued in the early months of 2009. The external sector made a positive contribution to GDP growth in 2008, for the first time in a decade, although this was only sufficient to alleviate the impact on GDP of the contraction in domestic demand. On balance of payments data, the Spanish economy's net borrowing fell in 2008 to 9% of GDP (0.6 pp below the 2007 figure). The adjustment in investment in the year, to 29.6% of GDP (1.7 pp less than in 2007), reduced the need to resort to foreign saving, despite the drop in gross national saving (to 20.5% of GDP, 1.1 pp less than a year earlier). The decline in the nation's net borrowing was most striking in the closing months of 2008, amounting to 2 pp of GDP in Q4, and, according to the provisional 2009 Q1 figures, the external deficit would appear to have corrected further in the early stages of this year.

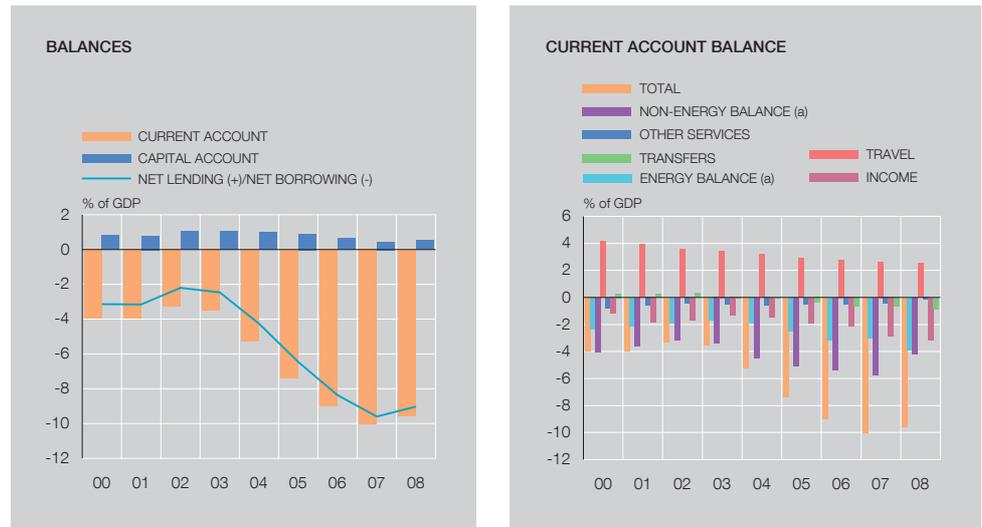
The decline in net borrowing chiefly reflects the decrease in the current account deficit (to 9% of GDP, from 9.5% in 2007), as the contribution of the capital account surplus was much more moderate (just 0.1 pp) (see Chart 2.1). By heading, the balance on trade in goods was the key contributor to the improvement in the current account balance, as its deficit narrowed by 0.7 pp of GDP to 8% (see Chart 2.2). The services surplus widened by 0.2 pp of GDP, to 2.4%, as the non-tourism services deficit narrowed, offsetting the decline in the tourism and travel surplus. Conversely, both the income and the current transfers deficits widened, to 3.1% and 0.8% of GDP, respectively (0.2 pp and 0.1 pp of GDP, respectively, above the 2007 figure).

The correction in the goods deficit is due to the improvement in the non-energy balance, which more than offset the worsening of the energy deficit. The sharp deceleration in final demand and the decline in industrial activity lowered the demand for inputs from abroad and for high-technology-content consumer durables and capital goods. As a result, goods imports fell in real terms in 2008, while exports recorded positive rates of growth in the year as a whole, despite falling sharply in 2008 Q4. Spain's export shares in real terms were practically stable, for the third consecutive year, reflecting the efforts made by Spanish firms to maintain their presence in the foreign markets. These efforts were also confirmed by the favourable development of relative export prices, whose differential vis-à-vis the main developed countries narrowed in 2008. However, the appreciation of the euro in the year as a whole meant that export-based price-competitiveness indicators were virtually unchanged on the previous year, although, in general, price-competitiveness indicators

1. For a more detailed description of the international and Spanish economic situation in 2008 and of the development and implications of the financial crisis, see the Banco de España's *Annual Report, 2008*.

BALANCE ON CURRENT ACCOUNT AND CAPITAL ACCOUNT

CHART 2.1

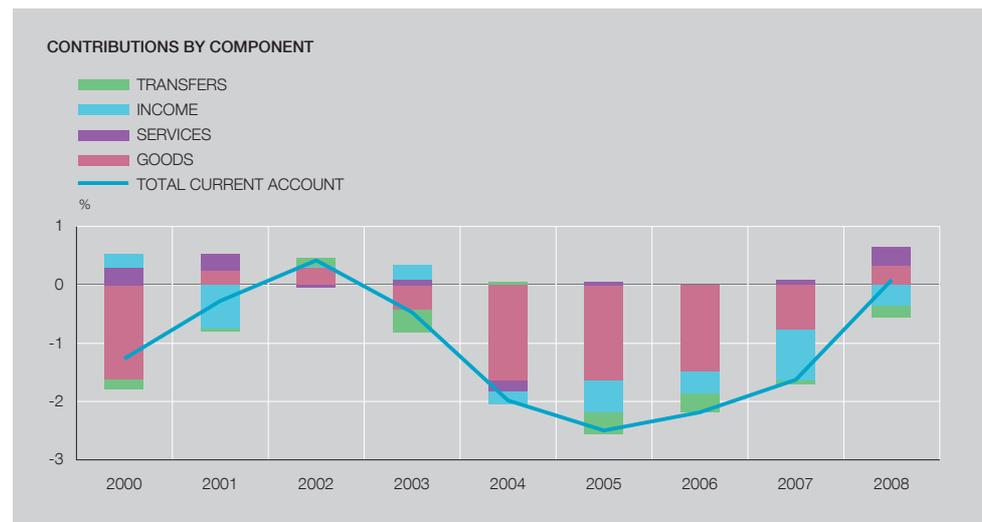


SOURCE: Banco de España.

a. The energy and non-energy balances are a Banco de España estimate based on Customs data.

BALANCE ON CURRENT ACCOUNT, GDP PERCENTAGE CHANGE

CHART 2.2



SOURCE: Banco de España.

improved after the summer, as the euro began to depreciate, and this trend has continued in 2009 to date.

The increase in the services surplus was due to the decline in the non-tourism services deficit, since the surplus on the tourism balance decreased, as a result of the highly adverse impact of the crisis of confidence on international tourism flows. The increase in the investment income deficit reflected not only the increase in the net debit position of the Spanish economy, but also the changes in spreads between the returns on the Spanish economy's financial assets and external liabilities. Lastly, the current transfers deficit widened, as the balance of net transfers with the EU worsened and general government expenditure abroad in the form of donations rose, offset only partially by the decrease in net payments abroad in the form of immigrant workers' remittances.

TRADE BALANCE
Nominal rate of change

TABLE 2.1

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Receipts (exports)	18.5	4.5	2.7	3.7	6.6	6.0	11.3	9.6	0.7
Payments (imports)	22.0	2.4	0.9	4.8	12.8	11.8	14.3	9.6	-0.8

SOURCE: Banco de España.

2.2 The current account balance

2.2.1 TRADE BALANCE

On balance of payments figures, the trade deficit declined by 3.9% in 2008, after growing by 9.6% in 2007. As a result of this decrease, the first since 2003, the trade deficit stood at 8% of GDP in 2008, 0.7 pp below the all-time high (8.7% of GDP) recorded in 2007. The partial correction of the trade balance in 2008 is due to the significant slowdown in imports, which fell slightly in 2008 (-0.8%, in nominal terms, as opposed to an increase of 9.6% in 2007), and to the moderate growth in exports (0.7%, in nominal terms, as opposed to 9.6% in 2007) (see Table 2.1). As in other external deficit components, the decline in the trade imbalance was most significant in the final stretch of the year – in 2008 Q4 the trade deficit was 2.7 pp of GDP lower than a year earlier – and the data available for the opening months of 2009 seem to point to further correction this year.

As in previous editions of this report, the detailed analysis of the growth and structure of foreign trade² is based on the figures published by the Departamento de Aduanas e Impuestos Especiales de la Agencia Tributaria (Spanish Customs and Excise Department), the main data source for compilation of the goods balance of the balance of payments and the Quarterly National Accounts (QNA). Throughout the text, comparisons between 2007 and 2008 data are based on the provisional series, as the final data for 2008 were not available when the report went to press (see Chart 2.3).

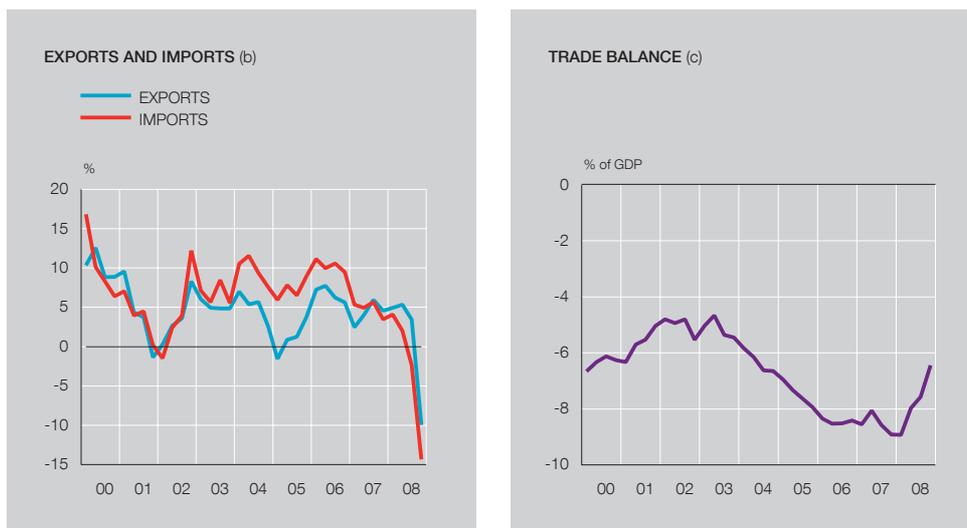
On Customs data, in nominal terms, the energy deficit grew considerably (34%) in 2008 as a whole (see Chart 2.4), governed, throughout the year, by the high volatility of the price of oil. Thus, the energy bill continued to record strong growth to July, when the price of crude reached an all-time high, before falling sharply thereafter, prompting a decline in the energy balance. Conversely, the non-energy deficit improved notably from the start of the year, narrowing by 25% in 2008 as a whole, and most significantly in the second half of the year, a pattern that continued into 2009. All headings contributed to the moderation in the non-energy deficit, but especially the decline in the deficits in the consumer durables and capital goods segments (see Box 2.1).

a) Goods exports

As discussed above, goods exports lost momentum in the year. On QNA data, they grew at a rate of less than 1%, in real terms, in 2008 as a whole, while on Customs data the slowdown was somewhat less marked, with growth in the year of 1.9% (against 4.2% in 2007).

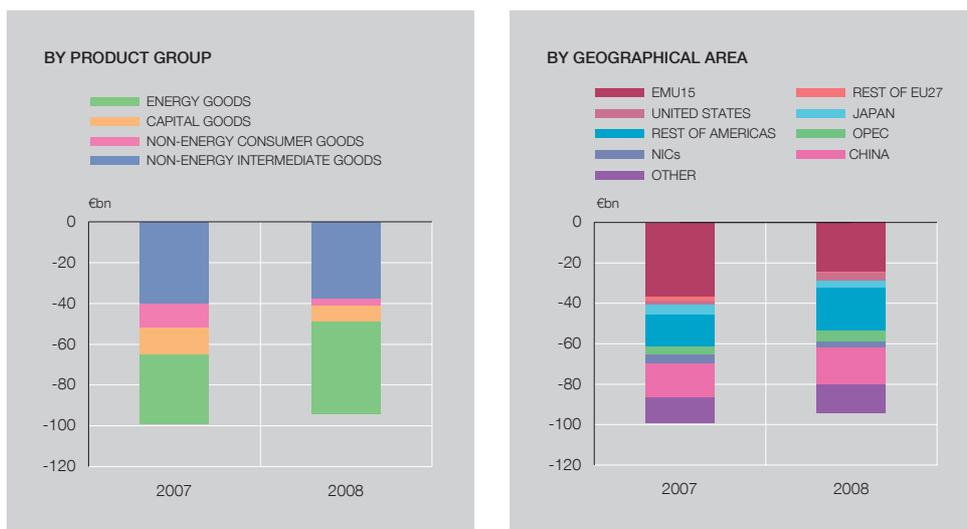
Throughout 2008, exports felt the impact of the notable slowdown in Spain's export markets, which grew by slightly less than 3% (as opposed to 6.3% in 2007), and of the strength of the euro, which appreciated by 7.3% against the US dollar in the year as a whole. According to the IMF, the rate of growth of world imports dropped to 3% in the year as a whole, from 7% in 2007 (see Chart 2.5); the deceleration was most noticeable in 2008 Q4, when world trade contracted by almost 3% year-on-year, the first time this has happened since 2001. The developed economies, including the European markets, where the bulk of Spanish firms' trading

2. Appendix I to the report contains time series for Spanish foreign trade for the period 1996-2008, based on Customs data, broken down by product group and geographical area, and in greater detail than in this chapter.



SOURCE: INE.

- a. Seasonally and calendar adjusted data. Quarterly data base year 2000.
- b. Year-on-year rates of change. In real terms.
- c. In nominal terms.



SOURCE: Departamento de Aduanas.

- a. Contribution of each caption to the total change in the nominal goods deficit in €bn. Provisional data.

is conducted, played a particularly large part in this contraction, although exports to countries which in recent years had been the driving force of international trade, such as China, also slowed. The data for the opening months of 2009 point to a continued contraction in world trade, at a pace not seen since the Second World War.

The adjustment in international trade is proving especially intense in the present scenario, exacerbated by a number of factors related to the globalisation process.³ First, the fact that the

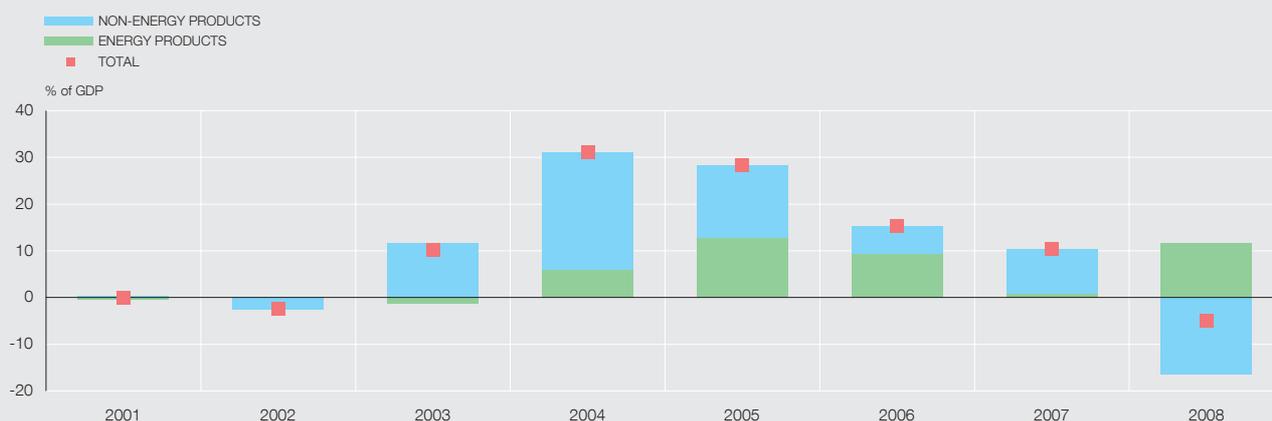
3. See World Trade Organization (2009), *World Trade 2008, Prospects for 2009*, Press release 554, and ECB (2009), *Monthly Bulletin*, March.

On Customs data, the trade deficit stood at 8.6% of GDP in 2008, 0.8 pp of GDP below the 2007 figure, signifying a break in the continued expansion seen since 2003. This decline reflects the decrease (1.7 pp of GDP) in the negative balance of the non-energy component, which more than offset the increase in the energy imbalance (0.9 pp of GDP).

The different behaviour of the energy and non-energy balances throughout the year is primarily due to the considerable rebound in the price of oil, which lifted the cost of energy imports, and to the slow-down in final Spanish demand, which reduced imports of non-energy products (see Panel 1). The Spanish economy's high dependence on

COMPONENTS OF THE TRADE DEFICIT CORRECTION IN 2008

1 CONTRIBUTION OF ENERGY AND NON-ENERGY COMPONENTS



SOURCES: INE and Aduanas.

BREAKDOWN BY TYPE OF PRODUCT (a)

Year-on-year change as % of GDP	2001	2002	2003	2004	2005	2006	2007	2008	2008 (b)
EXPORTS	0.8	0.3	0.9	1.0	0.8	1.7	1.1	0.6	17.2
Consumer durables	0.1	0.0	0.2	0.1	-0.2	0.2	0.0	-0.1	2.5
Food	0.2	0.1	0.1	0.0	0.1	0.1	0.1	0.1	2.1
Other non-durable consumer goods	0.2	0.1	0.1	0.0	0.1	0.2	0.1	0.2	1.6
Capital goods	-0.1	0.0	0.0	0.2	0.2	0.2	0.0	0.0	1.5
Non-energy intermediate goods	0.5	0.2	0.3	0.6	0.5	0.9	0.9	0.0	8.4
Energy goods	-0.1	-0.1	0.1	0.1	0.1	0.1	0.0	0.3	1.1
IMPORTS	0.8	0.2	1.4	2.7	2.7	2.9	2.0	0.2	25.8
Consumer durables	0.1	0.1	0.3	0.6	0.3	0.2	0.2	-0.7	2.5
Food	0.2	0.0	0.1	0.1	0.1	0.1	0.1	0.0	1.5
Other non-durable consumer goods	0.3	0.2	0.2	0.2	0.3	0.3	0.1	0.2	2.5
Capital goods	-0.1	-0.3	0.2	0.3	0.5	0.0	0.2	-0.5	2.2
Non-energy intermediate goods	0.5	0.2	0.6	1.1	0.6	1.4	1.3	-0.2	11.9
Energy goods	-0.1	-0.1	0.1	0.5	1.0	0.9	0.1	1.4	5.2
BALANCE	0.0	0.1	-0.5	-1.7	-1.9	-1.2	-0.9	0.4	-8.6
Consumer durables	0.0	-0.1	-0.1	-0.4	-0.5	-0.1	-0.2	0.6	0.0
Food	0.0	0.1	0.0	-0.1	0.0	0.1	0.0	0.1	0.6
Other non-durable consumer goods	-0.1	-0.1	-0.2	-0.2	-0.1	-0.1	0.0	0.0	-0.9
Capital goods	0.0	0.3	-0.1	-0.1	-0.3	0.2	-0.2	0.5	-0.7
Non-energy intermediate goods	0.0	0.0	-0.3	-0.5	-0.1	-0.5	-0.4	0.2	-3.4
Energy goods	0.0	0.0	0.1	-0.3	-0.8	-0.7	-0.1	-1.0	-4.1

SOURCES: INE and Aduanas.

a. Nominal data.

b. Level as percentage of GDP.

imported energy inputs¹ means that demand is not very price-sensitive and, therefore, that price rises are quickly passed through to the energy bill. After peaking in August, the price of crude corrected sharply thereafter, in line with the fall-off in the global demand for oil and the deteriorating economic growth outlook worldwide, but for 2008 as a whole the price of imported oil rose by some 26% in euro terms (35% in dollar terms), giving rise to a significant deterioration of the energy component of the trade balance. Specifically, of the 0.9 pp of GDP increase in the nominal energy deficit, higher energy prices account for 0.6 pp.

The decline in the trade imbalance in other goods is chiefly due to the steep fall in real imports (-4.9%), since exports posted moderate growth (1.4%) and the real terms of trade remained virtually unchanged (at around 1%).

The loss of momentum in industry (where GVA fell by 2.7%) and the sharp slowdown in final demand (which rose by just 0.2% in 2008, some 4 pp less than in 2007) reduced the demand for imports. However, the decline in imports is proving more marked than is warranted by the changes in their traditional determinants (demand and price-competitiveness).² Moreover, bearing in mind the important role the

decline in the construction industry, which has a low export profile, is playing in the present slowdown in final demand, the severity of the adjustment is even more striking. This suggests: first, that the real estate sector adjustment is having a considerable indirect impact on import demand, due to the negative effect on consumption of the large-scale job losses in the sector and to the lower demand for imports connected with home purchases; and second, that the high level of uncertainty surrounding the scope and duration of the recession, and the tightening of the conditions for access to financing for households and firms are depressing domestic demand (for imports and goods produced in Spain). An analysis of imports by type of product confirms the notable decrease in purchases of goods related to the automobile industry (not only cars but also land transport equipment and intermediate components). It also reflects a sharp adjustment in purchases of machinery and goods connected with the mineral product branches, in line with the contraction in industrial activity, and in imports of consumer goods connected with home purchases.

Exports, for their part, continued to grow, despite falling sharply towards the end of the year, in light of the marked weakness of international trade. An analysis by type of product shows that the slowdown in exports was primarily due to sales of capital goods and consumer durables, especially products connected with the automobile industry, hard hit worldwide by the international crisis.

The changes described in imports and exports by type of product explain why the partial correction of the non-energy deficit, in nominal terms, was fundamentally based on the improvement in the

1. See the article entitled "La evolución reciente del saldo energético y su contribución al saldo comercial de la economía española", *Boletín Económico*, June 2008, Banco de España. 2. According to the Banco de España's estimated equation for real goods imports, these variables would still warrant marginal positive growth in 2008. See the article entitled "Una actualización de las funciones de exportación e importación de la economía española", *Boletín Económico*, December 2008, Banco de España.

BREAKDOWN OF TRADE BALANCE BY GEOGRAPHICAL AREA (a)

Year-on-year change as % of GDP

	2001	2002	2003	2004	2005	2006	2007	2008	2008 (b)
WORLD TOTAL	0.0	0.1	-0.5	-1.7	-1.9	-1.2	-0.9	0.4	-8.6
EU	-0.3	0.1	-0.2	-0.8	-0.5	-0.2	-0.6	1.2	-2.3
<i>Euro area</i>	-0.2	-0.1	-0.1	-0.7	-0.5	-0.2	-0.6	1.1	-2.3
— <i>Germany</i>	-0.3	-0.2	-0.1	-0.3	0.0	-0.2	-0.4	0.3	-1.8
— <i>France</i>	0.1	0.1	0.0	0.0	0.0	0.2	0.1	0.4	0.4
— <i>Italy</i>	0.0	0.1	0.0	-0.3	-0.2	0.0	-0.2	0.2	-0.6
— <i>Portugal</i>	0.2	-0.1	0.0	0.0	0.0	-0.1	0.0	0.1	0.7
Rest of the EU	-0.1	0.2	-0.2	-0.1	0.0	0.0	0.0	0.1	-0.1
— <i>United Kingdom</i>	0.1	0.3	-0.1	-0.1	-0.1	0.1	0.0	0.0	0.0
Rest of the world	0.3	0.0	-0.3	-0.9	-1.4	-1.0	-0.3	-0.8	-6.3
<i>United States</i>	0.1	0.1	0.0	-0.1	0.0	0.1	-0.1	-0.1	-0.3
<i>China</i>	0.0	-0.1	-0.1	-0.2	-0.3	-0.3	-0.4	-0.1	-1.6
<i>Latin America</i>	0.0	-0.1	-0.1	-0.1	-0.2	0.0	-0.1	-0.2	-0.5
<i>Russia and associated countries</i>	0.0	-0.1	0.1	-0.1	-0.2	-0.2	0.0	-0.1	-0.7
<i>OPEC</i>	0.2	0.2	-0.1	-0.1	-0.5	-0.5	0.2	-0.5	-2.0
<i>Other</i>	0.1	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.2	-0.6

SOURCES: INE and Aduanas.

a. Nominal data.

b. Level as percentage of GDP.

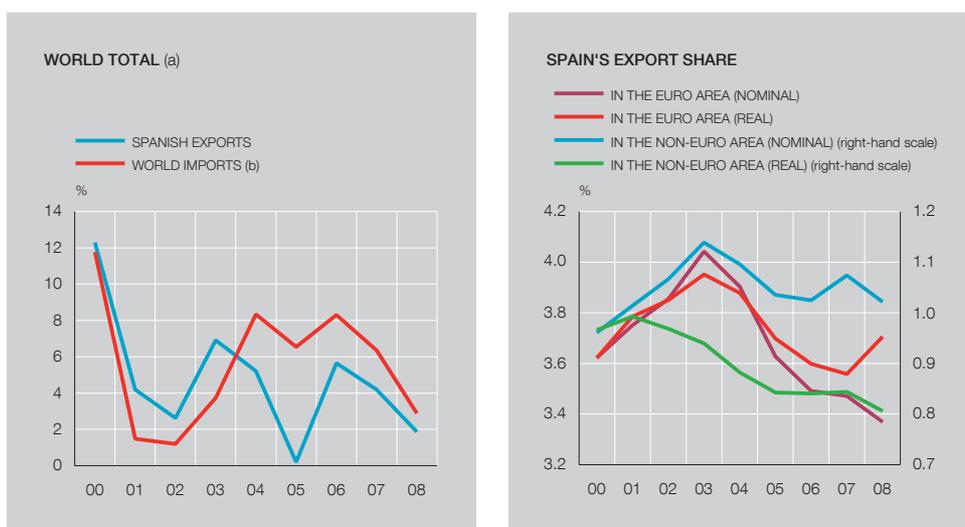
negative balances of capital goods and consumer durables, which corrected by 0.5 pp and 0.6 pp of GDP, respectively. The trade deficit in capital goods narrowed by some 40% in nominal terms, chiefly due to the machinery heading, while the lower demand for consumer durables virtually corrected the trade imbalance in these goods, as a result of the turnaround in car sales (which posted a surplus of €5,535 million in 2008, as opposed to a deficit of €437 million in 2007). The correction in the trade imbalance in intermediate goods was slightly smaller (some 0.2 pp of GDP) and was especially noticeable in the deficit in mineral products and in products for the manufacture of transport equipment, while the balances on chemical and electrical products worsened. Lastly, the surplus on the Spanish economy's food transactions widened by more than 0.1 pp of GDP to 0.6%.

The breakdown of the changes in the trade deficit by geographical area reflects the above-mentioned behaviour of foreign trade by product. The partial correction of the trade deficit was basically focused on the euro area, with a decline of 1.2 pp of GDP, and particularly on Germany (Spain's main supplier of capital goods and automobiles) and France (Spain's second most important car supplier); in fact the bilateral balance with France turned positive in 2008, as imports of capital goods and consumer durables from this country fell sharply. Conversely, the deficit vis-à-vis non-EU countries widened by 0.8 pp of GDP, primarily as a result of the deterioration of the Spanish economy's negative balance vis-à-vis the OPEC countries, in line with the higher price of oil in the year as a whole. In turn, the deficit vis-à-vis China, which accounts for a growing percentage of imports for household consumption, rose more moderately than in previous years.

crisis has become so widespread reveals a high degree of cyclical synchrony between the developed and the emerging economies, which may have increased in recent years as trade and financial transactions between different countries and areas have intensified. Second, trade has been strengthened by the geographical fragmentation of value chains, which raises intra-company trade between countries and, therefore, in periods of weak activity such as the present, has a negative multiplier effect on trade. The difficulties in accessing trade credit are a third factor that could be aggravating the contraction in trade flows. Although the evidence on trade financing difficulties is still somewhat anecdotal, the widespread tightening of conditions of access to bank financing may have spread to trade credit, especially in the emerging markets and particularly in Asia. On top of this sharp decline in world trade, there is the risk that protectionist measures may be introduced, which would add to the adverse impact on trade and activity and set back future recovery.

The main competitiveness indicators suggest that the Spanish economy lost price-competitiveness in 2008 as a whole, although these losses moderated as the year progressed, due to the favourable development of relative prices and to the depreciation of the euro against Spain's main trading partners' currencies. Price and cost growth differentials vis-à-vis the developed countries remained positive in 2008 as a whole. Conversely, the growth differential of export prices was negative, reflecting the efforts being made by Spanish export firms, whose internal costs are under pressure, to maintain their market share (see Chart 2.6 and Table 2.5). International competition has intensified as the emerging economies have become fully integrated in world trade, making it increasingly difficult for firms to consolidate and increase their presence abroad. Economic policies designed to address this aim must be based on in-depth knowledge of the distinctive characteristics of export firms, which are a small portion of all a country's firms (see Box 2.2).

Although the rate of growth of Spanish exports moderated in 2008, in step with their main determinants (world demand and competitiveness), Spain's export share in real terms remained quite stable, for the third consecutive year, as the share gained in the euro area was sufficient to offset the drop in exports to the rest of the world (see Chart 2.5). The fact that the present slowdown is having a marked impact on world demand for investment goods, which account for a small portion of Spain's exports in comparison with other developed economies,



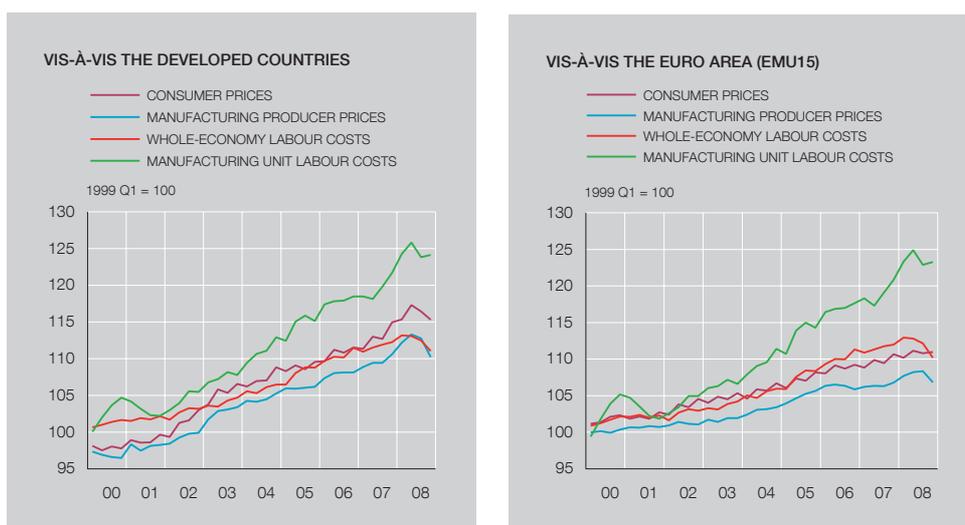
SOURCES: OECD, Ministerio de Economía y Hacienda and Banco de España.

- a. Year-on-year real rates of change.
 b. Series weighted by these countries' share in Spanish exports.

may explain, to some extent, why Spain's export share has held up better than others; the geographical diversification towards less-developed countries may be another contributing factor to this good comparative behaviour in the first half of 2008. In nominal terms the export share declined, but this is due to the sharp rise in the price of oil in the year as a whole, as it lifts import prices and, in short, boosts world trade flows measured in nominal terms.

In 2008 as a whole, growth (in nominal terms) in exports to non-EU countries was particularly strong, especially in exports to the oil-producing economies, such as Russia and the OPEC countries, where the strong surge in the price of crude boosted demand in the first half of the year. Within the euro area, exports to France, Germany and especially Portugal also grew, offsetting the decline in exports to Italy. Consequently, in 2008 the relative share of the developed economies in total Spanish exports continued to decline, albeit moderately (see Table 2.4), with Japan the key exception in this respect. The relative share of exports to Latin America also declined, as sales to this area fell considerably. In contrast, the percentage share of the CIS and other central and eastern European countries and of the OPEC countries rose, although it remains low in both cases. Geographical diversification of exports is essential, to increase the presence of Spanish products in markets with high growth potential where domestic firms still lag behind.

The breakdown of real exports by product shows moderation in all areas of export sales, with the exception of energy goods, which rebounded after stagnating in 2007, and, to a lesser extent, of non-durable non-food consumer goods. Even so, both these headings were affected by the contraction in exports in 2008 Q4, which hit intermediate goods, capital goods and consumer durables especially hard, in the case of the two last groups, adding to the declines seen in the rest of the year (-2.8% and -4.6%, respectively, in 2008 as a whole). Car exports recorded negligible growth, in contrast to 2007, hit by the sharp decline in most markets in Q4. Exports of capital goods fell further in 2008, primarily as a result of the poor performance of exports of transport equipment, while exports of intermediate industrial goods stagnated, after a good performance in 2007 (see Table 2.2). The data for the opening months of 2009 reflect a continuation of this pattern, with a steep fall in exports of capital goods, inter-



SOURCE: Banco de España.

a. An increase (decrease) in the index denotes a loss (gain) in competitiveness.

mediate industrial goods and consumer durables (of approximately 20% year-on-year in some cases), and in exports of energy products.

Lastly, turning to the breakdown of exports by sector of activity, high technology industries' exports grew significantly, driven by pharmaceutical products and aircraft, although their share of the total remained limited (below 10%). Conversely, medium-high and medium-low technology industries' exports declined, as sales abroad of motor vehicles, chemical products, and mechanical equipment and machinery, and of rubber and plastics, and non-metallic mineral products, respectively, all fell. In turn, low technology industries' exports grew modestly, driven by sales of food and of textiles and textile products.

b) Goods imports

Goods imports fell by 2.7% in real terms in 2008, on QNA data, the first annual decline since 1993. Customs data also reflected a decrease in imports in 2008 (-2.9%, as opposed to growth of 6.9% in 2007) (see Table 2.3). The decline in industrial activity, along with weak investment and private consumption, brought about a rapid adjustment in imports, in light of the Spanish economy's high dependence on inputs from abroad and high-technology-content consumer and capital goods. Thus in 2008, imports basically reflected the slowdown in final demand, since the price-competitiveness of imported products vis-à-vis those produced in Spain continued to improve, assisted by the strength of the euro in the year as a whole. As a result, in 2008 imports declined as a percentage of final demand.

Similarly to exports, imports gradually weakened as the year progressed, recording a particularly severe decline across the board in 2008 Q4. This pattern continued in the opening months of 2009, as imports of capital goods and intermediate industrial goods, in particular, fell sharply. In 2008 as a whole, the drop in imports of capital goods – affecting virtually all components – was especially steep, in real terms, falling by almost 20%, in sharp contrast to the increase of 10% in 2007. In turn, imports of intermediate industrial goods fell slightly (by 0.7%), after growing in the previous two years. The decline was particularly noticeable in mineral products and in intermediate products connected with means of transport. At the same time, imports of consumer goods fell significantly, by almost 8% (in comparison with growth of 5% in 2007), dragged down by imports of consumer durables which fell by more than 28%,

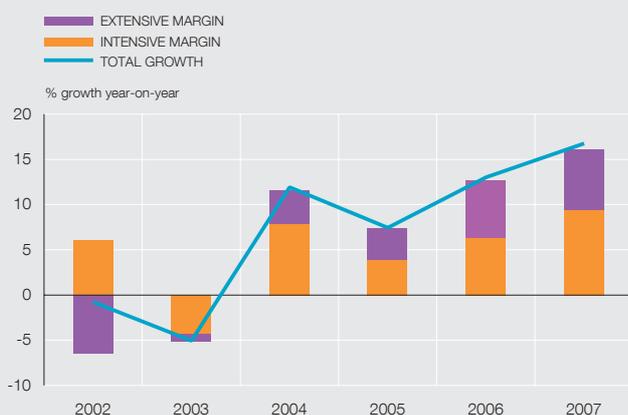
Throughout the last growth phase, the Spanish economy became significantly more globalised, reflected, inter alia, in the rise in the number of export firms. This development came about as activity became more globalised and new economies joined the world trade markets, prompting a considerable increase in competition both in the foreign and domestic markets. As a result of these changes in the international landscape, a country's capacity to make optimum use of the growth potential offered by the foreign markets lies, more than ever, in the competitive profile of its firms. In recent years, therefore, the latest developments in international trade theory have focused on analysis of the differentiating features of export firms. According to this literature, world trade acts as a selection mechanism, whereby only the most productive firms export their goods, while the least efficient ones, which lack the capacity to meet the costs associated with international expansion, limit their production to the domestic market or disappear.

This box summarises the results of a study on the number of Spanish export firms and their main characteristics in the period 2001-2007.¹ There are very few microeconomic studies available on Spain, given the confidential nature of the information that firms report to the Departamento de Aduanas e Impuestos Especiales de la Agencia Tributaria (Spanish Customs and Excise Department). To fill this gap and gain more information on Spain's export firms, the study included the creation of a database with information from three statistical sources: the balance of payments, and the central balance sheet data office (CBSO), including the data compiled directly by the CBSO and that obtained from the financial statements filed at the Mercantile Registries. The first of these sources is used to identify the export firms and

1. See A. Caloca and C. M. Machuca (2009), "Las características de las empresas exportadoras españolas", *Boletín Económico*, May, Banco de España.

CHARACTERISTICS OF SPANISH EXPORT FIRMS (a)

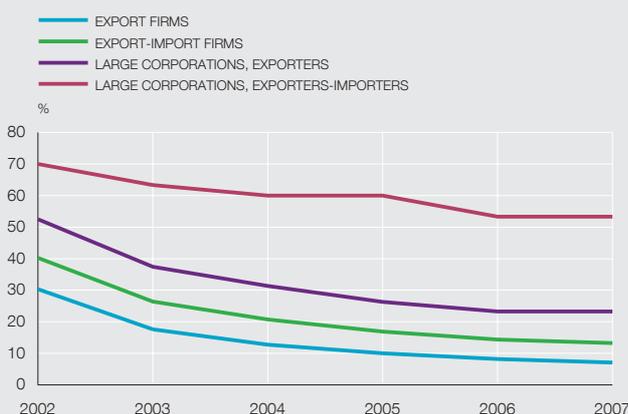
1 EXPORT VALUE GROWTH COMPONENTS (b)



2 ENTRY AND EXIT RATIOS OF SPANISH EXPORT FIRMS



3 SURVIVAL RATE OF NEW EXPORT FIRMS (e)



4 EXPORT FIRMS BY SIZE



SOURCE: Banco de España, based on balance of payments, CBSO and Mercantile Registries' statistics.

- a. Firm size is defined by the number of employees. Thus, microenterprises are those with fewer than 10 employees, small firms those with 10 to 49 employees, medium-sized firms those with 50 to 249 employees and large corporations those with 250 employees or more.
- b. The extensive margin is defined as the increase in export value deriving from the increase in the number of firms; the intensive margin is defined as the increase in export value deriving from the increase in the average amount of exports per firm.
- c. Ratio (among export firms): $\text{New firms}_{n_t} / (\text{New firms}_{n_t} + \text{Existing firms}_{n_t-1})$.
- d. Ratio (among export firms): $\text{Outgoing firms}_{n_t} / (\text{Outgoing firms}_{n_t} + \text{Existing firms}_{n_t-1})$.
- e. Analyses the development of firms that start to export and/or import in 2001 and that continue to do so in the period 2002-2007.

ascertain the value of their sales,² while the others are used to obtain information on their main characteristics, such as size, capacity for innovation, staff skill levels, etc.

The data employed show that the growth of Spanish export firms as a whole in the period 2001-2007 was due more to the *intensive margin* (i.e. the part explained by the increase in the average value of firms' exports) than to the *extensive margin* (i.e. the part explained by the change in the number of export firms) (see Panel 1). The contribution of the *extensive margin* is mainly a result of the increase in the number of small and medium-sized export firms, while it is the large export firms that chiefly determine the change in the *intensive margin*. This difference seems to indicate that large firms started to export their products much sooner than small ones, and that the ratios of entry into and exit from export activity – which may provide information on the possible difficulties firms face in consolidating their export business – vary according to company size. An analysis of these ratios confirms that smaller firms have higher entry and exit ratios, suggesting that many of these firms enter the export markets, but that they find it difficult to consolidate their position. Thus, only 7% of the firms that began to export in 2001 were still doing so in 2007. Firms that export and import products record considerably higher export market survival rates, and large corporations even higher rates.

In line with this theory and with international evidence, Spanish export firms represent a minority of the total (14% in 2007), while the propor-

2. Despite the differences between balance of payments data and the available Customs data, they may be used to proxy total exports and the bulk of export firms. However, the bias towards medium-sized and large firms means that small firms are not correctly represented.

tion of import firms is much higher (some 20% in 2007), reflecting the Spanish economy's high level of dependence on imports. The data suggest that firms that undertake foreign direct investment (FDI) are more likely to be exporters, supporting the theory that there is a positive link between FDI and exports, probably at the intra-company level. Lastly, as to be expected, the proportion of manufacturing firms involved in foreign trade is higher than that of the economy as a whole.

Regarding the characteristics of export firms, in general they are larger, with greater capacity for innovation and higher productive levels, than firms that are not exporters (see the accompanying table). The differences are generally more pronounced in the case of manufacturing firms. The size gap between export and non-export firms is considerable: the median of export firms is more than four times that of non-export ones. Thus, the larger the firm, the more likely it is to be an exporter: in fact, almost 70% of all large corporations are exporters, which explains the high degree of concentration of the value of foreign trade (10% of firms account for some 96% of total exports in the period 2001-2007). Bearing in mind the reservations noted in the above-mentioned article, the available data suggest that export firms are more innovative than non-export ones. The temporary employment ratio is considerably lower in these firms, and is even lower in the case of manufacturing firms, due to the large numbers of unskilled workers employed in the automobile industry. Finally, there are also significant differences in apparent labour productivity levels, which are 30% higher in export firms than in non-export ones, and in fixed capital utilisation per worker.

The analysis conducted indicates that Spanish firms have grown their presence abroad, even though certain characteristics of Spain's pro-

CHARACTERISTICS OF SPANISH EXPORT FIRMS VIS-À-VIS NON-EXPORT FIRMS 2001-2007

		Distribution median (a)					
		Size	Physical capacity per worker	Temporary employment ratio	Skill requirements	Intensity of innovation	Productivity (GVA/employee)
TOTAL	Export firms	14.5	1.8	20.0	14.9	2.0	48.9
	Non-export firms	3.8	1.0	36.8	13.0	0.6	37.6
Manufacturing industry	Export firms	23.5	2.1	17.4	13.9	2.6	48.6
	Non-export firms	5.9	1.1	29.7	18.2	1.0	35.9
		° of total					
		Export firms		Non-export firms		Degree of concentration of exports	
					TOP 1%	TOP 5%	TOP 10%
TOTAL (b)		14.4		20.4	73.2	91.2	96.0
Manufacturing industry		25.2		26.2	67.1	87.0	93.7

SOURCE: Banco de España, based on balance of payments, CBSO and Mercantile Registries' statistics.

a. Size is measured by the number of employees; physical capital per worker is calculated using the ratio between property, plant and equipment and the number of workers; the temporary employment ratio is the proportion of temporary to total employees; the skill requirements are proxied by the proportion of directors, managers, professional and skilled workers and similar to total employees; intensity of innovation is proxied by the proportion of R&D expenses to GVA, in this case the statistic considered is the sample mean; productivity is measured by GVA per employee.

b. Calculated on the total sample for the period 2001-2007.

duction system – with its predominance of small and medium-sized firms – hinder their international expansion and consolidation. All this underlines the need for policies to be adopted to reduce the specific export costs faced by firms, especially smaller firms, whose technical and financial resources are generally more limited. These measures include encouraging export activity and promoting the image of Span-

ish products abroad, and introducing official support lines for the creation of export consortia. Moreover, these incentives should not be limited to the corporate sector, since the development of a more flexible institutional framework, more open to competition and more conducive to the allocation of resources to firms on the basis of efficiency, would enhance the competitiveness of the Spanish economy.

chiefly due to lower imports of cars and high-technology-content products (such as consumer electronics) (see Table 2.2).

An analysis of imports by geographical area shows that the decline was concentrated on imports from the EU, and particularly from within the euro area, as the rate of growth of imports from the rest of the world decelerated but remained positive. In consequence, the euro area's share in Spain's imports declined by more than 4 pp, to around 45% of the total, due, in part, to the lower demand for car imports which come primarily from the euro area. The relative share of imports from countries producing high-technology-content goods, such as Japan or the newly industrialised Asian economies, also declined. By contrast, imports from the CIS and other central and eastern European countries, and in particular from the OPEC countries, rose, due to the increase in the price of oil in the year overall (see Table 2.4). The share of imports from China also rose (to 7% of the total), although at a considerably slower pace than in previous years.

2.2.2 BALANCE OF SERVICES

The balance of services surplus widened in 2008 to 2.4% of GDP, 0.2 pp above the 2007 figure. This was due to the decline in the non-tourism services deficit (0.3 pp of GDP to 0.1%), as the tourism and travel surplus decreased by 0.1 pp to 2.6% of GDP, thus prolonging the weakness seen in this heading since 2001.⁴ In line with the developments in these transactions internationally, the rate of growth of services receipts and, especially, of services payments, moderated significantly in 2008, growing by 4.6% (10% in 2007) and 1.3% (12% in 2007), respectively. This pattern continued, in general, in the opening months of 2009, although the services surplus has narrowed recently due, above all, to the worsening tourism balance.

In 2008 as a whole, tourism receipts fell, in real terms, for the first time since 2002, down 4.9% on QNA data. In nominal terms, on balance of payments data, the decline was very modest, just 0.4%, meaning that their share of GDP continued to diminish, to 3.8% in 2008, 0.2 pp less than in 2007 (see Chart 2.7). The poor performance of tourism receipts reflects not only the drop in the number of travellers and the stagnation in the number of overnight stays in 2008, but also the changes seen in recent years in the tourist profile, with a shift towards independent travellers staying in own or rented accommodation and with a seemingly lower average daily spend. This change may explain the continued decline in real receipts by visitor seen since 2001 (see Chart 2.8).⁵ In addition, according to EGATUR,⁶ the

4. In respect of the travel heading, note that it includes travellers' spending during their stay abroad, be they tourists or other types of travellers (for example, excursionists or business travellers). 5. These receipts per tourist are the result of dividing the series of real receipts per tourist, obtained from balance of payments data, by the number of visitors entering at borders (FRONTUR). 6. Unlike the travel heading in the balance of payments, this includes spending in the country of origin, including, inter alia, international transport costs.

	TOTAL			CONSUMER GOODS			CAPITAL GOODS			NON-ENERGY INTERMEDIATE GOODS			ENERGY INTERMEDIATE GOODS		
	Ø 00-06	2007 (a)	2008 (a)	Ø 00-06	2007 (a)	2008 (a)	Ø 00-06	2007 (a)	2008 (a)	Ø 00-06	2007 (a)	2008 (a)	Ø 00-06	2007 (a)	2008 (a)
EXPORTS															
TOTAL	7.2	6.8	3.7	6.0	2.5	4.8	1.9	-1.8	-1.3	9.1	11.8	0.3	16.6	9.2	54.8
OECD	7.1	4.6	1.7	6.0	1.6	4.4	0.9	-1.5	-2.3	9.5	9.6	-2.7	14.0	-23.5	89.0
EU27	6.5	5.5	1.9	...	2.5	4.2	...	1.4	0.8	...	10.4	-2.4	...	-27.5	85.7
EU15	6.1	4.5	1.7	5.1	1.3	3.8	-0.6	0.8	-0.8	8.5	9.7	-2.6	13.8	-28.6	86.8
<i>United Kingdom</i>	6.5	2.0	-3.4	5.9	-6.1	4.6	4.5	-6.3	-24.3	7.7	14.9	-12.2	9.1	-23.1	293.6
Euro area (EMU15)	5.9	6.1	1.5	...	3.0	3.2	...	2.5	3.2	...	8.8	-1.9	...	24.4	67.4
<i>Germany</i>	4.4	5.8	1.7	2.8	-0.5	6.0	-4.7	9.8	10.7	7.5	9.9	-1.9	17.9	10.5	-20.0
<i>France</i>	6.6	6.4	1.2	5.6	8.6	2.1	0.1	-5.6	1.4	9.5	7.1	-1.1	13.9	-9.5	95.4
<i>Italy</i>	6.4	6.2	-2.0	5.5	-3.3	2.6	-2.5	14.3	-18.2	9.5	12.7	-4.8	-12.7	157.6	209.2
UNITED STATES	7.3	0.9	1.6	6.6	-5.1	8.3	2.9	-43.0	17.3	8.7	13.6	-8.6	10.0	8.9	134.5
OPEC	8.1	22.3	24.4	7.0	-1.9	15.5	10.4	41.8	-2.5	7.7	27.0	35.9	16.5	74.8	42.0
CIS and other central and eastern European countries	2.1	26.2	27.0	1.0	38.0	38.7	1.0	27.7	35.5	3.2	17.4	14.2	7.6	-30.1	50.3
Rest of the Americas	4.4	-7.8	-6.2	6.7	-16.0	-28.0	3.9	-32.3	-26.7	2.9	14.1	10.7	40.4	-17.8	44.8
NICs	4.9	2.0	1.7	6.8	10.9	11.6	7.6	-43.0	10.2	3.9	7.5	-3.2	5.2	93.2	180.4
Rest of the world	9.9	15.8	10.0	7.2	10.8	6.4	4.7	12.6	16.0	11.4	20.3	6.5	17.3	5.1	30.8
IMPORTS															
TOTAL	9.5	8.0	0.6	10.1	6.2	-7.8	0.5	7.1	-18.3	9.2	11.3	-1.5	22.8	2.3	36.8
OECD	7.6	8.0	-5.8	9.6	6.6	-9.6	-0.8	7.0	-18.3	8.5	8.2	-4.2	22.1	17.4	29.0
EU27	7.1	8.5	-6.5	...	6.6	-9.2	...	12.3	-19.8	...	7.3	-4.0	...	33.5	22.9
EU15	6.6	8.3	-7.0	8.0	6.2	-9.5	-0.9	11.0	-18.8	7.8	7.1	-4.5	22.3	37.0	17.2
<i>United Kingdom</i>	3.6	3.7	-3.2	6.2	-1.0	-3.6	-5.3	-3.4	-28.6	4.2	3.5	-10.2	9.8	53.9	71.6
Euro area (EMU15)	7.1	9.3	-7.6	...	7.7	-10.4	...	14.4	-20.0	...	7.6	-4.0	...	37.5	5.8
<i>Germany</i>	7.9	15.1	-6.0	11.6	16.4	-13.0	0.0	18.9	-14.3	8.3	13.2	2.4	49.4	18.4	-48.4
<i>France</i>	4.3	3.2	-11.4	6.1	-0.8	-15.4	-7.2	5.0	-24.4	6.4	4.9	-8.5	7.3	14.9	38.2
<i>Italy</i>	7.6	14.6	-11.9	7.9	12.3	-13.7	0.5	13.8	-21.2	8.6	9.3	-13.8	27.4	65.4	15.4
UNITED STATES	1.7	17.1	12.5	7.1	15.6	32.9	-6.2	-11.5	-8.3	3.2	31.2	-0.9	17.6	-14.1	198.1
OPEC	18.0	-4.9	32.6	7.8	-14.0	6.8	-4.3	79.7	-64.9	10.1	8.7	-6.1	20.0	-6.4	39.2
CIS and other central and eastern European countries	17.1	6.2	21.2	-6.0	-24.3	14.8	-20.8	53.0	5.6	7.8	-2.7	11.7	34.7	11.1	24.8
Rest of the Americas	13.7	4.0	6.3	13.2	-7.2	-16.7	21.9	-53.5	-79.9	10.8	28.8	10.1	44.1	-21.0	134.3
NICs	10.3	-3.2	-16.3	9.0	-7.5	-36.5	4.1	-18.0	-24.1	13.5	5.0	3.1	304.5	8.5	-24.3
Rest of the world	17.0	18.1	10.0	15.5	9.9	1.4	16.1	24.2	-3.4	17.5	32.4	10.5	21.4	-1.0	48.9

SOURCE: Departamento de Aduanas.

a. Provisional data.

average daily spend per tourist, in nominal terms, was practically flat in 2008 (up just 0.8%).

Drawing on data from the Survey on Tourism Movements at Borders (FRONTUR),⁷ the number of foreign tourists fell in 2008, by 2.4%, for the first time ever throughout the time series (see Table 2.6), even though, on World Tourism Organization (WTO) estimates,⁸ international tourist flows continued to grow in the year (1.8%). By geographical area, the decline in inbound tourism to Spain was similar to that seen in northern and western Europe, although the destinations that compete with Spain performed better. Thus, significant numbers of tourists travelled to the eastern Mediterranean and Africa (especially to Egypt, Tunisia and Morocco), areas that compete with Spain in the beach tourism segment. A disaggregated analysis of the FRONTUR

7. Survey compiled by the Tourism Studies Institute (IET), to quantify and analyse inflows and outflows of visitors through Spanish borders. 8. For more detailed information, see the *WTO World Tourism Barometer*, volume 7, No. 1, January 2009, at http://www.world-tourism.org/facts/eng/pdf/barometer/UNWTO_Barom09_1_sp_excerpt.pdf.

	AVERAGE 2000-2006	2007	2008
IN REAL TERMS (a)			
EXPORTS			
TOTAL	5.1	4.2	1.9
Capital goods	7.1	-0.5	-2.8
Consumer goods	3.5	0.1	4.1
<i>Food</i>	3.6	3.0	2.0
<i>Non-food</i>	3.4	-1.2	5.0
Intermediate goods	5.8	8.0	1.1
<i>Non-energy</i>	6.1	8.2	0.3
<i>Energy</i>	0.7	5.1	20.4
IMPORTS			
TOTAL	6.9	6.9	-2.9
Capital goods	6.8	9.8	-19.6
Consumer goods	8.0	5.1	-7.7
<i>Food</i>	6.0	7.4	-1.8
<i>Non-food</i>	8.5	4.5	-9.3
Intermediate goods	6.2	7.2	2.0
<i>Non-energy</i>	6.2	8.0	-0.7
<i>Energy</i>	5.8	3.5	13.8
UNIT VALUE INDICES			
EXPORTS			
TOTAL	2.0	2.5	1.9
Capital goods	-1.0	-0.9	1.8
Consumer goods	2.3	2.4	0.6
<i>Food</i>	2.1	2.7	4.7
<i>Non-food</i>	2.4	2.2	-1.2
Intermediate goods	2.6	3.3	2.7
<i>Non-energy</i>	1.8	3.3	0.0
<i>Energy</i>	16.7	2.0	29.6
IMPORTS			
TOTAL	2.5	1.0	3.8
Capital goods	-1.4	-2.4	1.8
Consumer goods	1.3	1.1	-0.1
<i>Food</i>	1.3	1.1	2.9
<i>Non-food</i>	1.3	1.1	-0.8
Intermediate goods	4.1	1.6	5.7
<i>Non-energy</i>	1.6	2.9	-0.7
<i>Energy</i>	15.5	-1.3	20.3

SOURCES: Departamento de Aduanas and Ministerio de Industria, Turismo y Comercio.

a. The real export and import data of the last two years are provisional.

statistics shows that the poor performance in the year as a whole was largely due to the decline in the number of tourists from the United Kingdom (-3.1%) and France (-9.1%), two of Spain's main source markets. The number of tourists from Germany was flat, while the numbers from the Nordic countries, Russia and the United States rose.

There also was a sharp deceleration in the year in the Hotel Occupancy Survey (EOH) indicators⁹ on overnight stays and, especially, tourist numbers. This slowdown affected both the beach segment and city destinations (especially short breaks), although the latter showed greater resilience, posting moderate growth in the year as a whole, due in part to

9. The main aim of the Hotel Occupancy Survey, compiled by the National Statistics Institute (INE), is to ascertain the behaviour of a series of variables allowing the essential features of the hotel industry to be known.

STRUCTURE OF FOREIGN TRADE (a)
Percentage share in nominal terms

TABLE 2.4

	SHARE IN TOTAL TRADE		BREAKDOWN OF TRADE IN AREA (b)					
			2007			2008		
	2007	2008	Consumer goods	Capital goods	Intermediate goods	Consumer goods	Capital goods	Intermediate goods
EXPORTS								
TOTAL	100.0	100.0	36.5	9.2	54.2	36.9	8.8	54.3
OECD	80.2	78.6	39.9	8.3	51.8	41.0	7.9	51.0
EU27	70.1	68.9	40.5	7.8	51.7	41.5	7.7	50.8
EU15	65.7	64.4	40.8	7.8	51.4	41.7	7.6	50.7
<i>United Kingdom</i>	7.5	7.0	46.9	8.1	44.9	50.8	6.4	42.8
Euro area (EMU15)	56.2	55.0	40.5	7.8	51.8	41.2	7.9	50.9
<i>Germany</i>	10.8	10.6	37.1	6.7	56.2	38.7	7.3	54.0
<i>France</i>	18.6	18.2	45.1	8.5	46.4	45.5	8.5	46.0
<i>Italy</i>	8.5	8.0	39.0	7.9	53.0	40.8	6.6	52.5
United States	4.2	4.1	31.7	6.3	62.1	33.7	7.2	59.0
OPEC	2.9	3.5	21.7	19.0	59.4	20.1	14.9	65.0
CIS and other central and eastern European countries	2.3	2.9	41.9	11.5	46.6	45.7	12.3	42.0
Rest of the Americas	3.5	3.1	24.4	21.2	54.5	18.7	16.5	64.8
NICs	1.0	1.0	23.8	7.0	69.2	26.1	7.6	66.3
Rest of the world	7.5	8.0	19.4	12.4	68.3	18.7	13.0	68.2
IMPORTS								
TOTAL	100.0	100.0	27.6	10.6	61.8	25.3	8.6	66.1
OECD	70.4	65.9	29.6	12.6	57.8	28.5	10.9	60.7
EU27	59.1	54.9	29.7	12.9	57.4	28.9	11.1	60.0
EU15	55.8	51.6	29.7	12.9	57.5	28.8	11.3	59.9
<i>United Kingdom</i>	4.7	4.5	36.2	9.9	53.9	36.1	7.3	56.6
Euro area (EMU15)	49.5	45.4	29.1	13.2	57.7	28.2	11.4	60.4
<i>Germany</i>	15.2	14.2	32.4	14.5	53.1	30.0	13.2	56.8
<i>France</i>	12.2	10.8	30.4	8.7	60.8	29.1	7.5	63.5
<i>Italy</i>	8.7	7.6	24.5	14.3	61.2	24.0	12.8	63.2
United States	3.5	4.0	15.8	15.4	68.8	18.6	12.6	68.8
OPEC	7.5	9.9	2.6	0.4	97.0	2.1	0.1	97.8
CIS and other central and eastern European countries	3.8	4.6	2.8	0.7	96.5	2.6	0.6	96.8
Rest of the Americas	3.7	3.9	29.3	4.7	66.0	22.9	0.9	76.2
NICs	2.2	1.8	39.6	11.3	49.1	30.1	10.3	59.7
Rest of the world	13.2	14.4	37.8	9.6	52.6	34.8	8.5	56.8

SOURCE: Departamento de Aduanas.

a. Provisional data.

b. The figures show the structure of trade flows with each of the areas specified.

Expo Zaragoza 2008. In comparison with previous years, the average stay rose slightly (by 0.2%).

Regarding the profile of visitors to Spain, in 2008 a growing majority continued to arrive by plane (77% of the total), increasingly using low-cost companies (48% of total arrivals by plane). Most of these visitors chose to stay in hotels (64% of the total), and the majority chose not to purchase a tourist package (68% of the total), reflecting the growing use of the Internet for organisation of trips (54% in 2008, up from 38% just four years ago). However, the number of trips made to Spain by foreign travellers fell in 2008, having grown in previous years, although the average stay increased. The decline in the number of visits is due to the present climate of uncertainty, and to the impact of higher transport prices on the decision to travel. Moreover, the increase in average stay is concentrated, above all, on visitors choosing to use

COMPETITIVENESS

TABLE 2.5

Year-on-year rates of change, annual averages (a)

	NOMINAL COMPONENT	RELATIVE PRICES					COMPETITIVENESS INDICES				
		Unit labour costs	Consumer prices	Unit labour costs (manuf.)	Producer prices (manuf.)	Export prices	Unit labour costs	Consumer prices	Unit labour costs (manuf.)	Producer prices (manuf.)	Export prices
Vis-à-vis the developed countries											
2002	0.7	0.9	1.7	1.5	0.5	0.3	1.6	2.4	2.2	1.3	1.0
2003	2.8	1.3	1.2	2.9	0.6	0.6	4.1	4.0	5.7	3.4	3.4
2004	0.7	1.8	1.1	3.3	1.2	0.6	2.4	1.8	4.0	1.8	1.3
2005	0.1	2.1	1.4	3.2	1.4	0.6	2.2	1.5	3.4	1.5	0.7
2006	0.3	2.2	1.5	2.9	1.6	0.3	2.5	1.8	3.2	1.9	0.6
2007	1.1	1.1	0.9	1.4	0.3	0.7	2.3	2.0	2.5	1.4	1.8
2008	1.8	0.7	1.0	4.1	0.6	-1.4	2.5	2.7	6.0	2.4	0.3
Cumulative change on December 1998											
Dec-02	-2.4	3.7	5.4	4.3	2.4	0.7	0.7	2.9	1.3	0.0	-1.7
Dec-03	0.2	5.2	6.4	6.5	3.5	2.2	4.8	6.6	6.1	3.7	2.4
Dec-04	0.9	7.0	7.6	11.6	4.8	2.7	7.4	8.6	12.1	5.7	3.6
Dec-05	-0.2	9.3	9.4	13.8	6.5	3.1	8.9	9.2	13.4	6.3	2.9
Dec-06	0.9	12.0	10.3	17.1	7.5	3.9	12.5	11.3	17.7	8.5	4.8
Dec-07	2.6	12.8	12.0	20.3	8.2	3.0	15.3	14.9	22.9	11.1	5.6
Dec-08	3.4	11.6	11.9	22.7	6.7	1.5	14.1	15.7	25.5	10.3	3.5
Vis-à-vis the euro area (EMU15)											
2002	0.0	0.4	1.4	0.9	0.4	0.0	0.4	1.4	0.9	0.4	0.0
2003	0.0	1.0	1.1	2.4	0.6	1.6	1.0	1.1	2.5	0.6	1.6
2004	0.0	1.6	1.0	2.8	1.2	0.9	1.7	1.0	2.8	1.2	1.0
2005	0.0	2.1	1.4	3.6	1.8	1.2	2.1	1.4	3.6	1.8	1.2
2006	0.0	2.4	1.5	3.1	1.3	0.5	2.4	1.5	3.1	1.3	0.5
2007	0.0	1.2	0.8	1.6	0.1	0.8	1.2	0.8	1.6	0.1	0.8
2008	0.0	0.5	1.0	4.0	1.3	0.1	0.5	1.0	4.0	1.3	0.1
Cumulative change on December 1998											
Dec-02	0.1	3.7	4.9	4.0	1.2	-0.1	3.7	5.0	4.1	1.3	-0.1
Dec-03	0.1	4.9	5.7	5.7	2.3	2.1	5.0	5.8	5.7	2.4	2.2
Dec-04	0.1	6.7	6.8	10.4	3.8	2.9	6.7	6.9	10.5	3.9	3.0
Dec-05	0.1	9.1	8.5	13.3	5.8	3.9	9.2	8.6	13.3	5.9	4.0
Dec-06	0.1	12.1	9.5	16.6	6.3	4.6	12.2	9.6	16.7	6.4	4.7
Dec-07	0.1	12.8	11.1	19.8	7.4	4.6	12.8	11.2	19.8	7.5	4.7
Dec-08	0.1	11.0	11.0	22.2	6.4	4.2	11.0	11.1	22.2	6.5	4.3
Vis-à-vis the newly industrialised Asian countries (b)											
2002	4.6	—	2.5	—	1.5	—	—	7.3	—	6.1	—
2003	17.6	—	1.9	—	-1.0	—	—	19.7	—	16.4	—
2004	8.5	—	0.3	—	-2.4	—	—	8.8	—	5.8	—
2005	-2.5	—	0.2	—	-0.9	—	—	-2.3	—	-3.4	—
2006	-2.1	—	0.8	—	0.9	—	—	-1.3	—	-1.2	—
2007	4.5	—	-0.1	—	-0.1	—	—	4.5	—	4.4	—
2008	6.6	—	-1.6	—	-3.3	—	—	4.9	—	3.2	—
Cumulative change on December 1998											
Dec-02	-9.2	—	9.8	—	5.6	—	—	-0.3	—	-4.1	—
Dec-03	7.8	—	10.8	—	4.2	—	—	19.4	—	12.3	—
Dec-04	14.2	—	10.9	—	2.5	—	—	26.7	—	17.1	—
Dec-05	0.9	—	11.4	—	1.8	—	—	12.5	—	2.8	—
Dec-06	1.1	—	10.6	—	3.0	—	—	11.8	—	4.1	—
Dec-07	12.3	—	12.0	—	2.0	—	—	25.8	—	14.6	—
Dec-08	13.0	—	7.8	—	-4.4	—	—	21.8	—	7.9	—

SOURCE: Banco de España.

a. Annual averages. A positive (negative) rate of change denotes a loss (gain) in competitiveness.

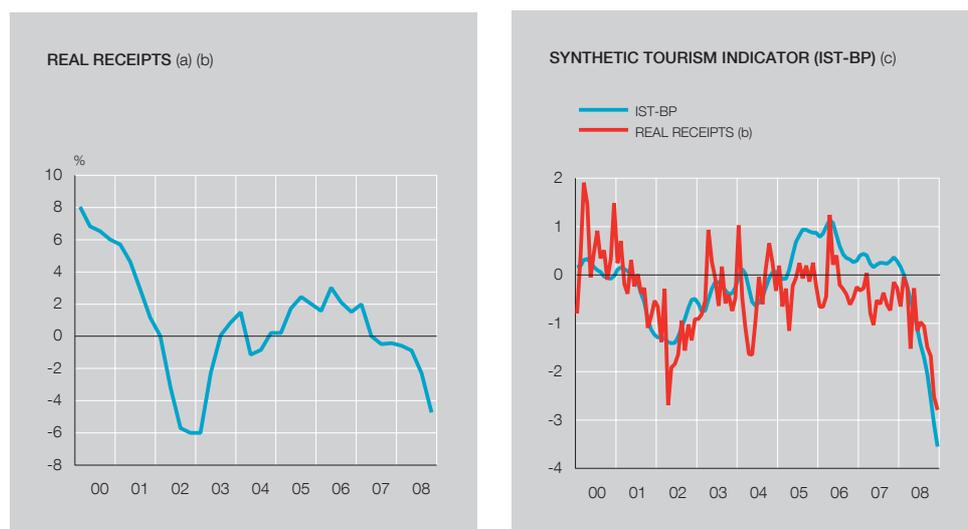
b. China, South Korea, Philippines, Hong Kong, India, Indonesia, Malaysia, Singapore, Taiwan and Thailand.



SOURCES: WTO, IET, Ministerio de Economía y Hacienda and Banco de España.

- a. In nominal terms.
- b. Rates of change.

REAL TOURISM RECEIPTS AND SYNTHETIC INDICATOR (IST-BP)



SOURCE: Banco de España.

- a. Year-on-year change in four-quarter accumulated data.
- b. The travel heading nominal receipts have been deflated using a price index calculated as the weighted average of the CPI of the COICP groups (deflator of non-residents). The weightings are obtained from the Tourism Satellite Account.
- c. The IST-BP indicator is in levels and real tourism receipts are standardised year-on-year percentage rates of change, subtracting the mean and dividing by the standard deviation in the period 1996(2)-2008(12). Revised IST-BP data including all information available to December 2008.

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Nominal receipts	10.3	5.5	-1.9	4.4	3.8	6.0	5.6	3.3	-0.4
Real receipts (a)	4.9	0.4	-6.5	0.1	0.1	2.3	1.6	0.1	-4.9
Nominal payments	17.0	13.1	5.4	4.2	22.0	24.1	9.4	8.3	-3.7
Real payments (a)	11.0	11.0	2.4	2.9	19.4	20.6	5.9	7.2	-4.5
Competitiveness index vis-à-vis the developed countries, measured in terms of consumer prices (b)	-1.3	1.1	2.4	4.0	1.8	1.5	1.8	2.0	2.7
<i>Nominal component</i>	-2.7	0.5	0.7	2.8	0.7	0.1	0.3	1.1	1.8
Developed countries' GDP (c)	1.1	-1.2	4.2	12.0	10.7	4.5	4.7	8.7	8.9
MEMORANDUM ITEMS:									
Number of foreign visitors lodged in Spanish hotels	1.3	-0.5	-1.5	2.1	1.4	5.1	6.0	4.0	0.1
Overnight hotel stays by foreign visitors	-3.5	-0.2	-5.3	0.7	-1.6	3.4	6.6	2.1	0.2
Number of tourists (FRONTUR)	2.1	4.7	3.6	1.0	3.1	6.6	3.7	1.1	-2.4

SOURCES: OECD, IMF, INE, IET and Banco de España.

a. Spanish Quarterly National Accounts figures, base year 2000.

b. Developed countries: Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Malta, Netherlands, New Zealand, Norway, Portugal, Slovakia, Slovenia, Sweden, Switzerland, United Kingdom and United States.

c. Aggregate GDP in dollars of all the developed countries, in nominal terms. The 2008 data are provisional.

own or rented accommodation, which entails a lower average daily cost than hotel accommodation.

Tourism payments, in real terms, fell by 4.5% in 2008, on QNA data, following the strong growth recorded in the previous four years, while in nominal terms, on balance of payments data, they fell by 3.7%, after growing by 8.3% in 2007. This reflects the decline in the number of trips abroad made by Spanish nationals (as seen in the FAMILITUR statistics)¹⁰ and in the amount spent. The positive impact on foreign travel of the appreciation of the euro against the dollar, and especially against the pound, failed to offset the adverse effect of the poor performance of real income in Spain, the deteriorating labour market and declining wealth.

Turning to non-tourism services, the rate of growth of receipts outpaced that of payments (8.7% and 2.5%, respectively), so the non-tourism services deficit narrowed considerably, to 0.1% of GDP. Non-tourism receipts continued to grow as a proportion of Spanish GDP (by 0.2 pp to 5.1%), while the relative share of non-tourism payments declined (by 0.1 pp to 5.2%). In any case, the relative weight of non-tourism services in GDP is slightly lower in Spain than in the euro area as a whole, meaning that it should tend to increase somewhat in the medium term (see Table 2.7).

International trade in services decelerated significantly in 2008, not only in Spain but also worldwide. On World Trade Organization (WTO) data, world exports of other services rose by 12% in nominal terms, against 21% a year earlier. However, in 2008, services transactions worldwide grew at a slower pace than goods transactions (15%, according to the WTO). This widespread slowdown affected virtually all types of services and geographical areas (with the exception of the Middle East), but the Asian economies and the EU were the

¹⁰ The aim of the survey on Spanish travel (FAMILITUR) is to study Spanish tourism, to quantify and analyse the trips made by Spanish residents, both within Spain and abroad.

SERVICES BALANCE COMPONENTS

TABLE 2.7

Nominal rates of change

	RECEIPTS				PAYMENTS			
	EU27		SPAIN		EU27		SPAIN	
	2007	2008	2007	2008	2007	2008	2007	2008
TOTAL SERVICES	12.3	3.5	10.0	4.6	9.9	6.8	12.2	1.3
Travel	5.3	-2.6	3.3	-0.4	7.8	0.9	8.3	-3.7
Other services (a)	13.6	4.5	16.2	8.7	10.5	8.5	13.3	2.5
<i>Transport</i>	8.9	7.6	6.2	6.6	3.9	7.9	-0.3	6.8
<i>Communications</i>	15.0	17.5	8.4	21.4	6.0	4.3	16.0	1.7
<i>Construction</i>	17.2	11.7	72.3	22.5	11.8	36.5	31.1	40.6
<i>Insurance</i>	34.8	-13.6	71.4	-9.5	2.8	-4.5	26.2	-23.0
<i>Financial services</i>	26.5	-2.2	35.8	-8.3	15.6	5.1	14.6	-0.8
<i>IT services</i>	15.1	10.1	23.5	6.8	10.2	7.7	13.8	0.7
<i>Royalties and income from intangible assets</i>	10.5	-7.3	-47.9	38.3	12.3	4.0	31.0	-16.9
<i>Business services</i>	11.4	5.2	15.0	13.0	14.5	9.7	20.3	2.8
<i>Cultural and leisure services</i>	1.4	-8.1	22.9	-1.1	-16.9	-2.5	15.6	0.7
<i>Government services</i>	1.5	-3.5	10.7	-4.7	3.4	9.8	3.2	-21.2

SOURCES: Eurostat and Banco de España.

a. In the case of EU27, includes all services not allocated to a specific heading.

hardest hit. On WTO data, Spain was sixth in the world ranking of total service exporters in 2008, with a share of 3.8%, well ahead of its 17th place in the world ranking of trade in goods.¹¹

In 2008 there were no significant changes in the breakdown of non-tourism services receipts and payments, with transport and other business services continuing to account for more than 70% of the total in both cases. On the receipts side, there was a notable increase in the relative share of other business services and construction services, to the detriment, in particular, of transport and financial services. On the payments side, the share of transport services rose, while that of insurance services and royalties diminished. The decline in the business services and royalties deficit made a key contribution to the correction of the deficit, as did the increase in the construction services surplus, albeit to a lesser extent. By contrast, the transport and financial services deficits worsened, the former largely due to the rise in the price of oil and to the slowdown in trade and tourism flows (see Table 2.8).

The breakdown of non-tourism services by geographical area shows that the EU was the counterparty of most of Spain's transactions (accounting for around two-thirds of both receipts and payments). The euro area accounts for almost 40% of total receipts and almost 46% of total payments. Approximately 19% of exports and 17% of imports are with the United Kingdom, in line with its importance as an international financial centre, although its relative share diminished in 2008 in comparison with 2007. In the rest of the world, Switzerland and the United States stand out, in terms both of receipts and payments. In 2008, the non-tourism services deficit was concentrated on the euro area, offsetting the surplus recorded with the rest of the EU (especially the United Kingdom) and with non-EU countries (especially the Latin American countries and Switzerland).

¹¹. The high position in the services ranking reflects Spain's weight as an international tourism destination.

	RECEIPTS										PAYMENTS									
	PERCENTAGE OF TOTAL						RATE OF CHANGE				PERCENTAGE OF TOTAL						RATE OF CHANGE			
	INTRA EU27			EXTRA EU27			INTRA EU27		EXTRA EU27		INTRA EU27			EXTRA EU27			INTRA EU27		EXTRA EU27	
	Ø 00-06	2007	2008	Ø 00-06	2007	2008	2007	2008	2007	2008	Ø 00-06	2007	2008	Ø 00-06	2007	2008	2007	2008	2007	2008
Other services	100.0	100.0	100.0	100.0	100.0	100.0	10.4	6.4	28.2	13.0	100.0	100.0	100.0	100.0	100.0	100.0	15.8	-0.3	8.2	8.6
Transport	36.4	31.6	30.7	31.0	26.9	26.9	2.1	3.5	15.9	13.2	30.4	26.5	26.8	41.9	35.0	37.7	4.5	0.5	-7.2	16.9
Communications	3.7	2.9	3.1	1.7	1.5	2.0	8.0	14.2	9.5	45.7	3.0	3.3	3.4	3.8	5.1	4.8	20.6	0.6	10.1	3.1
Construction	2.4	3.0	4.3	5.1	10.9	10.6	21.5	48.4	118.0	9.5	1.5	2.5	3.8	1.4	2.4	2.5	15.0	51.9	90.5	15.4
Insurance	1.4	1.8	1.7	1.5	2.8	2.0	41.2	0.0	127.2	-20.3	2.2	4.0	2.9	2.1	2.4	2.1	61.1	-28.6	-28.4	-3.1
Financial services	7.0	10.2	8.8	3.8	5.1	4.1	29.5	-8.2	64.5	-8.4	5.9	8.0	8.0	2.7	3.7	3.3	15.1	-0.5	12.1	-2.6
IT services	3.6	3.4	3.5	16.5	15.3	14.2	-8.7	11.3	43.4	5.0	4.8	4.0	3.9	3.1	2.2	2.3	18.4	-1.9	-0.8	10.6
Royalties and income from intangible assets	1.2	0.7	1.0	2.0	0.9	0.9	-27.3	54.0	-62.4	17.1	5.2	4.5	4.1	6.3	5.1	3.2	24.9	-9.2	44.1	-31.1
Business services	40.6	42.6	43.4	34.0	32.8	35.9	14.1	8.5	17.1	23.6	42.8	43.9	43.9	32.3	39.1	39.6	19.1	-0.2	23.1	10.0
Cultural and leisure services	2.0	2.2	2.0	2.9	2.7	2.5	21.1	-2.5	25.5	1.0	3.6	3.0	3.0	5.0	3.5	3.3	21.0	-0.7	6.9	3.2
Government services	1.9	1.6	1.4	1.4	1.0	0.9	6.7	-5.2	23.7	-3.3	0.6	0.3	0.3	1.3	1.3	0.9	-6.9	-7.7	8.4	-27.1

SOURCE: Banco de España.

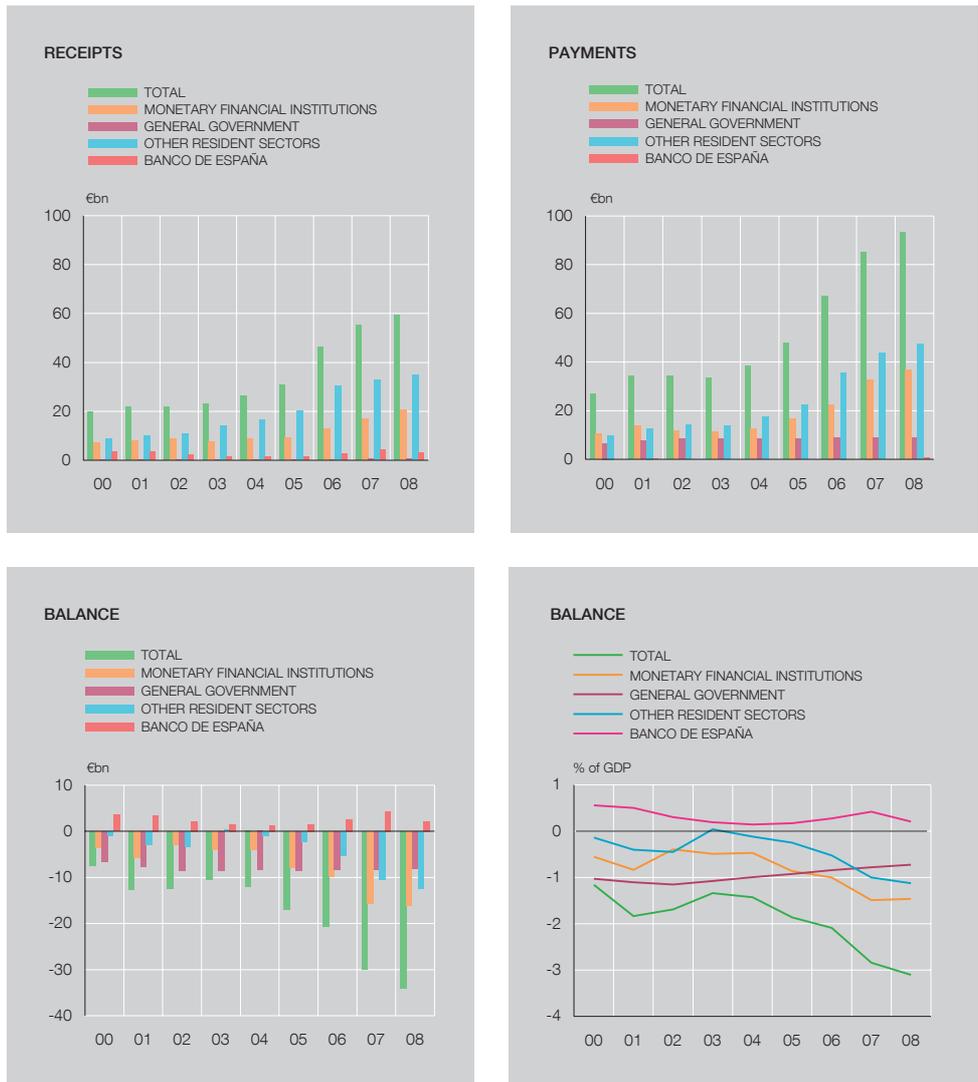
2.2.3 BALANCE OF INCOME

In 2008 the income balance deficit widened again, although at a slower pace than in 2007, growing by 0.2 pp to 3.1% as a percentage of GDP. Developments in the income balance vis-à-vis the rest of the world essentially reflect the behaviour of net investment income, as labour income remains relatively insignificant. The growth in the investment income deficit is due, above all, to the increase in net payments made by the private sector, to the decrease in the Banco de España's income surplus and, to a much lesser extent, to the growth in the MFIs' deficit, all of which was offset, to some extent, by the decline in the general government deficit (see Chart 2.9).

By type of investment, the worsening of the income balance reflects the wider deficits on other investment (basically, loans, deposits and repos) and portfolio investment, which between them balanced out the improvement in the direct investment income surplus (see Table 2.9). The IIP data show that, in effect, the debit balance on other investment rose throughout 2008, explaining the higher net income payments connected with these instruments. By contrast, in the case of portfolio investment, the international net debit position decreased, so that, in this case, the deterioration in the income balance is explained by the change in the implicit returns on the corresponding external assets and liabilities (see Chart 2.10).

After declining in 2007, the direct investment income surplus grew by more than 80% (to €10,552 million) in 2008, primarily due to the notable growth in dividend receipts from exceptionally large earnings repatriations, and to the decline in dividend payments, as dividends were contained against the backdrop of liquidity restrictions and sharp stock market falls.

The portfolio investment income deficit rose by 18% in 2008 (to €29,050 million), signifying a slowdown in the strong rate of growth seen since 2005. This increase was due basically to payments (which rose by 11.7%), as receipts were virtually flat (0.9%). Net payments generated by capital holdings (basically dividends) and by fixed-income instruments (especially medium and long-term bonds) helped widen the income deficit. By institutional sector, the poor performance of the other resident sectors (ORSs) balance stands out, as does that of the



SOURCE: Banco de España.

monetary authority and MFIs balance, albeit to a much lesser extent. The increase in income payments on medium and long-term bonds reflects the rise in interest rates over the last two years, as medium and long-term bonds held by non-residents and issued by the ORSs and the MFIs are down significantly, reflecting not only international investors' growing home bias but also their growing preference for safer and more liquid assets, in a setting of widespread uncertainty regarding the depth and duration of the present financial and economic crisis.

Conversely, the general government's portfolio investment income deficit continued to correct, narrowing by 4.8%, despite the growth in non-residents' investment in Spanish public debt, against a backdrop of positive net securities issues in 2008,¹² reflecting higher public sector financing. These investments were considerably larger than the general government's investments abroad (specifically, those made by the Social Security Reserve Fund).

The other investment income deficit rose by 40% in 2008 (to €15,495 million), similarly to a year earlier, essentially due to the higher net income payments generated by short-term loans and deposits.

12. See Chapter 3 of this report.

INVESTMENT INCOME BY INSTRUMENT
% of GDP

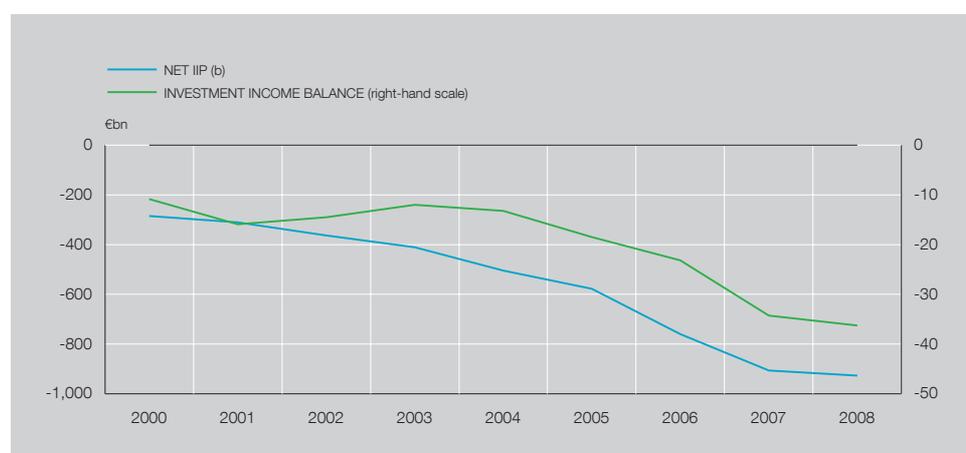
TABLE 2.9

	AVERAGE 00-05	2006	2007	2008
RECEIPTS				
Total investment income	3.1	4.7	5.3	5.4
<i>Foreign direct investment</i>	1.1	2.5	2.6	2.8
<i>Portfolio investment</i>	1.1	1.3	1.4	1.4
<i>Other investment</i>	1.0	0.9	1.2	1.3
PAYMENTS				
Total investment income	4.7	6.8	8.1	8.5
<i>Foreign direct investment</i>	1.2	2.0	2.1	1.8
<i>Portfolio investment</i>	1.8	3.1	3.7	4.0
<i>Other investment</i>	1.7	1.8	2.3	2.7
BALANCE				
Total investment income	-1.6	-2.1	-2.8	-3.1
<i>Foreign direct investment</i>	-0.1	0.5	0.6	1.0
<i>Portfolio investment</i>	-0.7	-1.7	-2.3	-2.7
<i>Other investment</i>	-0.7	-0.9	-1.1	-1.4

SOURCE: Banco de España.

NET IIP AND INVESTMENT INCOME (a)

CHART 2.10



SOURCE: Banco de España.

a. Excluding Banco de España.

2.2.4 BALANCE OF CURRENT TRANSFERS¹³

The current transfer deficit rose considerably (31%) in 2008, to €9,249 million, representing 0.8% of GDP, 0.1 pp more than a year earlier, as receipts fell (by 6.8%) and payments increased (by 3.6%). An analysis by institutional sector reveals that the widening of the current transfers negative balance was due to the considerable increase in the public sector deficit, which offset the improvement in the private sector surplus. The forecasts stemming from the

¹³ By virtue of the new Regulation (EC) No 1290/2005 on the CAP, two new European agricultural funds were created: the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD). These funds replaced, for all effects and purposes and as from 16 October 2007, the European Agricultural Guidance and Guarantee Fund (EAGGF), Guarantee and Guidance Sections. However, since the settlement period of EAGGF-Guidance is two years, Spain will still continue to receive this type of funds.

	2000	2001	2002	2003	2004	2005	2006	2007	2008
RECEIPTS	11,150	12,013	15,567	16,510	16,290	14,498	12,125	12,675	11,337
Current transfers	6,619	7,135	8,423	8,094	8,543	7,985	7,533	8,078	6,425
<i>Public</i>									
— ESF	797	1,085	1,795	1,653	1,774	1,784	1,251	1,691	720
— Other	48	53	79	79	68	100	137	53	144
<i>Private</i>									
— EAGGF (Guarantee)	5,775	5,997	6,550	6,362	6,702	6,101	6,145	6,333	—
— EAGF	—	—	—	—	—	—	—	—	5,561
Capital transfers	4,530	4,877	7,144	8,417	7,746	6,513	4,593	4,598	4,912
<i>Public</i>									
— ERDF	2,819	3,381	4,046	5,344	4,712	3,851	2,214	2,761	2,713
— EAGGF (Guidance)	514	628	978	1,274	1,127	1,270	1,095	1,023	482
— EAFRD	—	—	—	—	—	—	—	—	977
— Cohesion Fund	1,197	869	2,120	1,799	1,907	1,391	1,283	813	741
PAYMENTS	6,660	6,777	6,967	8,193	8,416	10,295	10,674	10,314	10,634
Current transfers	6,660	6,777	6,967	8,193	8,416	10,295	10,674	10,314	10,634
<i>Public</i>									
— Traditional own resources (b)	1,020	1,005	949	1,005	1,273	1,463	1,597	1,720	1,586
— VAT resource	2,889	3,135	2,525	2,656	1,921	1,617	1,652	1,723	1,655
— GNI resource	2,643	2,589	3,406	4,405	5,084	6,401	6,547	5,937	6,280
— EDF	109	48	87	129	137	103	157	169	188
— Other	—	—	—	—	—	713	722	765	924
BALANCE	4,490	5,236	8,600	8,317	7,874	4,202	1,451	2,361	703

SOURCES: Dirección General de Presupuestos (Secretaría de Estado de Hacienda) and Banco de España.

a. As a result of the reform of the Common Agricultural Policy (CAP) in 2004 (Council Regulation (EC) No 1782/2003 and subsequent provisions), and pursuant to Council Regulation (EC) 1290/2005, two new European agricultural funds have been created, the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD), replacing, for all effects and purposes, as from 16 October 2007, the two sections of the former European Agricultural Guidance and Guarantee Fund (EAGGF): Guarantee and Guidance. However, due to the settlement period of both funds, the EAGGF-Guarantee fund continued to be received until 2007, while the EAGGF-Guidance fund was received until 2008.

b. 25% (10% until 2002) of the amount of this item is not actually paid, since it is the amount that the Spanish State receives for administering collection of these funds. In the balance of payments, the gross payment is included in current transfers and the above-mentioned 25% in government services income.

EU's 2007-2013 Pluriannual Financial Framework point to a further deterioration of the current transfers balance in coming years, as the contributions to the EU grow and the receipts from Community institutions decline.¹⁴

The increase in the deficit on EU-related transfers and on the other transfers heading¹⁵ drove up the general government deficit (see Table 2.10). Receipts from the EU fell significantly, by 51%, while payments rose by 3.1%; the decline in receipts is due to the decrease in the funds linked to the European Social Fund (ESF), directed at promoting employment. In turn, the increase in transfers to Community institutions was fundamentally due to the GNI (Gross National Income) resource:¹⁶ this heading, which is the key component of payments to the EU, representing some 60% of the total, offset the drop in contributions to the EU under the VAT

14. There are no annual forecasts, for the Pluriannual Financial Framework as a whole, for receipts connected with the EAGF, as these are budgeted annually and depend on the resolutions adopted under the CAP. 15. This heading comprises receipts and payments relating to donations, taxes, Social Security, etc. 16. The total amount of the GNI resource is the difference between Community spending and other income. Its amount is divided up between the Member States in proportion to their respective GNIs.

GEOGRAPHICAL BREAKDOWN OF REMITTANCE PAYMENTS IN 2007 AND 2008 (a) TABLE 2.11
Main countries of destination. Percentage of total.

	2007	2008
Colombia	18.3	18.0
Ecuador	15.2	13.4
Bolivia	9.4	9.2
Romania	5.5	5.1
Brazil	4.8	4.9
Morocco	5.2	4.9
Paraguay	3.2	3.9
Dominican Republic	4.1	3.7
Peru	2.2	2.6
Senegal	2.1	2.3
Pakistan	1.2	1.7
Philippines	1.1	1.2

SOURCE: Banco de España.

a. The geographical breakdown is obtained from the information provided to the Banco de España by currency-exchange bureaux.

resource¹⁷ and traditional own resources (of which Customs duties are the main component).¹⁸ The worsening of the general government other current transfers balance reflected the sharp increase (63%) in payments for donations abroad; this heading has risen continuously since 2005 and is expected to continue to rise, although possibly at a slower pace, in light of the present economic difficulties, owing to the commitment for total official development aid to reach 0.7% of GDP by 2012.¹⁹

The widening of the private sector surplus is due to the partial correction of the negative balance connected with workers' remittances, whose deficit decreased by 20%, to 0.2% of GDP, 0.1 pp less than in 2007. The worsening path traced by this heading, since it turned negative for the first time in 2001, was interrupted in 2008. The correction in the year reflects the decrease in payments (-7.2%), as receipts were practically flat. The decline in remittance payments was affected by the adverse labour market situation: in 2008 as a whole, hires of foreign workers continued to rise, but the rate of growth was much lower than in 2007 and it declined sharply as the year progressed, to reach zero growth in 2008 Q4. Moreover, National Statistics Institute (INE) data reflect a decline in migrant inflows in 2008, a pattern that will foreseeably continue in the future, while family regrouping processes probably also helped reduce the volume of remittances sent by immigrants to their home countries. The 2007 National Immigrant Survey data indicate that family regrouping will continue to drive down remittance payments in coming years, as most immigrants declared that they intended to remain in Spain in the medium term, with a significant number intending to regroup their families in Spain.²⁰ The geographical breakdown continues to show that Latin American countries account for a sig-

¹⁷. Since 1 January 2007, the rate of call of VAT is 0.3% of Member States' capped VAT bases. Previously, in 2004, the rate applied to the VAT base was reduced from 0.75% to 0.5%. ¹⁸. The outturn data accumulated to 31 December 2008 in the State receipts budget show a less marked decline in the current transfers received by the general government from the EU. Conversely, they show a sharp decrease in capital transfers from the EU, in comparison with the moderate increase recorded in the balance of payments data. Moreover, both the State budget outturn data and the balance of payments data contrast with the cash projections contained in the 2009 State budget (PGE09), which envisage increases in all transfers. As is indicated in the main text, all transfers decreased, on balance of payments data, with the exception of receipts connected with the EAFRD and EAGGF-Guidance funds, whose growth, also on balance of payments data, exceeded that envisaged in the PGE09 cash projections. ¹⁹. See AECID (2009), *III Plan Director de la Cooperación Española 2009-2012*. ²⁰. According to the 2007 National Immigrant Survey, compiled by the INE and published in 2009, more than 81% of immigrants intended to stay in Spain for the next five years, and almost 25% intended to bring their family members to Spain.

nificant proportion of remittances (see Table 2.11). The surplus of other private transfers decreased by 20%, due to the decline in receipts connected with the EAGF, the fund that replaces most of the EAGGF-Guarantee funds.²¹

2.3 The capital account

The surplus on the capital account, which largely depends on capital transfers to and from the EU, grew by 21% in 2008, to €5,556 million, in contrast to the decline seen in the three previous years, reflecting the growth in receipts (9%) and the decline in payments (-22%). As a percentage of GDP, the surplus widened by 0.1 pp to 0.5%. By sector, the increase in the positive balance of the capital account spread to the private sector and, in particular, to general government. The contribution from the disposal of non-produced non-financial assets was also significant.²²

The increase in the general government surplus centred on transfers from the EU, which rose by 7%, thanks to the favourable behaviour of the agricultural funds, grouped together in the EAGGF-Guidance and the EAFRD (see Table 2.10), which offset the drop in receipts linked to the Cohesion Funds and the ERDF (both aimed at reducing regional imbalances within the EU and endowed with the highest volume of funds). However, the forecasts stemming from the EU's 2007-2013 Pluriannual Financial Framework point to a decline in capital transfers from the EU, particularly in the cohesion instruments. In turn, the receipts generated by repayments of loans, debts and past-due bills assumed by the CESCE Group,²³ the export credit insurance company whose principal shareholder is the Spanish State, continued to decrease, after the notable rebound in 2006. Lastly, the private sector capital transfers surplus rose sharply, although in quantitative terms it was considerably lower than the general government balance.²⁴

²¹. The regional rural development measures not included in the EAGGF-Guarantee Objective 1 programmes are included in the EAFRD. The Objective 1 regions are those whose GDP per head does not exceed 75% of the Community average, the thinly populated regions of Finland and Sweden and the ultra-peripheral regions (French overseas departments, Canary Islands, Azores and Madeira). ²². This heading comprises the acquisition/disposal of non-produced tangible assets (land and subsoil resources) and the acquisition/disposal of non-produced intangible assets (patents, copyrights, trademarks, licences, etc., and leases and other transferable contracts). ²³. The CESCE Group's principal activity is to provide insurance for sales on credit of firms' products and services, both in the Spanish market and abroad. It also issues bonds to guarantee the fulfilment of obligations assumed by companies with (public or private) third parties as a consequence of their activities, and it insures Spanish firms' investments abroad. ²⁴. This increase was the result of the decline in migrants' transfer payments classed as capital transfers. These transfers arise when workers change their place of residence, as the assets they own in their country of origin become assets vis-à-vis the rest of the world of the host country. Consequently, these transfers relate to immigrants' assets.