

1 INTRODUCTION

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In 2009 the global economy underwent the most severe contraction of recent decades. Disaster was averted, following the heightening of the crisis in autumn 2008, thanks to the rapid, vigorous and coordinated economic policy response, which first curbed the decline in GDP and then permitted gradual recovery in the global economy as the year progressed. In this setting, world trade, which had slumped in the final stretch of 2008 and the opening months of 2009, gradually revived, more notably in the emerging than in the developed countries. Some of the measures taken – especially the financial system support measures – contributed, in general, to the progressive normalisation of the international financial markets and, in turn, of the capital markets. Nevertheless, this process was interrupted on several occasions, most notably during the opening months of 2010 as a result of the Greek fiscal crisis and the contagion effect on the debt markets of other countries which, like Spain, had high budget deficits.

The Spanish economy was not impervious to international developments. Thus, activity in Spain also fell at an unprecedented pace in 2009, although the rate of decline gradually moderated as the year progressed and activity levels stabilised in the early months of 2010. The contraction in Spain was due to the sharp fallback in domestic spending, as net external demand made a positive contribution to GDP growth throughout the downturn, assisting in the significant reduction in the nation's net borrowing in 2009 (down to 5.1% of GDP, on Balance of Payments data, 4.1 pp lower than in 2008). The external deficit was further corrected in the opening months of 2010.

Chapter 2 of this report analyses how Spain's current and capital account balances, and their main headings, performed in 2009. The improvement in the current account balance in the year was primarily due to the goods balance, in light of the slump in imports. The recovery in Spanish exports – which nevertheless contracted in the year as a whole – was faster and stronger in the second half of 2009 than in other euro area countries, possibly due to the nature of Spanish exports and their geographical diversification towards emerging markets. The two boxes in Chapter 2 address these issues in more depth: Box 2.1 examines the factors that may have influenced the recovery in goods exports in the short term; Box 2.2 identifies the variables that determine Spanish firms' choice of export markets and analyses the extent to which firms are able to take advantage of the higher growth potential of developing markets.

Chapter 3 describes how the Spanish economy met its borrowing requirements on the international markets and how its International Investment Position (IIP) evolved in the year. In 2009 the nation's borrowing requirements exceeded the funds raised abroad by residents, so the net assets of the Banco de España vis-à-vis the rest of the world decreased, albeit to a lesser extent than in 2008. The conditions for access to external borrowing improved as the year progressed; this was consistent with the gradual normalisation of the wholesale funding markets and falling interest rates. In 2009 non-residents increased their holdings of Spanish government debt and, to a lesser extent, of bonds issued by non-financial corporations and covered bonds. Box 3.1 describes this change in the external borrowing pattern, which implies a notable increase in funds raised by the general government sector. As regards the IIP, Spain's debit balance vis-à-vis the rest of the world continued to grow in 2009, in keeping with the net capital inflows and the change in the prices of financial assets (which prompted further widening of the debit balance).

Lastly, Chapter 4 describes methodological aspects and Chapters 5 and 6 present the statistical tables of the Balance of Payments and the International Investment Position.