

2 THE CURRENT AND CAPITAL ACCOUNT BALANCES IN 2009

2 The current and capital account balances in 2009

2.1 Overview¹

In 2009 the world economy underwent the most severe contraction since the start of the Second World War. The economic policy measures adopted worldwide, to boost aggregate demand and support the financial system, curbed the contractionary trends, prompting a moderate recovery in activity in the second half of the year. Since its onset, this recovery has been essentially focused on the emerging economies, as the developed countries are coming out of recession at a slower and gentler pace. This has led to doubts regarding the sustainability of the recovery, in light of the gradual withdrawal of the support measures introduced during the crisis. Against this contractionary backdrop, international trade slumped in 2009 as a whole, falling by 12%, well above the 1% decline in world GDP, even though, similarly to activity, it gradually recovered as the year progressed. The response of world trade to the fall-off in demand and the problems of access to credit was heightened by the growth of production chains with a global presence.

The Spanish economy also recorded its sharpest decline in activity in recent decades. GDP fell by 3.6% in 2009, as a result of the severe contraction in domestic demand (6%), attenuated by the positive contribution of the external sector (2.4 pp). In this setting, there was a notable decrease in the Spanish economy's net borrowing in 2009, to 5.1% of GDP on balance of payments figures, down 4.1 pp on 2008. This reflected the sharp fall in investment, which slipped to 24.4% as a percentage of GDP (4.4 pp lower than in 2008), as gross national saving remained at historically high levels around 20% of GDP.

The decline in net borrowing in 2009 chiefly reflected the decrease in the current account deficit (to 5.4% of GDP, from 9.7% in 2008), as the capital account surplus fell by just 0.1 pp to 0.4% (see Chart 2.1). By heading, the balance on trade in goods made the most contribution to the improvement in the current account balance. The slump in imports, prompted by domestic demand weakness, explains the significant correction in the trade deficit. Both the income and the current transfers deficits also narrowed, while the services surplus held steady (see Chart 2.2). The correction in the external deficit continued in the opening months of 2010, albeit at a more moderate pace, as stronger final demand prompted a gradual improvement in imports, and exports rose in keeping with the global economic recovery.

2.2 The current account balance

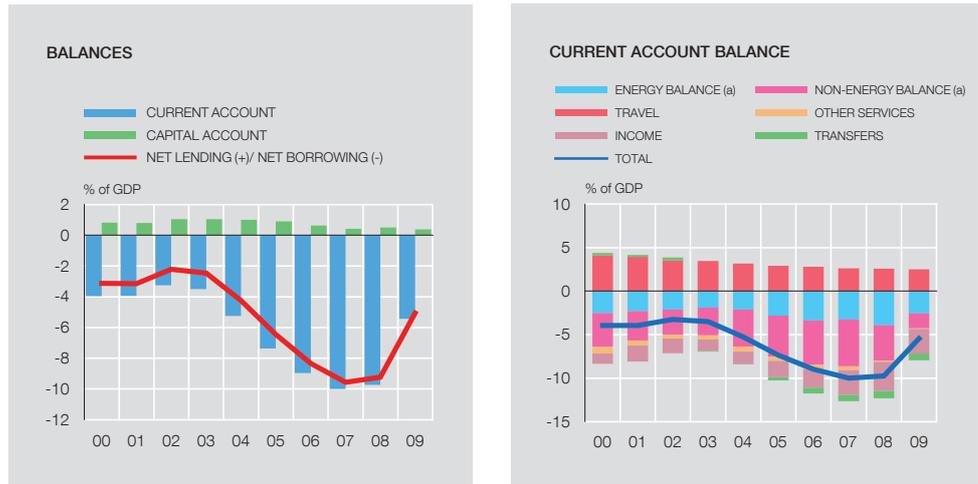
2.2.1 TRADE BALANCE

In 2009 the trade deficit fell by 48% in nominal terms, to 4.3% of GDP (3.7 pp of GDP below the 2008 figure). The sharpest drop (53%) was in the non-energy component (see Chart 2.3). The notable contraction in imports, which fell by 26.5%, due to domestic demand weakness, explains the scale of the correction in the trade deficit in the year, as exports also declined, but more moderately (-16.7%), as a result of the collapse in world trade (see Table 2.1). Despite the sharp decrease in 2009 as a whole, trade flows tended to recover as the year progressed. Exports in particular recovered quickly, assisted not only by the resurgence in global economic activity but also by the positive impact of the extraordinary measures taken to boost demand (specifically, the car purchase incentive schemes in the European Union). The latest data appear to show that these trends continued in the opening months of 2010.

1. For a more detailed description of the international and Spanish economic situation in 2009, see the Banco de España's *Annual Report, 2009*.

BALANCE ON CURRENT ACCOUNT AND CAPITAL ACCOUNT

CHART 2.1

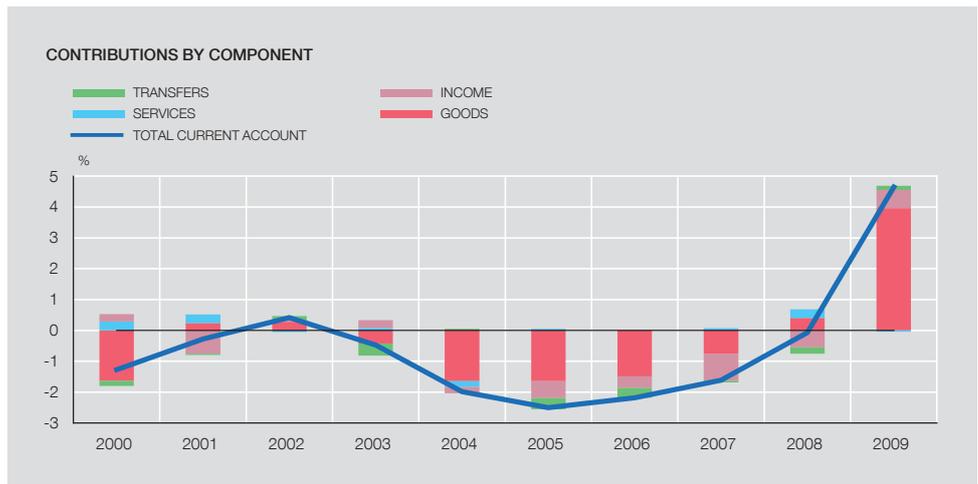


SOURCE: Banco de España.

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

BALANCE ON CURRENT ACCOUNT, GDP PERCENTAGE CHANGE

CHART 2.2



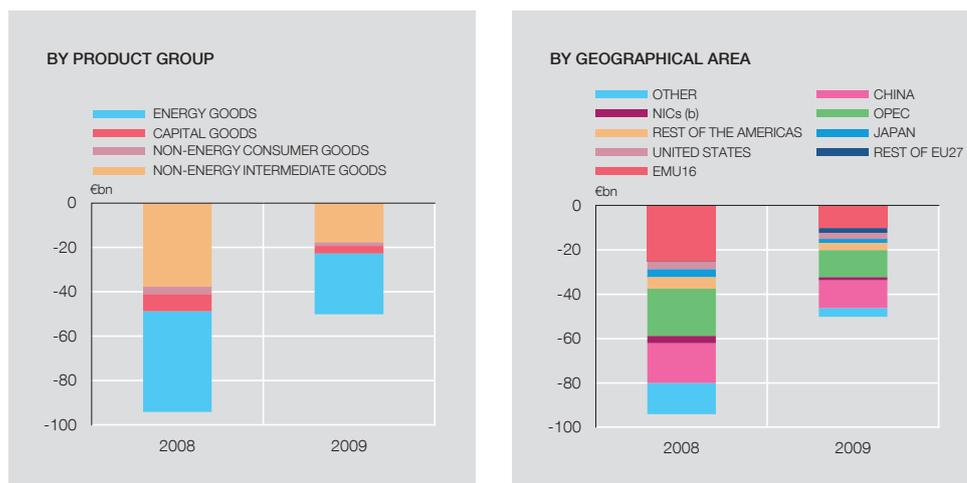
SOURCE: Banco de España.

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), which are 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 2008 and 2009 data are based on the provisional series, as the final data for 2009 were not available when the report went to press (see Chart 2.4).

a. Goods exports

Goods exports declined notably in the year as a whole, falling at a rate of 11.6% in real terms on QNA data and at a rate of 9.8% on Customs data. The scale of this decline must be

2. Appendix I to the report contains time series for Spanish foreign trade for the period 1997-2009, based on Customs data, broken down by product group and geographical area, and in greater detail than in this chapter.



SOURCE: Departamento de Aduanas.

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

b. South Korea, Taiwan, Hong Kong and Singapore.

TRADE BALANCE Nominal rates of change

TABLE 2.1

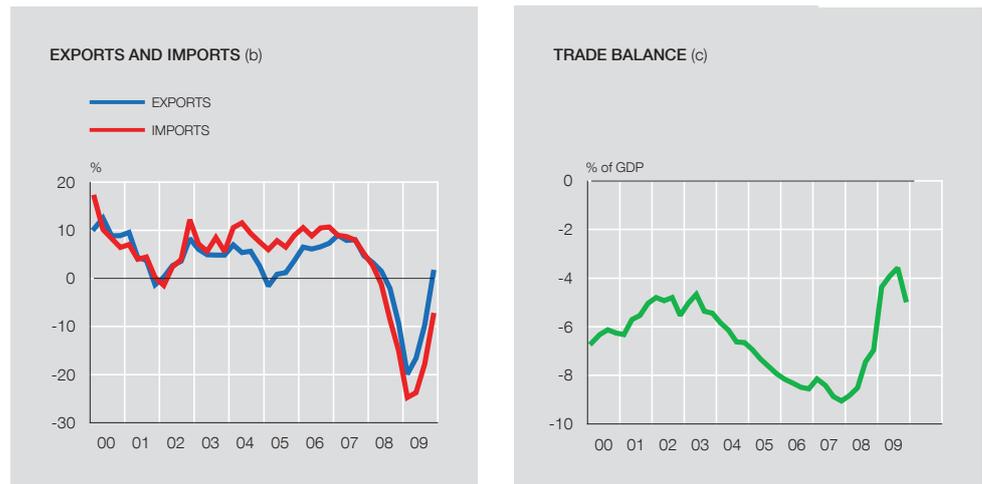
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Receipts (exports)	18.5	4.5	2.7	3.7	6.6	6.0	11.3	9.6	0.0	-16.7
Payments (imports)	22.0	2.4	0.9	4.8	12.8	11.8	14.3	9.6	-1.5	-26.5
MEMORANDUM ITEMS										
World trade in goods	13.6	-3.6	4.0	16.6	21.7	13.4	14.6	14.9	15.4	-23.3

SOURCE: Banco de España.

understood against the backdrop of the collapse in world trade, which prompted Spain's export markets to shrink by 11.2%. According to World Trade Organization (WTO) figures,³ world imports contracted at a very similar pace (12.9%) in real terms in 2009 (see Chart 2.5). As the financial situation normalised and the global economy began to show signs of recovery, trade flows regained some momentum, especially in the emerging economies. This, together with the demand stimulus programmes introduced around the world, prompted a quite rapid recovery in Spanish exports, which as from 2009 Q2 began to record positive quarter-on-quarter growth rates. Some of these programmes were particularly beneficial to Spain, due to its areas of manufacturing specialisation, especially the car purchase incentive schemes in Europe and, subsequently, the schemes encouraging infrastructure building in developing countries. The phasing out of these measures will dent Spanish goods exports, but this effect may foreseeably be offset by improvements in world demand and, if the developments of the past year consolidate, by more favourable price-competitiveness.

Indeed, in 2009, the main price-competitiveness and cost indicators improved vis-à-vis the developed economies, as relative prices performed favourably and the euro depreciated

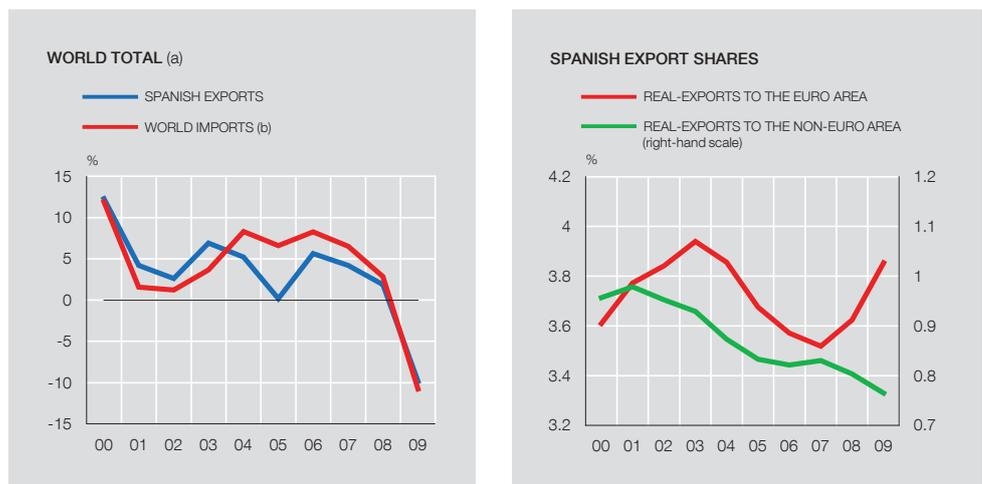
3. See World Trade Organization (2010), *World Trade 2009, Prospects for 2010*, press release 598.



SOURCE: INE.

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

GOODS EXPORTS AND SPANISH EXPORT SHARES



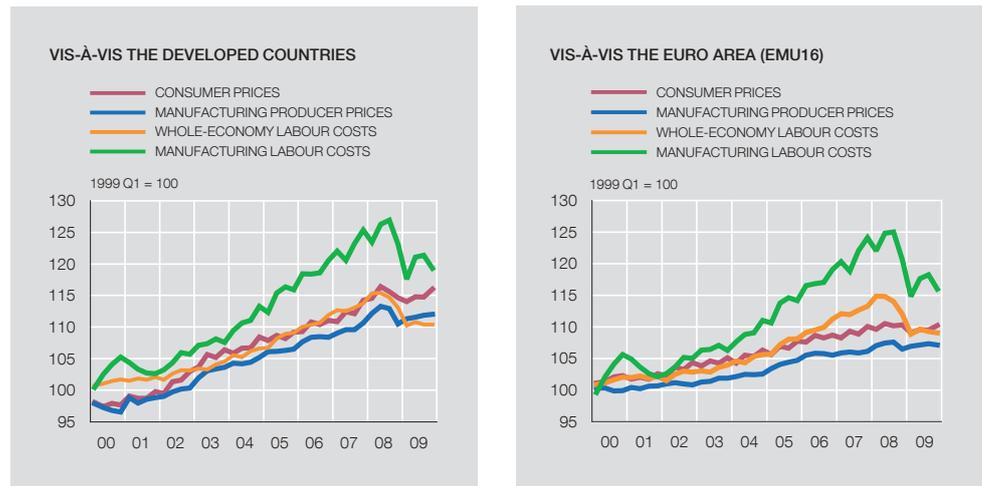
SOURCES: OECD, Ministerio de Economía y Hacienda and Banco de España.

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

against the dollar. Accordingly, against a backdrop of a severe adjustment in prices and business margins in industry, growth differentials in prices and unit labour costs were negative in the year as a whole (see Chart 2.6 and Table 2.2). Spain also recorded cost-competitiveness gains vis-à-vis the euro area, owing to productivity gains in Spain, and consumer price gains.

Spain's export share rose in 2009, both in real and nominal terms, as its growing euro area share offset the decline in exports to the rest of the world. For a more detailed analysis of the impact of the crisis on Spanish and euro area exports, see Box 2.1.

A breakdown by geographical area shows a decline in exports to the United Kingdom, the United States, the CIS and other central and eastern European countries in 2009 (see



SOURCE: Banco de España.

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

COMPETITIVENESS

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

TABLE 2.2

	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											
2005	0.1	2.2	1.4	3.5	1.6	0.6	2.3	1.5	3.6	1.7	0.7
2006	0.3	2.3	1.5	3.4	1.6	0.3	2.6	1.7	3.6	1.9	0.6
2007	1.0	2.0	0.9	3.2	0.4	1.0	3.0	1.8	4.3	1.4	2.0
2008	1.6	1.4	1.0	1.9	0.7	-1.5	3.0	2.6	3.5	2.3	0.1
2009	0.3	-3.5	-0.6	-3.4	-0.7	-0.9	-3.2	-0.4	-3.1	-0.5	-0.7
Cumulative change on December 1998											
Dec-05	-0.7	9.8	9.5	15.0	6.7	3.3	8.9	8.8	14.0	6.0	2.6
Dec-06	0.3	12.6	10.5	19.5	7.8	4.2	12.5	10.8	19.4	8.1	4.4
Dec-07	1.8	14.4	12.1	24.4	8.5	3.5	16.1	14.2	26.2	10.5	5.4
Dec-08	2.6	13.8	12.0	22.2	7.4	1.4	15.5	14.9	24.1	10.2	4.0
Dec-09	3.0	11.8	11.8	20.5	7.7	1.2	15.2	15.2	24.2	11.0	4.2
Vis-à-vis the euro area (EMU16)											
2005							2.2	1.3	3.8	1.7	1.2
2006							2.5	1.5	3.4	1.4	0.5
2007							2.2	0.8	3.4	0.3	1.0
2008							1.2	0.9	1.6	1.1	-0.2
2009							-4.0	-0.5	-4.3	0.0	0.1
Cumulative change on December 1998											
Dec-05							8.9	8.2	13.5	5.1	3.7
Dec-06							12.0	9.1	18.2	6.0	4.5
Dec-07							14.0	10.6	23.4	6.7	4.5
Dec-08							12.7	10.4	19.8	6.3	3.2
Dec-09							10.6	10.5	17.8	7.3	4.2

SOURCE: Banco de España.

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

The deep global economic crisis had a severe effect on international trade, which plummeted between 2008 Q4 and early 2009.¹ Spanish goods exports were not spared this impact and fell sharply in the period, most particularly in 2009 Q1 when they declined by 18% year-on-year in real terms on Customs data. Goods exports then recovered gradually over the rest of the year.² As from 2009 Q3, there was a widespread improvement in Spanish exports to all geographical areas, with the exception of the OPEC countries, and by year-end they recorded positive growth, a trend that consolidated in the opening months of 2010. A similar pattern was observed in other devel-

oped economies, although in some, where the decline in exports had been much more marked, the subsequent recovery is proving much slower than in Spain. This is the case of some of the main European economies, in particular Italy.

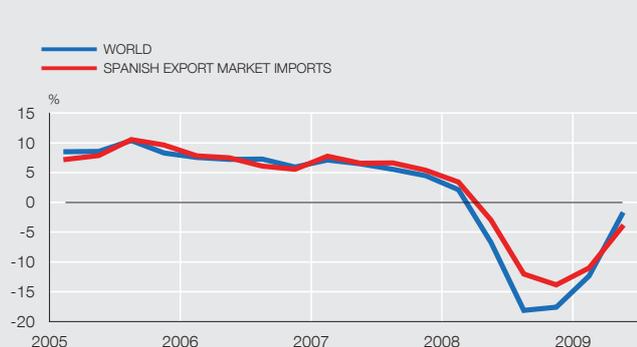
Spanish exports gained market share in 2009 (albeit very marginally, in real terms). This contrasts with the smaller share of world trade recorded by the developed economies as a whole³ and by the euro area vis-à-vis the emerging – especially the emerging Asian – economies, whose exports recovered faster than in other areas, returning to pre-crisis levels.

1. The decline in international trade was more marked than the decline in activity, due to the concurrence of various factors related to restricted access to business financing and the process of globalisation per se that heightens adjustment in trade at times of economic weakness. For more information, see: Banco de España (2009), "The decline in trade and the trade finance drought", Box 3.2, *Annual Report, 2008*; and Ruiz & Segura (2010), "La financiación del comercio y la evolución del comercio internacional durante la crisis", *Boletín Económico*, March, Banco de España. 2. Between April 2009 and year-end, real exports rose by 11.5 pp in cumulative seasonally-adjusted terms, insufficient to offset the losses (of 17.4 pp) recorded in 2008 Q4 and 2009 Q1.

The different behaviour of Spanish exports was due to a combination of factors connected with the specialisation pattern of Spain's foreign trade and temporary factors; together these helped cushion the decline in exports. The geographical specialisation pattern meant that Spain's export markets contracted less than world imports (see panel). Spanish exports are heavily concentrated on the euro area (which

3. The exports of the newly industrialised Asian economies gained share in 2009.

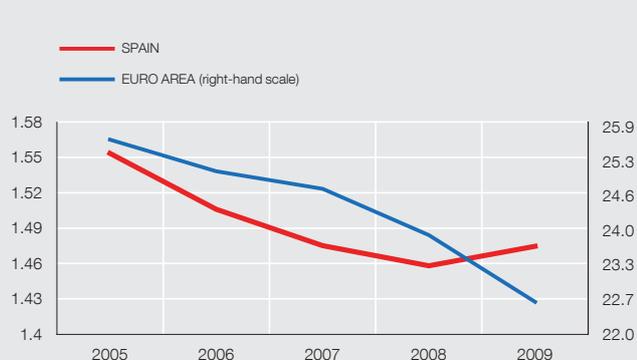
1 TRADE IN GOODS AND SERVICES (a)



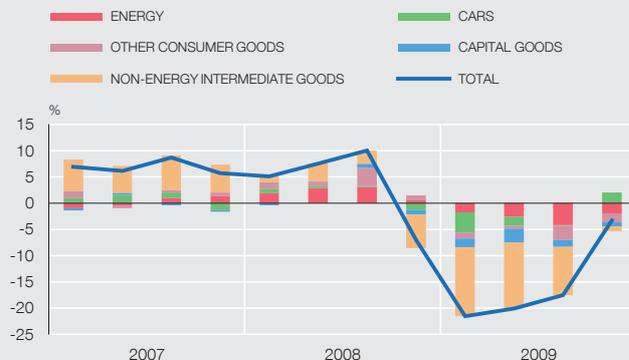
2 REAL GOODS EXPORTS OF MAIN EUROPEAN ECONOMIES



3 REAL GOODS SHARES: SPAIN AND THE EURO AREA



4 NOMINAL GOODS EXPORTS: CONTRIBUTION BY TYPE OF PRODUCT



SOURCES: Banco de España, Eurostat, IMF and OECD.

a. Year-on-year real rate of change.

accounts for 57% of the total, 7 pp more than the euro area average), where imports declined at a more moderate pace than in other advanced economies. Turning to the rest of the world, exports to the newly industrialised Asian economies upheld their momentum in the year as a whole, thanks in particular to the sharp rebound in Q4. Spanish exports to China also declined considerably more moderately than its exports to other countries. That said, these markets still represent a low share of Spain's foreign trade.

The product breakdown also helped moderate the impact of the international crisis, as Spanish exports are, for example, more reliant on food, which is relatively insensitive to the cycle, than euro area exports as a whole.⁴ By contrast, exports of capital goods, which bore the brunt of the adverse international situation, account for less than 9%, a much smaller share than in the euro area as a whole, and especially in comparison with Germany.

The Spanish economy's competitiveness gains in 2009 vis-à-vis the developed countries, and specifically vis-à-vis the euro area, also helped reduce, to some extent, the adverse impact of the fall-off in external demand. These gains were based on price and cost adjustments, against a backdrop of falling employment and declining margins in industry, which offset the change in the nominal effective exchange rate.

4. Food accounts for almost 14% of total Spanish exports, in comparison with a euro area average of some 8% and an even lower figure for Germany, the area's leading exporter.

Moreover, several temporary factors smoothed the adjustment in export headings that were feeling the brunt of the global economic crisis, meaning that the adjustment in Spain's exports was less marked than in its export markets. Thus, the incentive schemes for vehicle trade-ins adopted in 2009 in several countries of the EU (which as a whole accounts for 80% of Spain's car exports)⁵ had a significant impact on exports of cars and intermediate products connected with the manufacture of means of transport,⁶ as reflected by the notable recovery in the year in exports to countries where stimulus measures were introduced, in contrast, for example, with the decline in exports to extra-EU countries. Moreover, growing public infrastructure in China favoured exports of minerals, metals and machinery intermediate products (representing some 14% of total nominal exports).

The comparatively favourable performance of Spanish exports in 2009 and early 2010 was influenced, at least partially, by temporary factors. Containment of unit labour costs (thanks largely to extensive job destruction) and of industrial margins also played a part, but this will be difficult to sustain in the absence of genuine efficiency gains in the Spanish productive system. Achieving these gains, together with greater penetration of international markets with higher growth potential, will be essential, to consolidate and expand Spain's world market share in an increasingly competitive environment.

5. Moreover, most of these schemes focused on purchases of low-emission vehicles, which is the segment in which Spanish manufacturing plants are specialised. 6. The two headings represent almost 19% of Spain's total nominal exports, considerably higher than the euro area average.

Table 2.3). Exports to the euro area also fell, albeit more moderately, especially those to Germany and France, due essentially to the incentive schemes for vehicle trade-ins. As a consequence, the relative weight of exports to the euro area, and specifically to the aforesaid countries, rose in 2009. Other noteworthy developments were the lower decline in exports to the OPEC countries, and the increase in exports to China in the final stretch of the year (this was related to Chinese infrastructure development plans and boosted Spain's metals exports). Continued efforts to place Spanish exports on a growing number of emerging markets, where recovery is proving both faster and stronger than in the developed economies, are vital to increase their presence worldwide. Accordingly, it is also important to identify the factors that lead firms to choose their export markets (see Box 2.2).

The breakdown of real exports by product shows a widespread decline in goods exports of all kinds. Real sales of capital goods fell by 13.4% in 2009, primarily due to the poor performance of exports of transport equipment and, to a lesser extent, of machinery (see Table 2.4). Exports of consumer goods fell more moderately (by 4.6%), thanks to the above-mentioned incentive schemes for car purchases and, to a lesser extent, to strong exports of drugs, closely related to the swine flu vaccination campaign. Exports of food products, which are less sensitive to the cycle, also posted a lower-than-average decline. Exports of energy intermediate goods fell back by 19.3%, and exports of industrial goods by 12.5%.

SPANISH FOREIGN TRADE BY GEOGRAPHICAL AREA
Nominal rates of change

TABLE 2.3

	TOTAL			BY TYPE OF GOODS								
				CONSUMER GOODS			CAPITAL GOODS			NON-ENERGY INTERMEDIATE GOODS		
	Ø 00-07	2008 (a)	2009 (a)	Ø 00-07	2008 (a)	2009 (a)	Ø 00-07	2008 (a)	2009 (a)	Ø 00-07	2008 (a)	2009 (a)
EXPORTS												
TOTAL	7.4	3.7	-15.9	6.0	4.8	-7.3	2.2	-1.3	-18.8	9.4	0.3	-18.7
OECD	7.1	1.7	-15.7	6.0	4.4	-5.3	1.3	-2.3	-23.0	9.5	-2.7	-21.1
EU27	6.7	1.9	-15.9	...	4.2	-5.1	...	0.8	-25.6	...	-2.4	-21.5
<i>United Kingdom</i>	6.3	-3.4	-24.5	5.5	4.6	-17.6	2.8	-24.3	-37.7	8.3	-12.2	-28.3
Euro area (EMU16)	6.3	1.5	-13.7	...	3.3	-1.2	...	3.1	-25.0	...	-1.9	-21.1
<i>Germany</i>	4.7	1.7	-11.7	2.6	6.0	3.3	-2.5	10.7	-20.3	7.8	-1.9	-20.8
<i>France</i>	6.9	1.2	-11.7	6.2	2.1	1.5	0.8	1.4	-33.0	9.3	-1.1	-20.6
<i>Italy</i>	7.2	-2.0	-14.1	6.3	2.6	1.2	-0.1	-18.2	-17.0	9.9	-4.8	-25.4
UNITED STATES	6.2	1.6	-24.6	5.7	8.3	-21.5	-4.7	17.3	-2.5	8.5	-8.6	-26.0
OPEC	10.0	24.4	-9.5	6.7	15.5	-6.2	14.4	-2.5	-3.4	9.9	35.9	-12.0
CIS and other central and eastern European countries (b)	5.1	27.0	-37.9	5.7	38.7	-48.1	4.1	35.5	-34.5	4.8	14.2	-27.8
NICs (c)	4.2	1.7	10.7	7.2	11.6	-2.7	-0.5	10.2	177.4	3.8	-3.2	-7.8
Rest of the world (d)	7.3	4.9	-11.8	4.5	-6.3	-10.1	2.7	-2.9	-14.7	9.1	7.7	-8.6
IMPORTS												
TOTAL	9.4	0.6	-26.2	9.8	-7.8	-9.2	1.1	-18.3	-30.7	9.5	-1.5	-28.6
OECD	7.9	-5.8	-22.8	9.7	-9.6	-10.4	0.4	-18.3	-32.9	8.6	-4.2	-25.5
EU27	7.6	-6.5	-21.5	...	-9.2	-10.4	...	-19.8	-33.4	...	-4.0	-23.5
<i>United Kingdom</i>	3.9	-3.2	-23.9	6.7	-3.6	-13.8	-5.1	-28.6	-36.0	3.8	-10.2	-25.8
Euro area (EMU16)	7.6	-7.4	-22.6	...	-9.9	-11.1	...	-19.7	-34.1	...	-3.9	-25.1
<i>Germany</i>	9.0	-6.0	-25.1	12.4	-13.0	-13.5	2.7	-14.3	-31.3	9.0	2.4	-29.1
<i>France</i>	4.4	-11.4	-17.4	5.4	-15.4	-3.1	-5.4	-24.4	-42.9	6.3	-8.5	-20.7
<i>Italy</i>	8.4	-11.9	-30.5	8.4	-13.7	-19.5	2.3	-21.2	-37.3	8.5	-13.8	-30.1
UNITED STATES	3.4	12.5	-23.9	7.5	32.9	21.1	-6.5	-8.3	-30.8	6.2	-0.9	-35.1
OPEC	14.7	32.6	-35.2	4.7	6.8	-20.3	-13.8	-64.9	349.0	9.8	-6.1	-24.0
CIS and other central and eastern European countries (b)	15.7	21.2	-43.4	-8.3	14.8	22.6	-14.9	5.6	-29.1	6.3	11.7	-31.7
NICs (c)	8.4	-16.3	-31.8	6.9	-36.5	-19.1	1.2	-24.1	-38.5	12.1	3.1	-42.4
Rest of the world (d)	15.5	9.2	-28.3	13.4	-1.9	-4.5	12.5	-12.6	-21.0	17.0	10.4	-42.0

SOURCE: Departamento de Aduanas.

a. Provisional data.

b. Russia, Ukraine, Belarus, Moldova, Georgia, Armenia, Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, Tajikistan, Kyrgyz Republic, Romania, Bulgaria, Albania, Croatia, Bosnia-Herzegovina, Serbia and Montenegro.

c. South Korea, Taiwan, Hong Kong and Singapore.

d. Does not include headings without geographical assignment.

b. Goods imports

Goods imports decreased significantly in 2009, falling by 18.9% in real terms on QNA data and by 17.4% on Customs data. This is due to the contraction in domestic spending, particularly in private consumption and business investment, and to the fall-off in exports, despite the lower price of imported goods, specifically of energy products.

As in the case of exports, import weakness gradually moderated as the year progressed, reflecting, above all, the recovery in industrial activity in the more export-oriented sectors. This trend continued in the opening months of 2010. Imports in real terms of capital goods fell particularly sharply in 2009 (-27%), dragged down by the significant decline in purchases of other machinery and overland non-railway transport equipment. Imports of consumer goods fell more moderately (-6.1%), due to the recovery in car purchases in the final stretch of the year (assisted by the Spanish government's incentive scheme for vehicle trade-ins) and to the improvement in the food component. Purchases of industrial intermediate goods declined significantly (-21.6%), despite the recovery in imports of products for car manufacturing in the

The participation of new countries in international trade has stepped up the competition faced by Spanish firms. At the same time, it represents an opportunity to reach out to a wider market of potential customers for Spanish products. Knowing whether there are institutional or firm-specific factors that influence the choice of export markets would permit evaluation of the extent to which Spanish firms are able to take advantage of the possibilities these new markets offer. This, in turn, would permit design of the appropriate policy measures, to back up entry into these new markets and, ultimately, ensure a permanent presence. This box describes the characteristics of a representative group of Spanish export firms, by export market, and estimates to what extent these characteristics affect the choice of export market. The variables chosen play a significant part in the decision to export and in the choice of export market, according to the literature and available empirical findings.¹

1. A database built by the Banco de España for earlier work is used here to characterise the group of Spanish export firms. It combines information from three databases – the Balance of Payments (BP), the Central Balance Sheet Data Office (CBSO) and the annual accounts filed with the Mercantile Registries – described in C. Martín and A. Rodríguez (2009), “Una aproximación a las características de las empresas exportadoras españolas”, *Boletín Económico*, May, Banco de España. The database used here is a subset of the former, excluding all firms for which the Mercantile Registries were the only source of data, as this information does not include variables which, according to the available literature, are relevant in the decision to export. Moreover, firms that report data on an individual basis but that form part of the same corporate group have been considered jointly, to prevent any distortion of the econometric exercise (for example, large corporations that decentralise their R&D expenditure in other group companies and which, using the original sample, would appear to make no investment in innovation).

According to Customs data on foreign trade, the geographical profile of Spanish exports has become more diversified in recent decades, as exports to developing countries have risen as a percentage of the total. Specifically, the relative importance of the euro area as a market for Spanish exports has declined by 10 pp since the early 1990s, to 57% of the total in 2009, while the share of China, the CIS, OPEC and the north African countries has risen. Nevertheless, the level of penetration of these markets is still low when compared with that of other developed economies.

The first table presents the values of the selected variables of all the Spanish export firms considered in the study, and of the group of firms that export to the EU15, Latin America and Asia. As the table shows, the firms that export to Latin America and Asia tend to be larger, with greater domestic and international experience² and more diverse sources of financing. The percentage of firms that innovate is also higher among those that export to these regions. These findings suggest that diversification into these regions entails higher entry costs, which larger firms with more flexible sources of financing are able to meet. Moreover, firms with greater international experience have more knowledge of these markets, which reduces the cost of gaining entry into distant and developing coun-

2. The international experience variable approximates the degree of geographical diversification of a firm's exports in the period considered, based on the number of countries to which it exports. The domestic experience variable is measured by the number of years the firm has been in existence. For a detailed description of all these variables, see C. Martín, A. Rodríguez and P. Tello (2009), “Determinantes principales de la decisión de exportar de las empresas españolas”, *Boletín Económico*, December, Banco de España.

DETERMINANTS OF THE CHOICE OF EXPORT MARKETS

Distribution median. Period 2001-07. Export firms

	TOTAL SAMPLE	EU15	LATIN AMERICA	ASIA
Size	63.0	67.0	114.0	114.0
Experience	21.0	22.0	27.0	26.0
International experience	4.0	4.0	12.0	14.0
Innovation (a)	23.7	24.6	39.9	41.6
Skill level	14.4	14.2	15.1	14.8
Temporary employment ratio	11.1	11.1	9.6	9.6
FDI (a)	16.5	17.3	29.4	28.5
Foreign capital (a)	18.7	19.4	22.6	22.2
Debt ratio	29.4	29.5	27.7	28.1
Stock market listing (a)	2.9	3.0	5.5	4.9
MEMORANDUM ITEMS				
Productivity	48.5	48.9	54.8	54.7
Physical capital/worker ratio	27.3	28.1	32.4	33.9
Intangible fixed assets/worker ratio	1.3	1.3	1.6	1.5
NUMBER OF FIRMS	4,475	4,076	1,361	1,219

SOURCE: Banco de España, based on Balance of Payments and CBSO statistics.

a. For these variables, the statistic should be interpreted as the percentage of export firms with the corresponding characteristic. For example, in the case of innovation, it should be understood that 23.7% of all export firms conduct R&D activities (or make or receive royalty payments), while in the case of those exporting to the EU15, to Latin America and to Asia, this figure is 24.6%, 39.9% and 41.6%, respectively.

tries. Similarly, firms that export to Latin America and Asia tend to have higher participation of foreign capital in their shareholding and higher levels of foreign direct investment than those that export to the EU15. This appears to indicate that multinational corporations' greater knowledge of other markets, whether directly or through other group companies, offsets the cost of gaining access to distant and developing countries. Furthermore, the fact that the percentage of firms that both export to, and make direct investment in, Asia is higher than for other areas signals that these two forms of corporate globalisation – exports and direct investment – are complementary rather than substitutive.³ To assess the characteristics that determine the choice of export market (region or country), a probit model was estimated for the following cases: i) the dependent variable takes a value of 1 if exports are to the EU15 and of 0 if they are to Latin America; and ii) the dependent variable takes a value of 1 if exports are to the EU15 and of 0 if they are to Asia.⁴ The results of these estimates are presented in the second table. The analysis shows that international experience is the most significant variable in connection with the probability of exporting to Asia or Latin America, demonstrating the importance of a firm's past experience on

other markets in the decision to expand its exports to countries that are more distant or pose greater cultural differences. The temporary employment ratio variable is significant in all the regressions, albeit with a very low value, suggesting that it has a negligible impact on the choice made. Taking an alternative specification of the probit model, excluding international experience, the main findings are that size and greater domestic market experience, together with foreign direct investment and stock market listing, all raise the probability of firms deciding to export to Asia or Latin America. Lastly, the debt ratio variables proved insignificant, suggesting that debt levels are not a major constraint for firms in their decision to diversify their export markets.⁵

These findings suggest that firms with greater international experience (via exports or foreign direct investment) are those most likely to export to Latin America and Asia, i.e. to more distant regions or regions with less cultural affinity. Accordingly, measures to help firms gain knowledge of and access to these markets (e.g. via trade fairs and promotion of Spanish products), and to help them mitigate the cost of entering these markets (e.g. by lowering administrative barriers) would encourage Spanish firms to step up their presence in the emerging markets with the highest medium and long-term growth prospects.

3. This relationship, which has been identified in other work on Spain, suggests that one of the key objectives of foreign direct investment by Spanish firms in Asia is to take advantage of the cost benefits that these countries offer (vertical FDI) [see Martín and Rodríguez (2009)]. 4. In addition to the variables included in the first table, the regression also includes sector dummies.

5. This finding must be interpreted with caution, given the sample bias towards large corporations.

RESULTS OF ESTIMATE ACCORDING TO EXPORT MARKET (a) Probit model

	EU15 VIS-À-VIS LATIN AMERICA				EU15 VIS-À-VIS ASIA			
	INTERNATIONAL EXPERIENCE		NO INTERNATIONAL EXPERIENCE		INTERNATIONAL EXPERIENCE		NO INTERNATIONAL EXPERIENCE	
	Effect	t-ratio	Effect	t-ratio	Effect	t-ratio	Effect	t-ratio
DETERMINANTS								
Size	0.0091	3.91	-0.0264	-12.07	0.0116	5.06	-0.0304	-13.89
Experience	-0.0089	-2.55	-0.0144	-4.09	0.0011	0.31	-0.0067	
International experience	-0.1313	-40.43			-0.1557	-47.44		-1.89
Temporary employment ratio	0.0007	4.45	0.0014	8.31	0.0007	4.39	0.0014	8.53
Debt ratio	0.0005	1.44	-0.0001	-0.35	0.0005	1.38	-0.0003	-0.85
Debt ratio squared	0.0000	-1.16	0.0000	0.18	0.0000	-1.05	0.0000	0.52
Stock market listing	-0.0226	-1.47	-0.0440	-2.75	0.0007	0.05	-0.0253	-1.57
Foreign capital	0.0096	1.32	0.0223	3.05	0.0042	0.60	0.0227	3.14
FDI	-0.0118	-1.53	-0.0838	-10.53	0.0118	1.61	-0.0724	-9.16
MEMORANDUM ITEMS								
Success rate	74.72		74.72		75.55		75.55	
LR X ²	3,117.79		1,347.51		4,021.00		1,453.34	
Pseudo R ²	0.1176		0.0508		0.1558		0.0563	
Number of actual observations (b)	23,453		23,453		23,198		23,198	

SOURCE: Banco de España, based on Balance of Payments and CBSO statistics.

a. All the regressions include a constant and sector dummies. To make interpretation of the ratios easier, the table presents the influence of each variable on the probability of exporting, i.e. the marginal effects evaluated at the mean. The significant effects appear in bold type.

b. The number of actual observations is higher than the number of export firms in the sample. This is because if a firm invests in both areas considered in the regression, it is recorded as if it were two different firms.

FOREIGN TRADE BY PRODUCT GROUP
Rates of change

TABLE 2.4

	EXPORTS							IMPORTS								
	TOTAL	Capital goods	Consumer goods	Consumer goods: Food	Consumer goods: Non-food	Intermediate goods	Non-energy intermediate goods	Energy intermediate goods	TOTAL	Capital goods	Consumer goods	Consumer goods: Food	Consumer goods: Non-food	Intermediate goods	Non-energy intermediate goods	Energy intermediate goods
IN REAL TERMS (a)																
Average 2000-2007	5.9	7.9	4.0	4.0	3.9	7.0	7.2	1.9	8.0	7.9	9.0	7.1	9.4	7.3	7.4	6.5
2008	1.9	-2.8	4.1	2.0	5.0	1.1	0.3	20.4	-2.9	-19.6	-7.7	-1.8	-9.3	2.0	-0.7	13.8
2009	-9.8	-13.4	-4.6	-2.7	-5.6	-12.9	-12.5	-21.4	-17.4	-27.0	-6.1	-2.6	-7.2	-20.5	-21.6	-16.0
UNIT VALUE INDICES																
Average 2000-2007	2.4	-1.1	2.6	2.5	2.7	3.0	2.3	17.0	2.6	-1.8	1.4	1.4	1.5	4.3	2.0	15.3
2008	1.9	1.8	0.6	4.7	-1.2	2.7	0.0	29.6	3.8	1.8	-0.1	2.9	-0.8	5.7	-0.7	20.3
2009	-6.8	-6.7	-2.8	-2.7	-2.7	-9.6	-7.0	-30.7	-10.7	-5.2	-3.4	-6.1	-2.6	-14.5	-9.0	-28.3

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

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

closing months of the year. Lastly, imports of energy goods fell sharply in the year as a whole, in keeping with Spain's weak activity levels.

The decline in nominal imports by geographical area was both widespread and severe. Imports from the OPEC countries, the CIS and other central and eastern European countries all fell, reflecting lower demand and lower oil prices in the year as a whole. Imports from the euro area declined more moderately, especially in the final stretch of the year, thanks to the recovery in imports from France, the Netherlands and Portugal. Thus, the relative share of goods imports from the euro area rose by more than 2 pp in 2009 as a portion of the total, while the relative share of goods imports from the above-mentioned areas declined. In turn, imports from China fell sharply in the year as a whole. The share of other countries in Spanish imports remained similar to the 2008 figures (see Table 2.5).

2.2.2 BALANCE OF SERVICES

The balance of services surplus held steady in 2009 at around the 2008 level of 2.4% of GDP. The correction of the non-tourism services deficit (to levels very close to equilibrium) offset the decline (to 2.5% of GDP) in the tourism and travel surplus, extending the weakness that has characterised this heading since 2001.⁴ Both services receipts and payments recorded negative rates of growth in the year (-9.6% and -12.5%, respectively), although the rates of decline moderated rather in the final months of 2009 and the opening months of 2010.

In 2009 as a whole, tourism receipts fell, in real terms, by 9.6% on QNA data.⁵ This decline is very similar to that seen in tourism receipts in nominal terms (-9% on balance of payments data), illustrating the efforts made by the sector to contain prices.⁶ As a result, tourism receipts fell again in 2009 as a percentage of GDP, to 3.6% in nominal terms (see Chart 2.7), reflecting the lower spending power of tourists from Spain's main markets, the appreciation of the euro

4. This heading includes travellers' spending during their stay abroad, be they tourists or other types of travellers (for example, excursionists or business travellers). 5. The framework of the Tourism Satellite Account [see National Statistics Institute (INE) (2009), *Cuenta Satélite de Turismo de España. Serie 2000-2008*] must be used for a correct assessment of the effect of tourism on the economy. 6. According to the Tourism Spending Survey (EGATUR) compiled by the Tourism Studies Institute (IET), which also includes international transportation of tourists, spending by non-resident tourists fell by 7% in 2009 as a whole.

STRUCTURE OF SPANISH FOREIGN TRADE (a)
Percentage of total (in nominal terms)

TABLE 2.5

	TOTAL	BY TYPE OF GOODS (b)		
		2009		
		2009	Consumer goods	Capital goods
EXPORTS				
TOTAL	100.0	40.7	8.5	50.8
OECD	78.8	46.1	7.2	46.7
EU27	68.9	46.7	6.8	46.4
<i>United Kingdom</i>	6.3	55.4	5.3	39.3
Euro area (EMU16)	56.7	47.1	6.9	46.0
<i>Germany</i>	11.1	45.2	6.6	48.2
<i>France</i>	19.1	52.3	6.4	41.2
<i>Italy</i>	8.2	48.1	6.4	45.5
<i>Portugal</i>	9.1	40.0	8.8	51.2
United States	3.7	35.1	9.3	55.6
China	1.3	11.3	11.6	77.1
OPEC	3.8	20.9	15.9	63.3
CIS and other central and eastern European countries (c)	2.1	38.2	13.0	48.8
NICs (d)	1.3	22.9	19.1	58.0
Rest of the world (e)	10.4	20.0	13.8	66.2
IMPORTS				
TOTAL	100.0	31.0	8.1	60.9
OECD	68.9	33.0	9.5	57.5
EU27	58.3	33.0	9.4	57.6
<i>United Kingdom</i>	4.7	40.9	6.1	53.0
Euro area (EMU16)	48.0	32.7	9.7	57.6
<i>Germany</i>	14.4	34.7	12.2	53.2
<i>France</i>	12.0	34.1	5.2	60.8
<i>Italy</i>	7.1	27.8	11.5	60.7
<i>Portugal</i>	3.5	34.4	6.3	59.3
United States	4.1	29.6	11.4	59.0
China	6.9	52.4	15.3	32.4
OPEC	8.7	2.6	0.7	96.7
CIS and other central and eastern European countries (c)	3.5	5.7	0.8	93.6
NICs (d)	1.7	35.6	9.3	55.1
Rest of the world (e)	10.8	37.0	2.6	60.4

SOURCE: Departamento de Aduanas.

a. Provisional data.

b. The figures show the structure of trade flows with each of the countries or areas named.

c. Russia, Ukraine, Belarus, Moldova, Georgia, Armenia, Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, Tajikistan, Kyrgyz Republic, Romania, Bulgaria, Albania, Croatia, Bosnia-Herzegovina, Serbia and Montenegro.

d. South Korea, Taiwan, Hong Kong and Singapore.

e. Does not include headings without geographical assignment.

against sterling and Spain's loss of competitiveness vis-à-vis its eastern Mediterranean competitors, despite the sharp cuts in hotel prices.

Non-resident tourism receipts were especially negative in the first half of the year. This is consistent with the real-sector indicators, as numbers of inbound tourists and their overnight stays in Spanish hotels fell significantly in 2009. According to the Survey on Tourism Movements at Borders (FRONTUR),⁷ the number of foreign tourists entering Spain in 2009 was down 8.8%

7. Compiled by the IET to quantify and analyse inflows and outflows of tourists at Spanish borders.



SOURCES: World Tourism Organization, IET, Ministerio de Economía y Hacienda and Banco de España.

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

on the previous year. World Tourism Organization (WTO) estimates signalled a less marked decline (-4.3%) in international tourist flows.⁸ Compared with other geographical areas, the decrease in inbound tourism in Spain was similar to that recorded in northern and central Europe, although the tourist destinations that compete most directly with Spain proved more resilient to the effects of the global downturn. The flow of foreign tourists rose slightly (2%) in Turkey, which is one of Spain's main competitors for German visitors, and in Morocco (1.7%), while it fell moderately in Croatia (-0.6%) and Egypt (-3.4%). A disaggregated analysis of the FRONTUR statistics shows a widespread decline in inbound tourism from most of Spain's main source markets, particularly the United Kingdom (-15.5%) and Germany (-11.3%). But the decrease in the numbers of French tourists was much more moderate (-2.9%).

The Hotel Occupancy Survey (EOH) indicators⁹ recorded a severe contraction, both in overnight stays and inbound tourism, in 2009 (see Table 2.6). This slowdown affected both the beach segment and, to a lesser extent, city destinations, reflecting the greater sensitivity of beach tourism to the effects of the crisis and the strong competition from the eastern Mediterranean resorts. As with inbound tourism, the decline in overnight stays was widespread, but it was particularly noteworthy in the case of visitors from Germany and the United Kingdom.

Regarding the profile of visitors to Spain, in 2009 the great majority continued to arrive by plane (almost 80% of the total), increasingly using low-cost companies (some 50%). The decline in the number of visitors who chose not to purchase a tourist package (around 70% of the total) was similar to the decline in the numbers who did choose a package. By type of accommodation, the majority of visitors continued to choose to stay in hotels, but their share of the total slipped to 61% . In fact the hotel segment recorded the sharpest decrease, affected by the decline in business travel and in short breaks, in contrast to the much smaller drop in the numbers choosing to stay in their own properties or with friends. The numbers

8. For more detailed information, see the WTO World Tourism Barometer, vol. 8, no. 1, January 2010, at: http://www.worldtourism.org/facts/eng/pdf/barometer/UNWTO_Barom10_1_sp_excerpt.pdf. 9. The main aim of the Survey, compiled by the INE, is to ascertain the behaviour of a series of variables allowing the essential features of the hotel industry to be known.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Nominal receipts	10.3	5.5	-1.9	4.4	3.8	6.0	5.6	3.3	-0.4	-9.0
Real receipts (a)	4.9	0.4	-6.5	0.1	0.1	2.3	1.6	-0.7	-4.3	-9.6
Nominal payments	17.0	13.1	5.4	4.2	22.0	24.1	9.4	8.3	-3.7	-13.8
Real payments (a)	11.0	11.0	2.4	2.9	19.4	20.6	5.9	7.2	-6.3	-14.3
Competitiveness index vis-à-vis the developed countries measured in terms of consumer prices (b)	-1.3	1.3	2.3	3.8	1.6	1.5	1.7	1.8	2.6	-0.4
<i>Nominal component</i>	-2.7	0.5	0.7	2.8	0.7	0.1	0.3	1.1	1.8	0.3
GDP of developed countries (c)	1.4	-1.0	4.1	11.9	10.6	4.6	4.8	9.0	6.3	-4.9
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	0.2	-9.9
Overnight stays by foreigners in Spanish hotels	-3.5	-0.2	-5.3	0.7	-1.6	3.4	6.6	2.1	0.7	-8.9
Number of tourists (FRONTUR)	2.1	4.7	3.6	1.0	3.1	6.6	3.7	1.1	-2.5	-8.8

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 countries in nominal terms.

choosing to stay in rented accommodation remained positive. According to EGATUR,¹⁰ average spend per tourist performed favourably, driven by the longer average stay, possibly due to the better relative performance of residential tourism. That said, the increase in average stay was not sufficient to offset the negative impact on tourism receipts of fewer overnight hotel stays.

Tourism payments fell by 14.3%, in real terms, in 2009 on QNA data. In nominal terms, on balance of payments data, they fell by 13.8%. This reflects the decline both in the number of trips abroad made by Spanish nationals (as per the FAMILITUR statistics),¹¹ who preferred Spanish destinations, and in the amount spent. The uncertainty surrounding the extent of the economic crisis, growing unemployment and the declining wealth of Spanish households in 2009 explain the notable reduction in spending on foreign travel, in favour of tourism within Spain.

Trade in non-tourism services also decreased significantly in 2009. The decline in payments (-12.2%) marginally outpaced the decline in receipts (-10.1%), prompting a virtual correction to equilibrium in the non-tourism services deficit. This was consistent with the pattern seen in the EU as a whole (see Table 2.7).

This same pattern was repeated worldwide, as trade in non-tourism services declined across the board, albeit to a lesser extent than trade in goods. On World Trade Organization (WTO) data, world exports of other services fell by 13% in nominal terms, while trade in goods fell by 23%. International trade in services is less reliant on external financing, and demand for these services has fallen more moderately; both these factors may explain, in part, why trade in goods rather than services bore the brunt of the slump in world trade. According to the WTO, Spain was seventh in the world ranking of total service exporters in 2009, with a 3.7% share,

¹⁰ Unlike the travel heading in the balance of payments, this includes spending in the country of origin, including, inter alia, international transportation costs. ¹¹ The aim of the Survey on Tourism by Spanish Nationals (FAMILITUR) is to study Spanish tourism, quantifying and analysing the trips made by Spanish residents, both within Spain and abroad.

	RECEIPTS				PAYMENTS			
	EU27		SPAIN		EU27		SPAIN	
	2008	2009	2008	2009	2008	2009	2008	2009
TOTAL SERVICES	4.4	-9.2	4.4	-9.6	5.7	-6.3	1.5	-12.5
Travel	-1.8	-8.2	-0.4	-9.0	0.5	-9.1	-3.7	-13.8
Other services (a)	5.4	-9.4	8.4	-10.1	7.2	-5.5	2.8	-12.2
<i>Transport</i>	10.5	-19.2	7.7	-21.8	8.6	-20.8	7.4	-27.5
<i>Communications</i>	9.9	7.0	20.9	-1.3	7.4	7.8	1.6	0.6
<i>Construction</i>	12.1	-4.6	22.2	-18.4	25.7	17.1	46.3	-19.1
<i>Insurance</i>	-1.3	0.6	-13.6	39.2	-2.4	-12.6	-24.0	3.4
<i>Financial services</i>	-7.0	-13.3	-9.5	-15.8	-5.3	-11.3	-3.0	-8.3
<i>IT services</i>	12.1	4.7	6.8	3.5	8.4	4.6	0.9	0.1
<i>Royalties and licence fees</i>	-5.8	1.7	38.4	36.1	9.0	1.3	-13.9	8.5
<i>Business services</i>	6.9	-5.2	11.6	-6.0	10.3	-2.3	2.8	-6.0
<i>Cultural and recreational services</i>	5.8	-5.2	2.9	1.7	1.4	-6.1	0.7	-20.7
<i>Government services</i>	-2.5	-9.2	-4.6	-12.6	5.5	-3.9	-21.2	23.7

SOURCES: Eurostat and Banco de España.

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

well ahead of its place in the world ranking of trade in goods (16th, with a 1.7% share).¹² Specifically in non-tourism services, Spain's share rose modestly, to 3.1%, in 2009.

During the year there were no significant changes in the breakdown of non-tourism services receipts and payments, with transport and other business services together continuing to account for around 70% of the total in both cases. Transport services declined as a portion both of total receipts and total payments, due to the collapse of international trade and international tourist flows, but this was offset by the increase in the share of other business services. The transport services heading made a noteworthy contribution to the significant correction of the non-tourism services deficit, recording a minor surplus as a result of the decline in the deficit associated with trade in goods (i.e. freight), offsetting the deterioration in the construction services surplus (see Table 2.8).¹³

The breakdown of non-tourism services by geographical area shows that the EU continued to be the main counterparty for Spain's exports and imports, representing around two-thirds of the total. The euro area accounted for 40% of receipts and 46% of payments, with the main counterparties being France and Germany. The United Kingdom accounted for some 18% of both receipts and payments. In the rest of the world, Switzerland and the United States were the two main counterparties, in terms both of receipts and payments. In 2009, the non-tourism services deficit was concentrated on the euro area, countering the surplus recorded with Latin America and Switzerland.

2.2.3 BALANCE OF INCOME

In 2009, the income balance deficit narrowed significantly (by 17%), to 2.8% of GDP, 0.5 pp lower than in 2008. Developments in the income balance vis-à-vis the rest of the world essentially reflect the behaviour of net investment income, as labour income continued negligible.

¹² Spain's high position in the services ranking reflects its weight as an international tourism destination. ¹³ For a more detailed analysis of recent developments in non-tourism services in Spain, see C. Martín and A. Macías (2010), "Foreign trade in non-tourism services in Spain", *Economic Bulletin*, April, Banco de España.

	EXPORTS										IMPORTS									
	PERCENTAGE OF TOTAL						RATE OF CHANGE				PERCENTAGE OF TOTAL						RATE OF CHANGE			
	EU27			EXTRA EU27			EU27		EXTRA EU27		EU27			EXTRA EU27			EU27		EXTRA EU27	
	Ø 00-07	2008	2009	Ø 00-07	2008	2009	2008	2009	2008	2009	Ø 00-07	2008	2009	Ø 00-07	2008	2009	2008	2009	2008	2009
Other services	100.0	100.0	100.0	100.0	100.0	100.0	6.0	-12.6	12.6	-5.8	100.0	100.0	100.0	100.0	100.0	100.0	0.3	-12.8	8.1	-11.0
Transport	35.5	31.1	26.4	30.3	27.4	24.9	5.0	-25.7	13.2	-14.1	29.7	26.7	22.2	40.9	38.0	31.0	1.7	-27.6	16.5	-27.4
Communications	3.6	3.1	3.4	1.7	2.0	2.3	13.6	-5.4	45.7	9.4	3.1	3.3	3.9	4.1	4.9	5.4	0.5	2.7	3.1	-2.2
Construction	2.5	4.2	4.0	6.2	10.6	9.1	46.7	-16.4	9.9	-19.7	1.7	4.1	2.8	1.6	2.6	4.4	59.5	-41.3	15.5	51.7
Insurance	1.5	1.6	2.4	1.7	1.9	3.1	-4.7	27.8	-23.9	55.6	2.5	2.8	3.4	2.2	2.1	2.2	-29.4	7.2	-4.7	-6.5
Financial services	7.6	8.7	8.0	4.1	4.1	4.4	-9.2	-20.4	-10.6	1.0	6.3	7.7	8.1	2.9	3.3	3.4	-2.3	-8.2	-5.7	-9.0
IT services	3.5	3.5	6.1	16.3	14.3	12.6	11.3	52.2	5.0	-16.8	4.7	3.9	4.1	3.0	2.3	3.2	-1.6	-7.3	10.6	25.3
Royalties and licence fees	1.1	1.0	1.2	1.8	0.9	1.9	54.1	4.4	17.2	92.5	5.1	4.1	5.1	6.1	3.7	4.5	-9.0	8.4	-23.1	8.9
Business services	41.0	43.3	44.9	33.7	35.5	38.0	6.8	-9.3	23.1	0.9	43.0	44.2	47.5	33.3	38.9	41.4	0.4	-6.3	8.5	-5.2
Cultural and recreational services	2.0	2.0	2.2	2.9	2.5	2.8	4.2	-0.8	1.2	4.9	3.4	2.9	2.7	4.8	3.4	3.0	-0.7	-20.9	3.3	-20.4
Government services	1.8	1.4	1.4	1.3	0.9	0.9	-5.1	-15.4	-3.3	-5.0	0.5	0.3	0.2	1.3	0.9	1.5	-7.7	-19.3	-27.1	47.8

SOURCE: Banco de España.

The decline in the investment income deficit is due, above all, to the improvement in the deficits vis-à-vis the rest of the world of monetary financial institutions (MFIs) and other resident sectors (ORSs), as this offset the deterioration in the general government deficit. The Banco de España's income surplus was virtually unchanged in the year (see Chart 2.8).

By type of investment, the improvement in the income balance reflects the narrower deficits on the external balances in financial instruments, in the form of other investment (essentially loans, deposits and repos) and portfolio investment, which countered the lower direct investment income surplus (see Table 2.9). In the case of net interest payments, the decline (much more marked in payments than receipts) reflects the interest rate cuts, as external net debt in interest-bearing financial instruments rose throughout the year (see Chart 2.9).

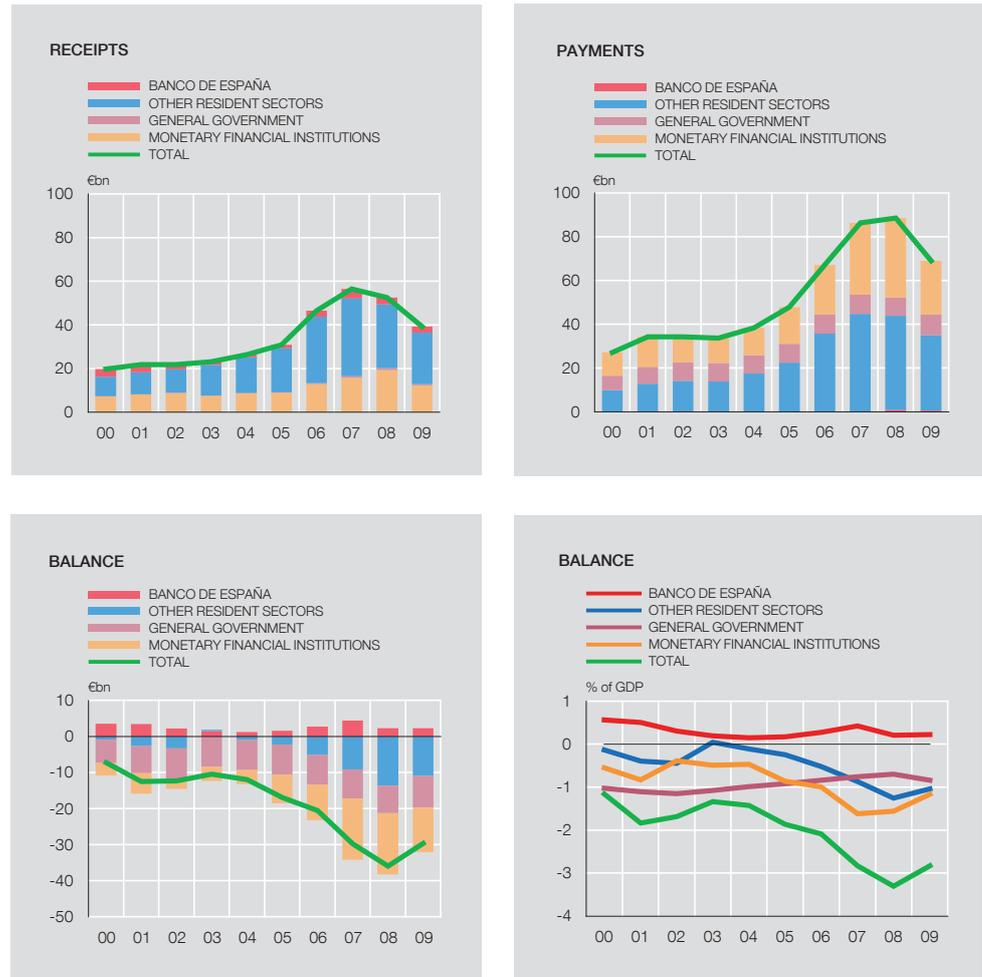
The direct investment income surplus narrowed by 54%, to €3,579 million, interrupting the trend of previous years, primarily as a result of the sharp decline in receipts, which was much more marked than in payments.

The portfolio investment income deficit narrowed by 16%, to €23,799 million, interrupting the worsening trend of previous years. Both receipts and payments fell significantly (by 14.4% and 15.5%, respectively), reflecting the impact of the interest rate cuts, in the case of short-term rates to exceptionally low levels. There was a considerable decline in net interest payments on medium and long-term bonds, especially in the private sector (at MFIs and ORSs), as general government net interest payments rose in the year. This increase in the general government income deficit was due to the growth in non-residents' investment in Spanish public debt, against a backdrop of a notable rise in net securities issues – especially short-term issues – in 2009,¹⁴ reflecting higher public sector financing.

14. See Chapter 3 of this report.

INVESTMENT INCOME

CHART 2.8



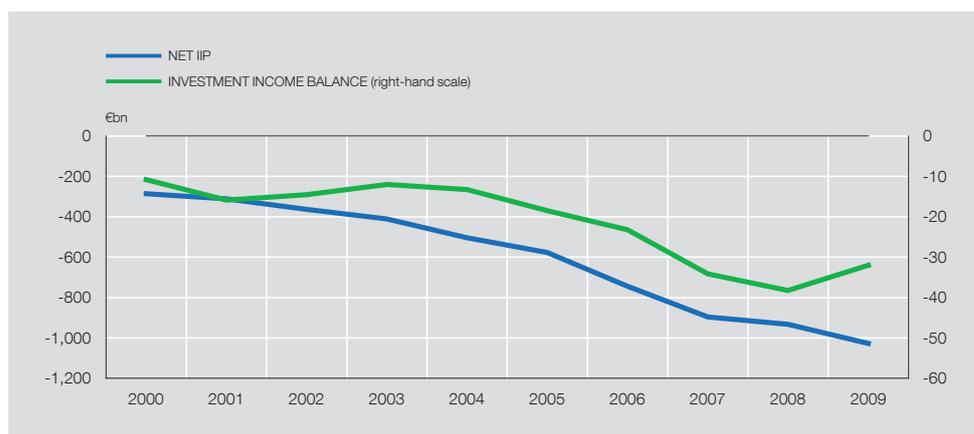
SOURCE: Banco de España.

INVESTMENT INCOME BY INSTRUMENT
% of GDP

TABLE 2.9

	AVERAGE 00-06	2007	2008	2009
RECEIPTS				
Total investment income	3.4	5.4	4.8	3.7
Foreign direct investment	1.3	2.7	2.2	1.7
Portfolio investment	1.1	1.4	1.4	1.2
Other investment	1.0	1.2	1.3	0.8
PAYMENTS				
Total investment income	5.0	8.2	8.1	6.6
Foreign direct investment	1.3	2.2	1.5	1.4
Portfolio investment	2.0	3.8	4.0	3.5
Other investment	1.7	2.3	2.7	1.7
BALANCES				
Total investment income	-1.6	-2.8	-3.3	-2.8
Foreign direct investment	0.0	0.6	0.7	0.3
Portfolio investment	-0.9	-2.4	-2.6	-2.3
Other investment	-0.7	-1.1	-1.4	-0.9

SOURCE: Banco de España.



SOURCE: Banco de España.

a. Excluding the Banco de España.

The other investment income deficit narrowed by 38% in 2009, to €9,497 million, also interrupting the trend of previous years. This was essentially due to the lower net income payments generated by short-term loans and deposits, in light of the sharp cuts in short-term interest rates.

2.2.4 BALANCE OF CURRENT TRANSFERS

The current transfers deficit narrowed by 15% in 2009, to €7,972 million, representing 0.8% of GDP, 0.1 pp lower than a year earlier, as receipts rose (by 4.6%) and payments fell (by 2.2%). An analysis by institutional sector reveals that this narrowing was due to strong growth in the private sector surplus, which countered the deterioration in the general government deficit.

The widening of the general government deficit reflected the increase in the deficit on EU-related transfers, which offset the decrease in the deficit on the other transfers heading¹⁵ (see Table 2.10). The deficit on EU-related transfers widened, even though receipts from the EU grew by much more than payments in 2009 (25.4% and 7.6%, respectively). The growth in receipts reflects the higher volume of the European Social Fund (ESF), while the increase in payments is due to the rebound in the GNI (Gross National Income) resource.¹⁶ This heading, which is the key component of payments to the EU, representing more than 65% of the total, offset the decrease in contributions to the EU under the VAT resource¹⁷ and traditional own resources (of which Customs duties are the main component). The improvement in the general government other current transfers balance reflects the notable increase in receipts, as payments, especially those associated with donations, rose much more moderately. This heading, whose performance is closely tied to the EU's 2007-2013 Pluriannual Financial Framework, could deteriorate in coming years, in keeping with the growth path of contributions to the EU and with the decline in receipts from Community institutions envisaged in the Framework.¹⁸

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 between the Member States in proportion to their respective GNI. 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. There are no annual forecasts for the Pluriannual Financial Framework as a whole for EAGF-related receipts, as these are budgeted annually and depend on the resolutions adopted under the CAP.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
RECEIPTS	11,150	12,013	15,567	16,510	16,290	14,498	12,125	12,556	11,337	11,678
Current transfers	6,619	7,135	8,423	8,094	8,543	7,985	7,533	7,959	6,425	7,679
<i>Public</i>										
— ESF	797	1,085	1,795	1,653	1,774	1,784	1,251	1,691	720	989
— Other	48	53	79	79	68	100	137	100	144	95
<i>Private</i>										
— EAGGF (Guarantee)	5,775	5,997	6,550	6,362	6,702	6,101	6,145	6,167	—	—
— EAGF	—	—	—	—	—	—	—	—	5,561	6,596
Capital transfers	4,530	4,877	7,144	8,417	7,746	6,513	4,593	4,598	4,912	3,999
<i>Public</i>										
— ERDF	2,819	3,381	4,046	5,344	4,712	3,851	2,214	2,761	2,713	2,485
— EAGGF (Guidance)	514	628	978	1,274	1,127	1,270	1,095	1,023	482	62
— EAFRD	—	—	—	—	—	—	—	—	977	618
— Cohesion Fund	1,197	869	2,120	1,799	1,907	1,391	1,283	813	741	835
PAYMENTS	6,660	6,777	6,967	8,193	8,416	10,295	10,674	10,314	10,634	11,440
Current transfers	6,660	6,777	6,967	8,193	8,416	10,295	10,674	10,314	10,634	11,440
<i>Public</i>										
— Traditional own resources (b)	1,020	1,005	949	1,005	1,273	1,463	1,597	1,720	1,586	1,336
— VAT resource	2,889	3,135	2,525	2,656	1,921	1,617	1,652	1,723	1,655	1,542
— GNI resource	2,643	2,589	3,406	4,405	5,084	6,401	6,547	5,937	6,280	7,561
— EDF	109	48	87	129	137	103	157	169	188	203
— Other	—	—	—	—	—	713	722	765	924	798
BALANCE	4,490	5,236	8,600	8,317	7,874	4,202	1,451	2,242	703	239

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) No 1290/2005, two new European agricultural funds were created, the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD), replacing, to all effects and purposes, as from 16 October 2006, the two sections (Guarantee and Guidance) of the former European Agricultural Guidance and Guarantee Fund (EAGGF). 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 2009.

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 the 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 receipts.

The widening of the private sector surplus is essentially due to the increase in EAGF-related receipts.¹⁹ It is also due, to a lesser extent, to the partial correction of the deficit on workers' remittances, which narrowed by 9.6%, holding steady as a percentage of GDP at 0.2%. This correction came against a backdrop of declining payments and receipts (−9.7% and −9.8%, respectively). The drop in immigrant workers' remittances to their home countries is a reflection of the poor economic situation.²⁰ Specifically in Spain, the sharp rise in the unemployment rate among foreign nationals and the contained inflow of immigrants in comparison with previous years would explain the reduction in remittance payments. The latest INE data show a considerable decline in the migratory balance in Spain in 2009, and it is likely that it will remain at present levels in the short term.²¹ The geographical breakdown of remittance payments

19. The regional rural development measures not included in the Objective 1 programmes that were previously part of the EAGGF-Guarantee are included in the EAFRD. The Objective 1 regions are those whose GDP per capita does not exceed 75% of the Community average, the thinly-populated regions of Finland and Sweden and the ultra-peripheral regions (the French overseas departments, the Canary Islands, the Azores and Madeira). 20. Remittance transactions fell by 12% worldwide in 2009. This fall was especially marked in Latin America; average remittances to the region from immigrants resident in Spain are thought to have decreased notably. For more information, see *Migrant Remittances Newsletter*, April 2010, vol. 7, no. 1. 21. See INE, *Proyección de la población de España a corto plazo, 2009-2019*, November 2009, and *Estimaciones de la población del primer trimestre de 2010 de España*, April 2010.

GEOGRAPHICAL BREAKDOWN OF REMITTANCE PAYMENTS IN 2008 AND 2009 (a) TABLE 2.11
Main countries of destination. Percentage of total

	2008	2009
Colombia	18.0	18.2
Ecuador	13.4	13.5
Bolivia	9.2	9.3
Romania	5.1	5.1
Morocco	4.9	4.2
Paraguay	3.9	4.2
Dominican Republic	3.7	4.1
Peru	2.6	3.6
Brazil	4.9	3.5
Senegal	2.3	1.8
Pakistan	1.7	1.7
Philippines	1.2	1.3

SOURCE: Banco de España.

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

continues to show that Latin American countries are the main recipients of these payments (see Table 2.11).

2.3 The capital account balance

The surplus on the capital account, which largely depends on capital transfers to and from the EU, declined by 26% in 2009, to €4,068 million, as payments rose (by 43%) and receipts fell (by 11%). As a percentage of GDP, the surplus narrowed by 0.1 pp to 0.4%. By sector, the decrease in the capital account surplus essentially reflected the performance of the general government balance. The contribution from the purchase and sale of non-produced non-financial assets declined.²²

The decrease in the general government surplus centred on transfers from the EU, which fell by 18.6%, owing to the agricultural funds (grouped in the EAGGF-Guidance and the EAFRD) and to the decrease in funds linked to the EDRF (which, together with the Cohesion Funds, aim to reduce regional imbalances within the EU and are endowed with the highest volume of funds). The moderate increase in receipts linked to the Cohesion Funds was insufficient to offset the developments in other funds. Nevertheless, the forecasts stemming from the 2007-2013 Pluriannual Financial Framework point to an increase in capital transfers from the EU, specifically in funds linked to the EDRF. Lastly, the private sector capital transfers surplus declined slightly in 2009.

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).