
Quarterly report on the Spanish economy

Methodological note

The Spanish Quarterly National Accounts (QNA), compiled by INE, publish the main macroeconomic aggregates as raw series, series adjusted for seasonal changes and for calendar effects (seasonally adjusted series) and trend-cycle series. Leaving raw data aside (which are of use for certain ends, such as designing econometric models), seasonally adjusted and trend-cycle series are those usually used extensively by most analysts. The former series are more unstable, since they are not adjusted for the erraticism proper to certain economic phenomena or for that transferred by the indicators and underlying series used for their estimation. The latter provide more stable information, but information in which certain transitory aspects that may be important are not reflected.

The case is similar for the rates of change used for analysis. Year-on-year rates, which compare a figure with the related value in the same quarter a year earlier, are more stable than quarter-on-quarter rates, which compare the values of two consecutive quarters. The former reflect growth over four quarters (they are annual rates, like the rates for the whole of a calendar year), and thus give lagged information. The latter compare only the latest information, which is why they are usually much more variable and do not have an annual dimension (unless they are annualised, as is the practice in the United States, for instance). Often, then, a high quarter-on-quarter rate will be followed by one in a lower range, and so on. The more erratic profile of these rates is reflected in a smoother manner, but with something of a delay, by year-on-year rates.

Naturally, rates (whichever) calculated on the basis of seasonally adjusted series will always be more variable than those calculated on the basis of trend-cycle series. A further disadvantage is their greater sensitivity to the various methods for estimating the seasonal component, especially if a sufficient time perspective is not yet available to test the quality of the results. They are therefore subject to larger-scale revisions.

INE would hitherto communicate its QNA estimates drawing on trend-cycle series and, specifically, on their year-on-year rates, i.e. it would use very stable signals of the various quarterly

macroeconomic aggregates as its basis. This marked a difference from the usual practice in the EU countries, which publish their data referring always to seasonally adjusted series, using indiscriminately – with certain differences from institution to institution – year-on-year and quarter-on-quarter rates.

As from the publication of the QNA data relating to 2002 Q1, INE intends to present its es-

timates giving priority to seasonally adjusted series, in line with the usual presentation within the European Union. To assess the economic situation, it will – when it considers it appropriate – also use trend-cycle series.

In accordance with INE, the Banco de España will in its Quarterly Report now also present in this way the information on the main quarterly macroeconomic aggregates.

1. Overview

Bearing in mind the foregoing methodological considerations, the estimated real year-on-year growth rate of Spanish GDP in 2002 Q1 was about 2%. The figure is 1.9% if the seasonally adjusted series is the basis for the calculation, and 2.1% if regard is had to the trend-cycle series. In both cases, the figure is slightly down on the INE estimates for 2001 Q4. The quarter-on-quarter growth of the seasonally adjusted series would have been around 0.6%, marking a significant recovery on INE's provisionally estimated figure for the preceding quarter (0.2%).

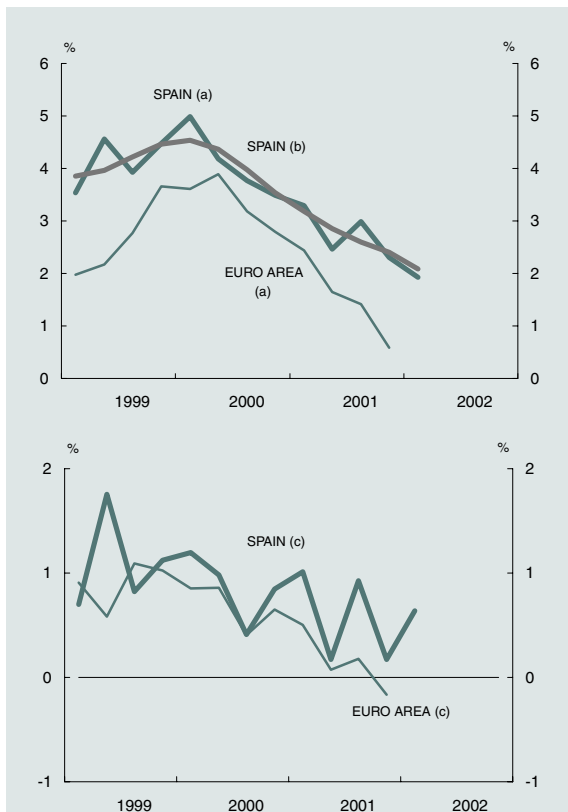
The slowdown in the Spanish economy thus appears to have abated in the opening months of the current year, thus following the pattern observable in our main trading partners. In any event, estimated growth for 2002 Q1 continues to be based essentially on the same variables that held relatively firm last year: namely, consumption and investment in construction. Exports and capital investment, the two variables that most felt the international downturn, show no clear signs of recovery. That said, the deteriorating trend on which they moved in the second half of 2001 appears to have halted.

If these data are confirmed, the Spanish economy will now be emerging from what has been a benign slowdown, in terms not only of its duration but also because a relatively high growth rate has been sustained. Higher, indeed, than that of the euro-area economies (see Chart 1). For this change in the growth path to firm as the international recovery becomes progressively embedded and economic agents build the change in expectations into their decisions, business investment must initiate a period of sustained growth and exports must regain their previous vigour, jointly driving the new expansionary phase. In this connection, the economy's saving ratio must increase and competitiveness be set on sound foundations, eliminating the price and cost differentials existing with Spain's main competitors.

In 2002 to date the prospects of recovery in the world economy have improved substantially, reducing the uncertainty which had prevailed in previous quarters. The pick-up in the US economy began with greater force than expected in the final quarter of last year and had a decisive influence on this change in expectations. In the opening months of 2002, the European Union and other regions have gradually followed suit, and an incipient recovery in trade flows has been apparent. Conversely, Japan continued to show signs of economic stagnation while in the east Asian economies - with the exception of China - a moderate export-led recovery is perceptible, although activity remains sluggish. In Latin America the chief risks contin-

CHART 1

Gross domestic product



Sources: ECB, Instituto Nacional de Estadística and Banco de España.
 (a) Non-centred annual rate of change calculated on the basis of the seasonally adjusted series.
 (b) Non-centred annual rate of change calculated on the basis of the trend-cycles series.
 (c) Quarter-on-quarter rates of change calculated on the basis of the seasonally adjusted series.

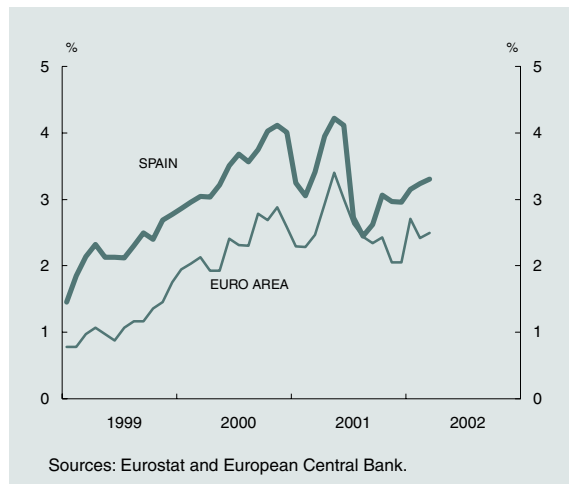
ue to revolve around the ongoing deterioration in Argentina, as other economies in the area, excepting Uruguay, have avoided the risks of contagion but have only moderate growth prospects.

On the basis of this scenario, the main international agencies have declared the slowdown in the world economy over the last 18 months (since mid-2000) to be over and have revised their growth forecasts for the current year upwards to around 3%. On these forecasts, growth in the United States would be above 2% and around 1.5% in the European Union, the same as in the euro area.

Since mid-February, crude oil prices have picked up significantly on international markets owing to the worsening of the conflict in the Middle East, to the expectations of recovery in the world economy and, possibly, to the recent

CHART 2

Harmonised indices of consumer prices



Sources: Eurostat and European Central Bank.

political tension in Venezuela. On the financial markets, the declining course of yields on money and debt markets came to a halt in the opening months of the current year, reflecting the improved economic outlook. However, the rising trend on stock markets in the closing months of 2001 has been interrupted, probably due to the influence of doubts raised by the ENRON case about the accounting transparency of certain multinational corporations.

The latest indicators available in the United States show a firming of the recovery initiated in 2001 Q4, when an annualised quarter-on-quarter rate of 1.7% was posted for GDP against the background of a continuing expansionary economic policy stance. The Federal Reserve's intervention rates held at the minimum levels (the federal funds rate was 1.75%) attained after the successive cuts made during 2001. Following the Senate's approval (in February) of the latest package of tax measures, budgetary policy acquired a fresh expansionary impulse. On information from the latest indicators, GDP growth in 2002 Q1 has been underpinned by private consumption (which has remained notably buoyant) and by the recovery in inventories, while investment has ceased to fall. The productivity gains in the US economy in recent quarters remained high, contributing to shaping highly favourable expectations about the future course of inflation and growth potential. In March, the CPI grew at a rate of 1.5%.

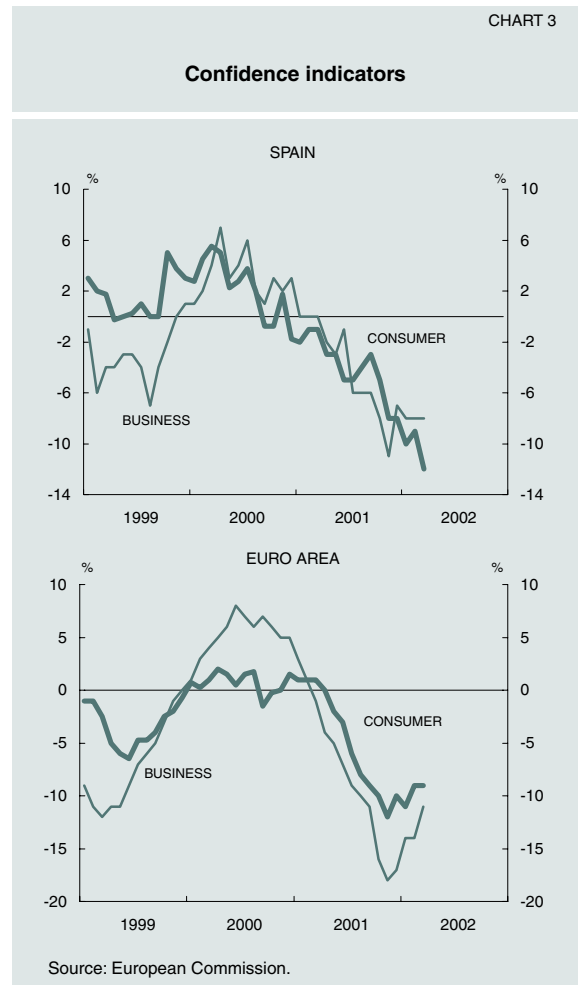
The euro area is also estimated to have posted a moderate recovery in the opening months of this year, after recording a negative growth rate in 2001 Q4 (-0.2% in quarter-on-quarter terms). The maintenance of relatively easy monetary and financial conditions and the moderate pick-up in world trade, against a

backdrop of less uncertainty, are factors that have undoubtedly had a positive bearing on this recovery. The information from indicators suggests the recovery in activity is being led by foreign demand, by the end of the inventory run-down cycle and, probably, by greater investment vigour. The consumption indicators provide less conclusive information and, in any event, appear to show a degree of weakness.

The HICP was on an upward course during the quarter, reaching a 12-month growth rate of 2.5% in March. This was brought about by the coincidence, at the beginning of the year, of a series of temporary factors, such as the rise in certain administered prices and in indirect taxes and a hike in oil prices, although this latter factor might prove more persistent than initially envisaged. Preliminary Eurostat estimates of the effect on consumer prices of the changeover to the euro indicate a limited effect (0.16%, one-third of the 0.5% month-on-month increase in the HICP in January), although it is unlikely that the total effect of the changeover has been concentrated in a single month. This rise in consumer prices does not, however, alter the inflationary outlook for the euro area for 2002, which points to a moderation of the underlying inflation rate over the rest of the year.

Against this backdrop of a favourable inflation outlook and of a moderate rise in activity, the ECB kept its intervention rates at their end-2001 levels, resulting from the successive cuts made last year. The main refinancing rate thus held at 3.25%, with the rates on the deposit facility and marginal lending facility at 2.25% and 4.25%, respectively. The thrust of fiscal policy was determined by the undertakings made in the Updated Stability and Growth Programmes unveiled at the end of last year and, in particular, by the commitment to observe the 3% threshold for the general government deficit. That may require some countries in the area to limit the operation of the automatic stabilisers. Lastly, at the extraordinary Lisbon Summit, the EU countries undertook to give fresh momentum to the economic reforms needed to heighten the competitiveness of Europe's economy against the rest of the world. In addition to proposals to modernise the labour market and increase its flexibility, a good number of initiatives were adopted. Their implementation, following the established timetables, will improve the workings of the energy markets, the transport sector, telecommunications, the business environment and the financial markets (see Box 2).

Interest rates in the euro area were on a rising path throughout Q1 on both the money and government debt markets. This largely reflected an improvement in the economic outlook for the

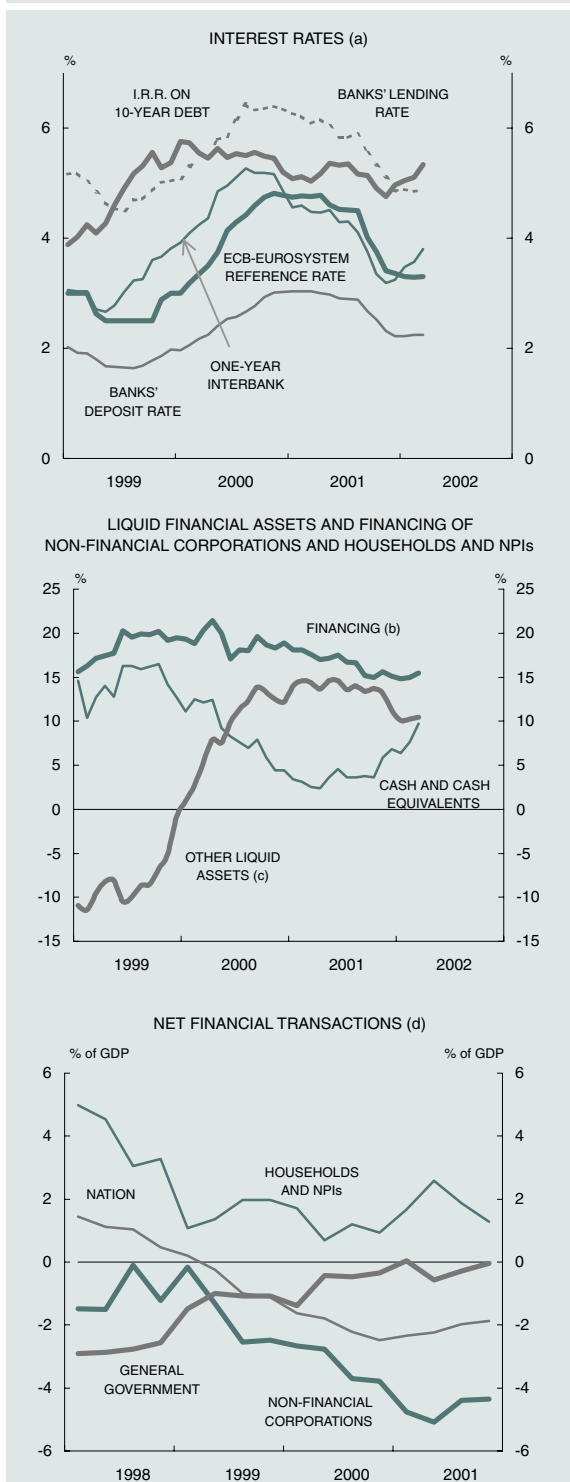


area. Stock markets trended unevenly, against a background of marked volatility. Consequently, there have been no significant gains during the quarter as a whole in relation to the end-2001 stock market index levels. The exchange rate of the euro has held very stable against the dollar in recent months. As a result, its nominal effective exchange rate against the developed countries stood, as at the date of this bulletin going to print, at similar levels to the start of the year.

In sum, the international macroeconomic scenario has improved during the opening months of 2002. As can be seen, the signs of recovery are more evident in the United States and somewhat less conclusive in Europe. This outlook is not, however, free from uncertainty and risks, prominent among which are those looming over the strength and duration of the US economic upturn. The upswing might be jeopardised by a loss of momentum in consumption, in the face of a build-up in household wealth imbalances, or by a delay in investment taking off, if corporations' financial position does not improve substantially. Given the strong synchrony in the cyclical movements of the main economies, the latter factors might delay and

CHART 4

Financial indicators of the Spanish economy



Source: Banco de España.

(a) The series are averages of daily data.

(b) Includes bank loans extended by resident and non-resident credit institutions, fixed-income securities and financing through securitisation funds..

(c) Includes deposits with agreed maturity, repos, bank securities, residents' cross-border deposits and shares in money-market funds.

(d) Cumulative four-quarter data.

weaken recovery in the European economy. Lastly, if the upward path followed by oil prices in recent months firms, inflationary prospects might worsen, restricting the growth of disposable income and, therefore, of consumption, and delaying investment decisions.

Such was the backdrop to activity in the Spanish economy in the opening months of 2002. The above-mentioned preliminary estimate of GDP growth in Q1 (2.1%, if the reference is the trend-cycle series) has continued to be determined by national demand, whose year-on-year rate of increase may have been around 2.3% during this quarter, some three-tenths of a point down on the previous quarter. This modest loss of steam is also found in the year-on-year rate of the seasonally adjusted series. Here, however, as was the case with GDP, a slight though now much more subdued rise is perceptible when growth is calculated in quarter-on-quarter terms.

The contribution of real net external demand to GDP growth has once again been estimated as negative in the first quarter of the year, of the order of three-tenths of a percentage point in the trend-cycle series, similar to that of the previous quarter. It thus seems this process is tending to come to a halt, although the year-on-year increases in exports and imports are still very small. Significantly, in this respect, the tourism indicators, which had retained a degree of buoyancy last year, have worsened notably in the opening months of 2002.

Notable under demand, as earlier mentioned, is the relative firmness of private consumption. The loss of momentum of this variable is proving less than expected and it is, moreover, influenced by the surge in this aggregate according to the INE estimate for 2001 Q4. It thus seems that the slowdown in employee compensation in the opening months of the year (due both to developments in employment and in compensation) is not entailing a significant cut in household spending decisions, a trend to which transfers from general government might be contributing. Along these lines, the information available shows a slowdown in the growth of social security contributions and an increase in benefits. In any event, these results would suggest that the modest recovery in household saving ratios discernible in last year's data is not strengthening. Indeed, the tendency of the household indebtedness rate to increase in recent years has continued in the opening months of 2002.

Residential investment is also showing signs of greater-than-expected buoyancy. Along with the behaviour of public works, this has led the year-on-year growth rate of investment in con-

struction to hold at a similar rate to that of the previous quarters. As earlier stated, this behaviour is in contrast to that of the other main component of gross capital formation: capital investment. The provisional assessment is that the growth rate of this variable has stabilised, albeit at very negative values.

The State budget outturn in cash-basis terms during the first three months of the year has run as scheduled. That said, analysis over such a brief period has been hampered by the introduction of the new regional government financing arrangements. Homogenous assessments show that indirect tax revenues, especially in relation to VAT, are performing soundly, while personal income tax takings are proving somewhat slack. Notable on the expenditure side is the control over State operating expenses (government consumption and goods and services), while the information provided by other budgetary indicators would confirm the vigour of overall general government investment.

Pending data for Q1 from the Labour Force Survey, the methodological changes in which

were anticipated by INE and are discussed in an article in the April 2002 Spanish *Boletín Económico*, the indirect indicators reveal a slowdown in employment in the opening months of the year, prolonging the pattern observed the previous year. A pick-up in productivity might be taking place which, combined with the containment apparent in wage settlements following the agreements reached between the social agents, is tempering the rate of increase of unit labour costs.

This greater containment in the growth rate of costs is needed if the growth rate of prices is to fall. The 12-month growth rate of the CPI stabilised at 3.1% during Q1. The highlights were the deceleration in the growth of prices of non-energy industrial goods and the acceleration in the services component. The spread between the respective Spanish and euro-area growth rates stands at 0.8 percentage points, with the related services index rate having widened further. The uncertainty that has arisen in recent months over the course of the market for oil products will undoubtedly mark the performance of the CPI during the year.

2. The external environment of the euro area

During the first quarter of the year the prospects for global recovery have strengthened, initially underpinned by positive activity data for the final quarter of 2001 in the United States and bolstered in recent months by the improvement in the activity indicators in most countries. A certain spillover effect is expected from the US economy on the rest of the countries, although uncertainty persists regarding the strength and speed of the recovery. International trade flows, which stagnated in 2001, are gradually beginning to pick up, although the expectations for growth in 2002, at around 2%, are very moderate.

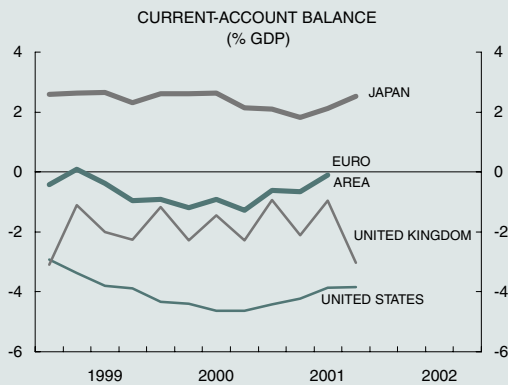
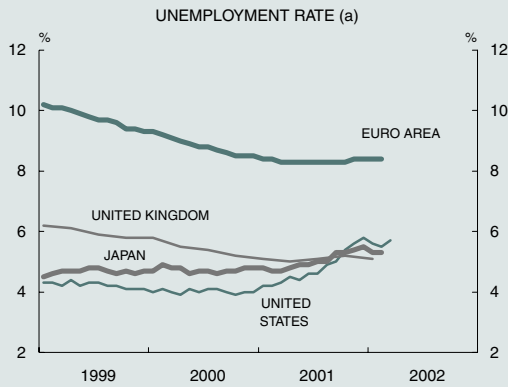
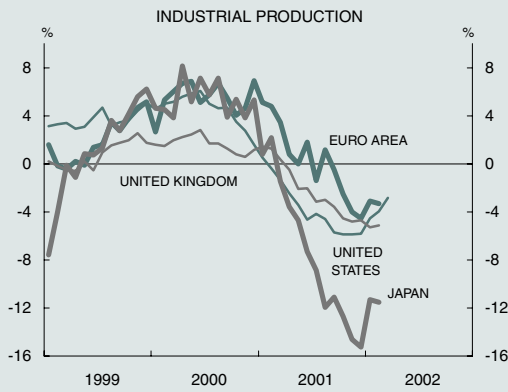
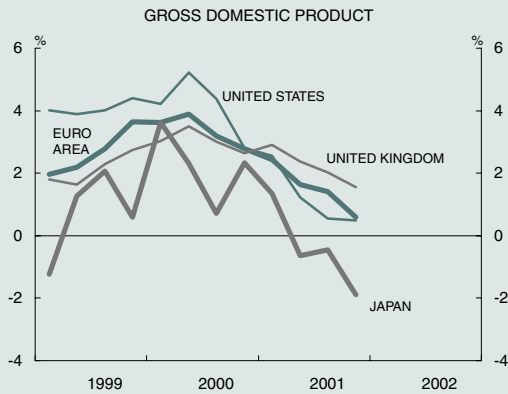
Despite the improvement in expectations, stock markets have not sustained the upward trend seen in 2001 Q4. They have been dragged down perhaps by the doubts raised by ENRON regarding transparency in the accounts of certain major firms and by the increase in suspensions of payments in recent months. By contrast, developments in emerging debt markets were positive overall, resulting in a substantial narrowing of the long-term interest rate spread over the United States, despite the grave situations in Argentina and Venezuela. On the commodities markets there was a fresh rise in oil prices from late March, prompted by the instability in producing regions such as the Middle East and Venezuela, and by expectations of increasing world demand.

In the United States GDP grew by 1.7% in 2001 Q4, in annualised quarter-on-quarter terms. In the first quarter of the current year activity indicators were very positive and GDP is estimated to have grown at an annualised quarter-on-quarter rate of 5.8%. The rate of growth of productivity in the contractionary phase of the cycle (5.2% in 2001 Q4 and 1.9% in 2001 as a whole) is particularly notable, and exceptionally high in comparison with previous recessions. In March, the rate of growth of the CPI stood at 1.5% year-on-year and underlying inflation at 2.4%.

As regards the demand indicators, the most relevant have regained their pre-11 September levels, which points to a high rate of growth of GDP in the first quarter of this year, thanks partly to the pick-up in inventories. Consumption, which was expected to moderate following the sharp increase in 2001 Q4, seems to be sustaining its vigour, judging by the growth of retail sales in Q1 and the recovery of consumer confidence indicators. The incipient improvement in the labour market, following the sharp adjustments at the end of last year, prompted an increase in disposable income of 1.7% in January and of 0.6% in February, providing further support for private consumption. The recovery of

CHART 5

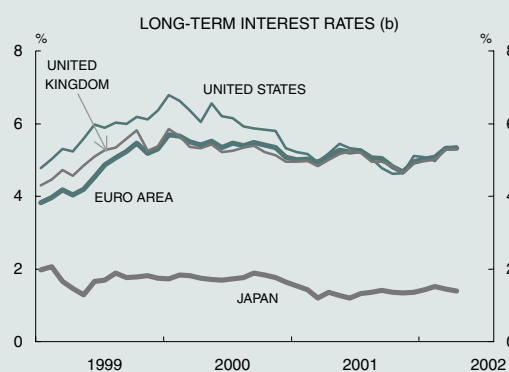
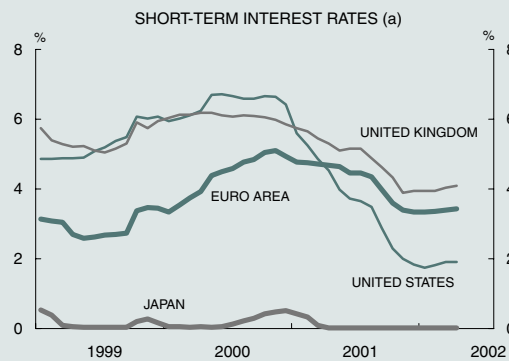
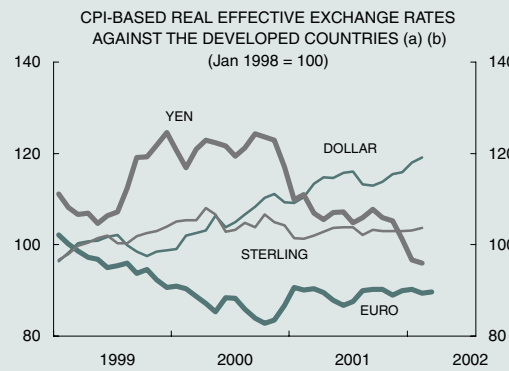
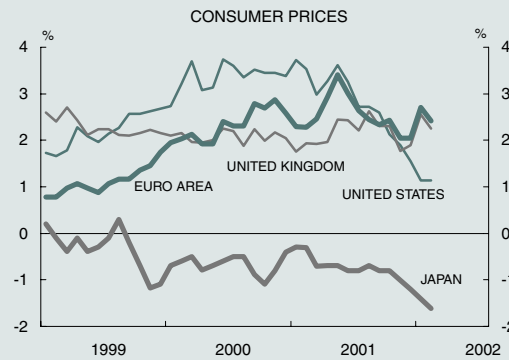
**Main macroeconomic indicators
Annual rates of change**



Sources: Banco de España, national statistics and Eurostat.
(a) As a percentage of the labour force.

CHART 6

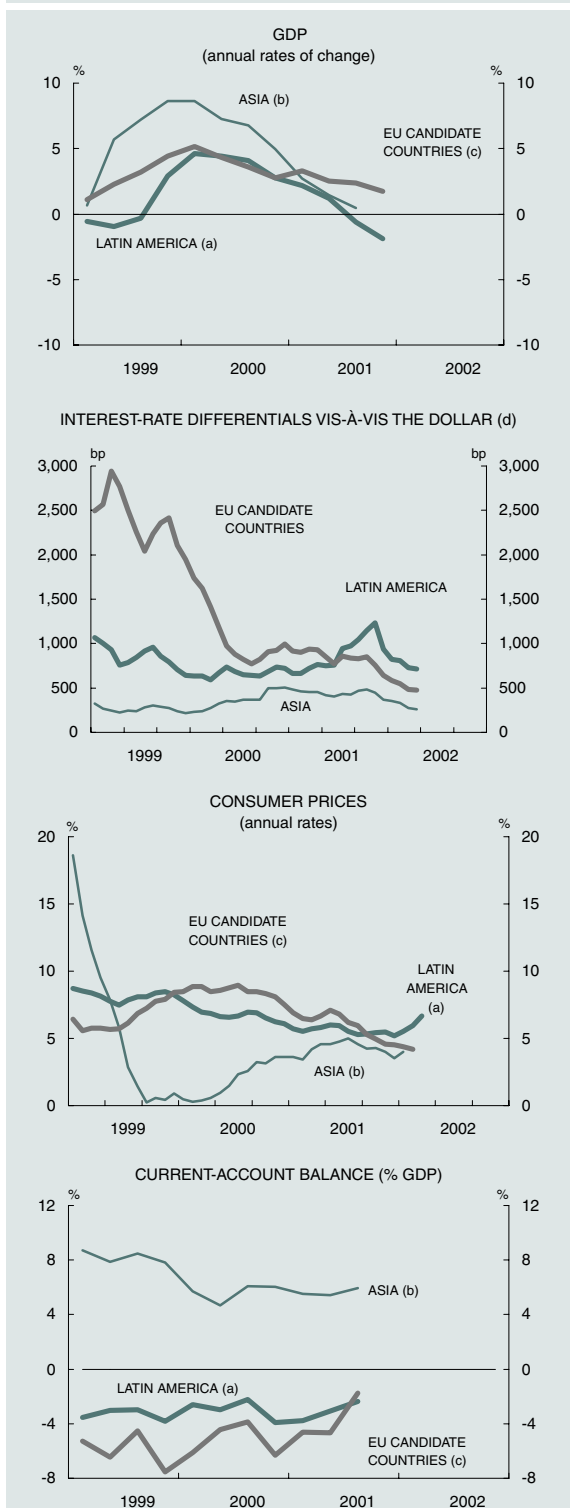
Prices, real exchange rates and interest rates



Source: Banco de España.
(a) Three-month interbank market interest rate. Euro area: until December 1998, weighted average of the eleven euro-area countries; thereafter, three-month EURIBOR.
(b) Ten-year government bond yields. Euro area: until December 1998, weighted average of the eleven euro-area countries.

CHART 7

Main macroeconomic indicators



Sources: national statistics and JP Morgan.
 (a) Argentina, Brazil, Chile, Mexico, Colombia, Venezuela, Peru.
 (b) Malaysia, Korea, Indonesia, Thailand, Hong Kong, Singapore and Taiwan.
 (c) Latvia, Lithuania, Estonia, Czech Republic, Hungary, Poland, Slovenia and Slovakia.
 (d) Differentials according to JP Morgan's EMBI+ index. Russia is included among the EU candidate countries.

positive growth rates by the indicators of capital-goods production and expenditure (especially strong in the IT sectors) may indicate that the investment cycle has already bottomed out. The outlook for investment will also be improved if the strong upturn in corporate profits in the final quarter of 2001 is sustained.

There were also signs of recovery on the supply side. The index of industrial production increased by 0.7% in March, the third consecutive month of growth, following the prolonged decline in 2001. The strength of industrial production is, moreover, apparent in the sectors most severely hit by the recession: manufacturing and, especially, IT. The surveys of manufacturing and services also show a robust upturn in activity.

Despite the favourable developments in the US economy, there are risk factors on the side of private investment. It is important that consumption and investment take over from inventories in the coming months as the driving force behind domestic demand.

The persistence of the recession in Japan is shown by the third consecutive quarterly decline in GDP in 2001 Q4 (by 1.2%). The weakness of domestic demand, dragged down by the falls in private and public investment, came on top of a drop in exports. However, during Q1 of the current year a slight improvement in the outlook is discernible, based on the slowdown in the rate of fall of some activity indicators, particularly in industry, and more timidly in construction, as well as in exports. The synthetic leading indicator also shows a slight upturn and the unemployment rate stabilised in the first two months of the year at 5.3%. Price deflation continues (in February prices fell at a 12-month rate of 1.6%), while the yen exchange rate, having depreciated significantly in January, tended to stabilise, even appreciating slightly in March. As regards economic policy, the government, after presenting a more restrictive budget (with a slight reduction in public spending) for the fiscal year beginning in April, announced at the end of February a set of very general proposals to assist economic recovery, the details of which are to be determined over the coming months, along with those of the measures to turn around the banking sector.

In 2001 Q4, activity in the UK economy was unchanged from the previous quarter. As in the United States, private consumption held firm, while private investment and exports fell by 0.3% and 1.2% respectively. As a result, real GDP grew by 2.2% in 2001. In 2002 Q1 the industrial sector began to pick up, while domestic demand remained robust. The rate of unem-

ployment held steady at 5.1%, while wage growth moderated to below 3%. Meanwhile, inflation (2.3% year-on-year in March) remained below the target of the Bank of England, which has held official rates unchanged at 4% since November.

In recent months economic activity has remained weak in South East Asia, except in China. That said, incipient recovery in the region is discernible, thanks to the high weight of external demand in most of these economies. Despite the expansionary demand policies several economies have recorded negative inflation rates in the first few months of 2002.

As for the countries of Central and Eastern Europe, they have generally shown resilience in the face of the world economic stagnation, with the support of expansionary demand policies. Although the rate of growth decelerated in Q4 in all the countries, the year-on-year rates held above 3%, except in Poland. The rate of inflation has continued to fall in almost all the countries, owing to prudent monetary policies and to exchange-rate appreciation.

In Latin America the continued economic and political instability in Argentina (which has had an adverse impact on the Uruguayan economy) and in Venezuela was notable. In the rest of the re-

gion the contagion of the Argentine crisis through the financial markets is notable for its absence, as reflected in a narrowing of the debt spreads over the United States. The global upturn is expected to contribute to a gradual pick-up of external demand in the countries of this area.

Economic activity has continued to plummet in Argentina, as shown by the 10.7% year-on-year fall in GDP in 2001 Q4 and the further deterioration of indicators in 2002 Q1. The exchange rate has continued to depreciate and the political difficulties have hampered attempts to agree a plan to turn round the fiscal, economic and financial situation with the support of the international community. In Brazil, economic activity stabilised in the first few months of the year, following a negative year-on-year rate of growth in Q4 of -0.7%, which made the rate for 2001 as a whole 1.5%. The indicators still reflect demand weakness and slow recovery of industrial production. Only the external sector is displaying a strong performance, owing to the cumulative depreciation of the real last year. Mexico has benefited from the investment grade rating assigned to it by the rating agencies. However, capital inflows continue to push the peso higher, which may generate imbalances in the incipient recovery process, stimulated by the foreseeable increase in demand from the United States.

3. The euro area and the monetary policy of the European Central Bank

On the latest information available, activity began to pick up in the euro area in 2002 Q1, following the slowdown during 2001, which continued right up to the final months of the year. According to the forecasts of the main international agencies, the incipient recovery of Q1 will strengthen in the coming months, so that the euro area may record average GDP growth in 2002 of somewhat less than 1.5%. This would be the reflection of a less uncertain environment and of the recovery in world trade, elements underpinned moreover by the maintenance of relatively easy monetary and financial conditions and by the absence of significant macroeconomic imbalances. The main risks to this scenario include the uncertain path of oil prices, against a background of international political tension, and the possibility that the macro-financial imbalances in the United States may affect global economic activity to a greater extent than projected. The outlook for euro-area inflation is generally favourable, but the downward trend projected might be modified by a further rise in the price of oil, an acceleration in labour costs as a result of the high wage demands in some sectors or some further impact on prices from the euro cash changeover.

3.1. Economic developments

On the latest National Accounts data published by Eurostat, euro-area GDP fell by 0.2%, in quarter-on-quarter terms, compared with an increase of the same magnitude in the previous quarter. In year-on-year terms, GDP grew by 0.6%, so that its growth in 2001 as a whole was 1.5%, almost two percentage points down on the rate recorded a year earlier (see Chart 8). The decline in output in relation to the previous quarter stemmed from destocking and the deterioration of investment, since consumption showed positive, albeit weak, growth and the contribution to quarter-on-quarter growth of GDP from external demand was nil. Trade flows were notably slack, with falls in both exports and imports.

A country-by-country analysis of the National Accounts shows that GDP growth was somewhat uneven in Q4. Although the slowdown in activity was common to all the countries, it was stronger in those that had recorded higher growth in Q3 (Finland, Spain and France). That said, Spain was the only country to record a positive quarter-on-quarter GDP growth rate in Q4. In general terms, all the countries with a relatively high weight in the aggregate recorded a deterioration in their gross fixed capital formation and in their exports and, except for Germany, a further reduction in the contribution of the

change in stocks to GDP. The rest of the aggregates behaved less uniformly. Thus, private consumption was relatively vigorous in France and Spain, while imports fell in France and the Netherlands more sharply than in the rest of the countries considered.

On the supply side, the fall in the rate of growth of GDP was concentrated in industry and, to a lesser extent, in agriculture. In services, gross value added grew at positive quarter-on-quarter rates similar to those of the previous quarter, while in construction the slowdown of the first half of 2001 was halted in the last few months of the year. As regards the labour market, the quarter-on-quarter growth of employment in the last three months of 2001, as in the previous two quarters, was 0.2%, making a year-on-year rate of 0.8%. Apparent labour productivity was almost unchanged from the same quarter a year earlier, so that there was an increase in unit labour costs. In fact, ULCs grew by more than the GDP deflator, suggesting that a slight contraction of margins may have occurred.

The information available on economic developments in the euro area in 2002 Q1 is consistent with a moderate recovery in output, which may have reached positive quarter-on-quarter growth. This perception is supported by the behaviour of the industrial and services confidence indicators compiled by the European Commission, as well as by the behaviour of other synthetic indicators based on a broader set of information, and would also be in line with the estimate made by the European Commission for GDP growth in 2002 Q1 (see Box 1). The industrial production index, for its part, points to a gradual recovery in industrial activity, and in fact the last three month-on-month rates published (for December, January and February) have been positive.

By contrast, the indicators on the demand side, on still incomplete information, are not so conclusive (see Chart 9). There was a slight general improvement in consumption indicators in the early months of the year. In particular, while the level of the consumer confidence indicator rose slightly in Q1, the retail confidence indicator deteriorated further. For their part, indicators of retail sales and new passenger car registrations improved in January and February, respectively, cancelling out their falls in the previous month. In any event, the behaviour of the determinants of consumption does not augur a rapid strengthening of this aggregate, since the lower uncertainty, the increase in the purchasing power of income arising from the progressive decline in inflation and the fa-

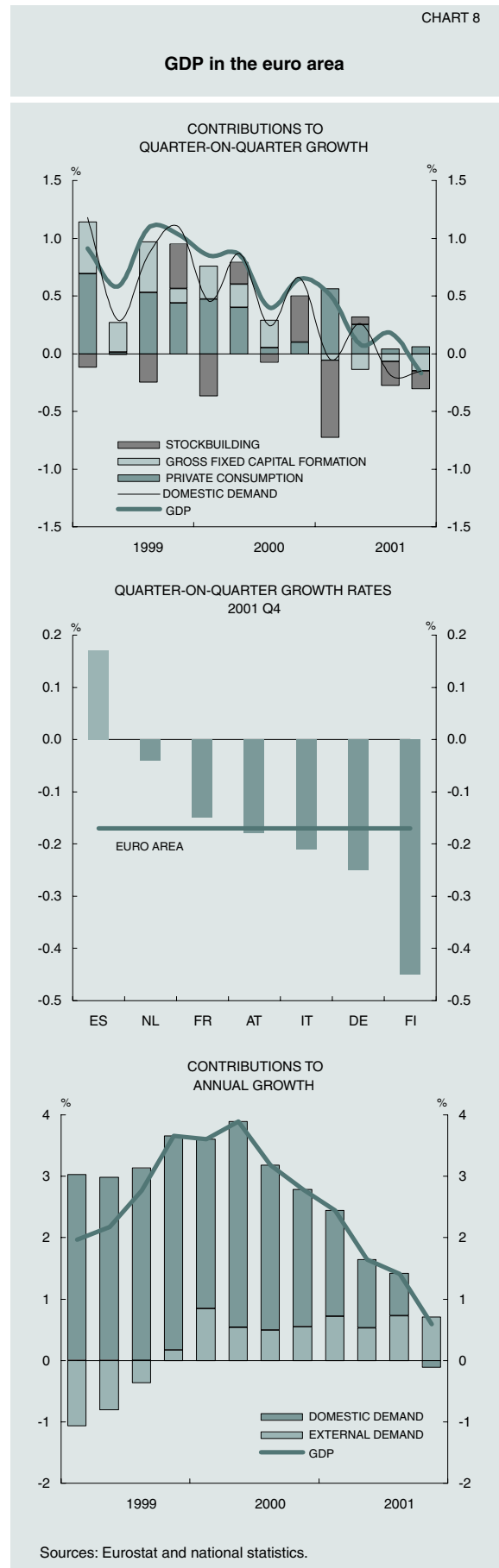
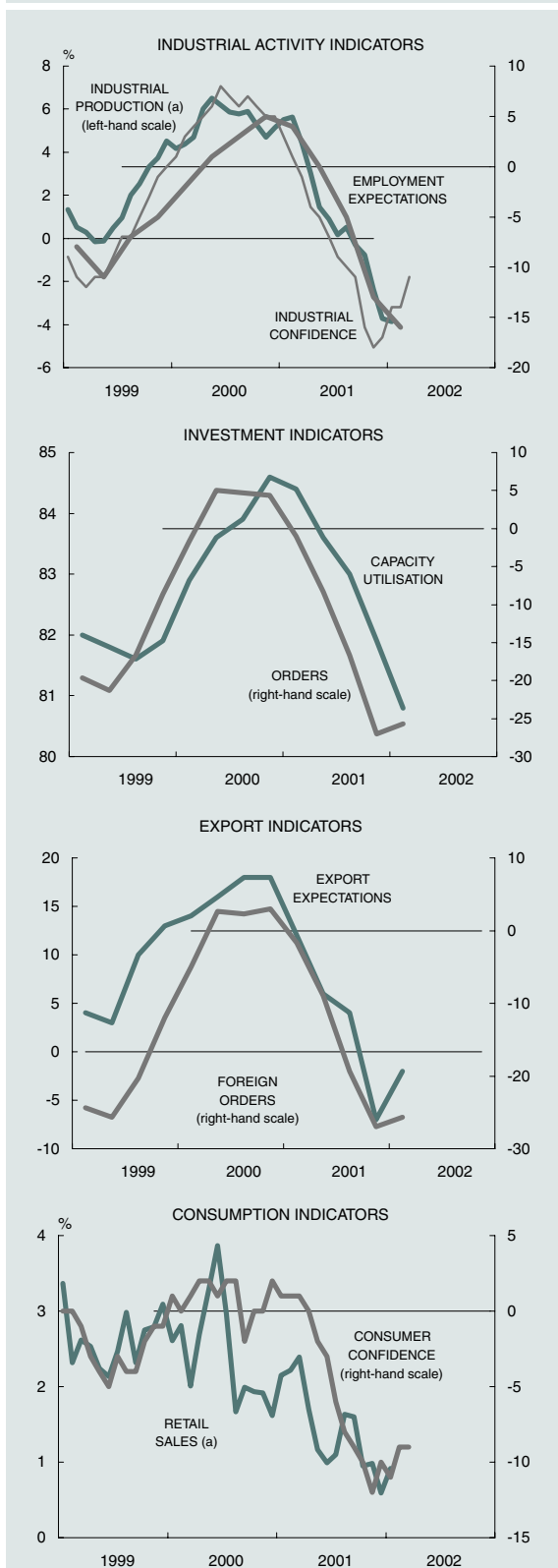


CHART 9

Euro area. Real indicators



Sources: Eurostat and European Commission.

(a) Non-centred annual percentage changes calculated on the basis of the quarterly moving average of the seasonally adjusted series.

vourable financing conditions are possibly being offset by the deterioration in the employment outlook.

Meanwhile, indicators of exports have improved slightly over the first few months of the year, while the information most closely relating to industrial investment also seems to show greater buoyancy. Finally, according to the results of the industrial confidence survey, the proportion of respondents who considered their level of stocks to be higher than desired fell, which may mean that the adjustment of stocks has been completed. Accordingly, on the demand side, the recovery signalled by the indicators of activity may be based on the petering out of destocking and on more buoyant exports and, probably, investment.

As regards the inflation situation in the euro area, the Harmonised Index of Consumer Prices (HICP) increased by 2.5% year-on-year in March, 0.5 percentage points up on December (see Chart 10). The rising trend in the HICP during the first quarter stemmed from the behaviour of energy and services prices, given that the rate of change of food prices moderated and non-energy industrial goods posted in March a similar rate of change to that of December. Accordingly, the recent rise in oil prices and the increase in some administered prices and in indirect taxes at the beginning of the year were responsible for the acceleration in prices in the period considered, without any substantial effect having been discerned until now arising from the conversion of the former national currencies to the euro. In any case, there is great uncertainty surrounding the possible effect of the introduction of euro cash on inflation, since it is very difficult to isolate that part of the rise in prices attributable to this factor. According to a preliminary Eurostat study, of the 0.5% month-on-month increase in the HICP in January, between 0% and 0.16% may have been due to the euro cash changeover. However, it is very likely that the possible impact on inflation was not limited to January and there will be price rises in subsequent months arising from this phenomenon. In fact, the notable rise in the prices of some items (such as gardening, rentals, vehicle repairs, recreational services and restaurants) in January, February and in some cases in March too, may be related to the introduction of euro cash.

The increase in the rate of services inflation has been reflected in a mild increase in the rate of change of the IPSEBENE (an index which excludes the prices of energy goods and unprocessed food), which stood at 2.6% in March, 0.1 percentage points higher than in December. The only countries to have an inflation rate of

Euro-area composite indicators

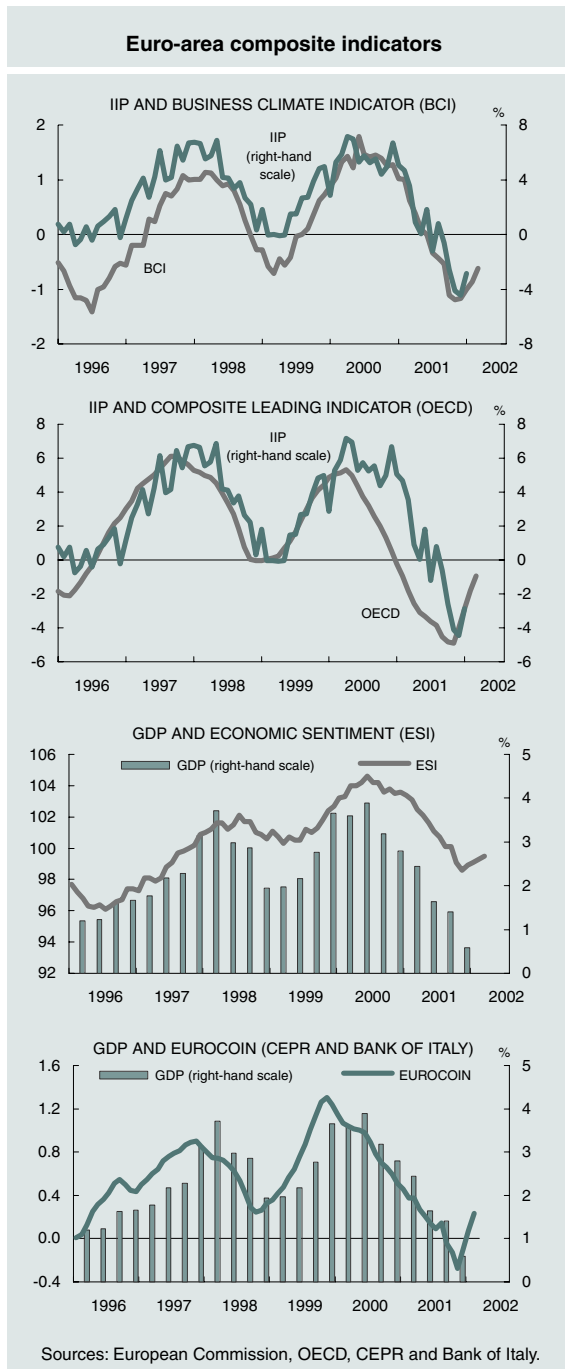
The official statistical information available for the euro area, based on the harmonised indicators of the member countries, still has an insufficient coverage and is published with a certain lag, so that its usefulness for analysing the cyclical position and short-term prospects of the area is limited. This problem is particularly acute at times when the economy is close to a cyclical turning point. To overcome these shortcomings, various public and private institutions have sought to construct synthetic indicators to approximate the path of output (either the index of industrial production (IIP) or GDP), exploiting information from sources (such as opinion surveys and national indicators) that are available sooner than other official statistics.

First, there is a group of indicators that use the great wealth of data collected by means of opinion surveys. Thus, the Economic Sentiment Indicator (ESI) compiled by the European Commission (EC) to approximate the path of GDP, is constructed as a weighted average of the industrial, construction, retail trade and consumer confidence indicators. The EC also compiles the Business Climate Indicator (BCI) using series derived from the industrial confidence indicator. Each series is divided into a common component shared with the rest of the other series, which tries to capture the cyclical position at a given moment, and a specific component. The former component is the one used to compile the indicator.

Second, there is another group of indicators that exploit information derived from national statistics. Notable in this group is the OECD's Composite Leading Indicator (CLI) and the EuroCOIN of the CEPR and the Bank of Italy. The former is compiled using various national indicators and provides estimates of the IIP for each country and, on aggregate, for the euro area as a whole. The EuroCOIN is a coincident indicator of the growth of euro-area GDP, compiled by means of the extraction of the common component from some one thousand series obtained from various national and supra-national institutions.

Finally, the Directorate General Economy and Finance (DG ECFIN) of the EC has recently started publishing an estimate of quarter-on-quarter GDP growth in the form of intervals for the two quarters following the reference period of the latest data published by Eurostat. The model has two equations, one for each of the quarters to be predicted, with real explanatory variables or opinions on them, as well as financial variables, all of which are for the euro area.

The four indicators depicted in the adjoining chart coincide in signalling a turning point in late 2001. Specifically, after troughs in November last year, these indicators show an upturn and a trend of gradual recovery to March this year, which is the latest period for which data are available. These data are consistent with the forecast for a recovery in 2002 Q1 as signalled by the GDP quarter-on-quarter forecast indicator compiled by the DG ECFIN (see adjoining table), which, as against a decline of 0.2% of GDP in quarter-on-quarter terms in 2001 Q4, anticipates a 0.2%-0.5% increase for the period January-March 2002.



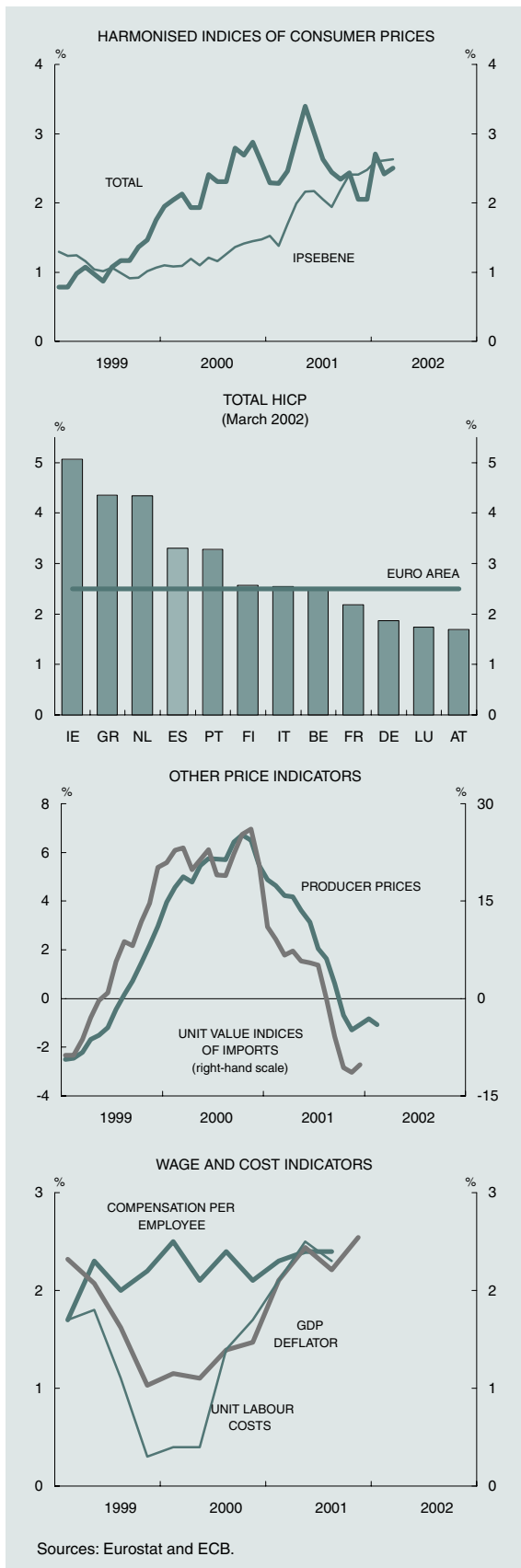
Forecasts of quarter-on-quarter GDP growth

	DG ECFIN (Intervals) 2002			
	JAN	FEB	MAR	APR
2002 Q1	(0.1; 0.4)	(0.1; 0.4)	(0.1; 0.4)	(0.2; 0.5)
2002 Q2			(0.4; 0.7)	(0.5; 0.8)

Source: European Commission.

CHART 10

**Euro area. Price, wage and cost indicators
Twelve-month percentage change**



less than 2% were Germany, Luxembourg and Austria (see Chart 10). Finally, the difference between the highest (5.1% in Ireland) and lowest rates of inflation (1.7% in Austria and Luxembourg) was almost one percentage point smaller in March than in December.

The rate of decline of the producer prices index, according to the latest data available, has been relatively stable since the end of 2001. In fact, the PPI fell by 1.1% in February, the same rate as in December. By component, there was a deceleration in the prices of industrial consumer goods, portending lower inflation in the processed food and non-energy industrial goods included in the HICP

The price indicators of the area point to a slight moderation of inflationary pressures during 2002, which would be largely attributable to the petering out of the effects of the exchange rate depreciation and food crises in 2001. However, this ongoing improvement in inflation prospects could be halted if oil prices rise further or wage growth deviates from sectoral productivity growth. In this respect, the high wage demands in key sectors in some euro-area countries and the upward trend in oil prices, associated with the cuts in global production and the escalation of the social and political tension in the Middle East, represent upside risks for the future path of inflation in the euro area.

On the basis of the data recently supplied by the ECB, the current-account deficit of the euro area fell significantly in January 2002. In fact, it shrank from EUR 11.1 billion in January 2001 to EUR 1.5 billion in the same month of 2002. This improvement was basically associated with the behaviour of the trade balance, insofar as the strong contraction in imports (down 11.4% in year-on-year terms) more than offset the 4.4% fall in exports.

According to the notifications submitted by the Member States under the excessive deficit procedure, general government in the euro area as a whole had a borrowing requirement of 1.3% of GDP in 2001, which was half a percentage point up on the previous year. Given the reduction in interest expenditure of 0.2 percentage points of GDP the deterioration, in terms of the primary balance, amounted to 0.7% of GDP. On European Commission calculations, this deterioration can be explained, in roughly equal parts, by the contributions of the business cycle and of the authorities' discretionary action (the latter measured by the change in the cyclically adjusted primary balance). Only four countries (Greece, Spain, Italy and Austria) improved their budget balances in 2001. In Germany and Portugal, the deficit increased to

General government budget balances of euro area countries (a)

TABLE 1

% of GDP

	1998	1999	2000	2001	2002 (b)	2002 (c)
Belgium	-0.8	-0.6	0.1	0.0	0.0	-0.2
Germany	-2.2	-1.6	-1.3	-2.7	-2.0	-2.8
Greece	-3.1	-1.8	-0.8	-0.4	0.8	0.3
Spain	-2.6	-1.1	-0.4	0.0	0.0	-0.2
France	-2.7	-1.6	-1.4	-1.5	-1.4	-2.0
Ireland	2.3	2.3	4.5	1.7	0.7	0.4
Italy	-2.8	-1.8	-1.7	-1.4	-0.5	-1.3
Luxembourg	3.5	3.7	5.7	5.0	2.8	2.0
Netherlands	-0.8	0.4	1.5	0.2	1.0	0.0
Austria	-2.4	-2.2	-1.5	0.1	0.0	-0.1
Portugal	-2.4	-2.1	-1.9	-2.7	-1.8	-2.6
Finland	1.3	1.9	7.0	4.9	2.6	3.3
MEMORANDUM ITEMS:						
Euro area						
Primary balance	2.6	3.0	3.3	2.6	2.7	2.3
Total balance	-2.2	-1.3	-0.8	-1.3	-0.9	-1.5
Public debt	73.7	72.6	70.2	69.1	67.2	68.6
Sources: European Commission, national stability programmes and Banco de España.						
(a) As a percentage of GDP. Proceeds from the sale of UMTS licences not included. Deficit (-) / surplus (+).						
(b) Targets in the stability programmes presented between November and December 2001.						
(c) European Commission projections (spring 2002).						

2.7% of GDP. Since in both these countries there had been significant slippages in relation to the objectives contained in their previous stability programmes and, in the opinion of the European Commission, there was a certain risk of the deficit limit of 3% of GDP being exceeded this year and of the budget not being in balance in 2004, the Commission decided at the end of January to adopt a proposal for the Council to activate the so-called early warning procedure. However, the Council did not adopt the Commission's recommendation, in view of the public commitment by the German and Portuguese authorities to respect the reference value of 3% of GDP in 2002 and to achieve a budgetary position close to balance in 2004.

In general, it appears that it is going to be difficult to achieve the balanced budget targets set for this year in the stability programmes, as can be seen by comparing the last two columns of Table 1. This is partly due to the optimistic nature of the economic growth projections on which the programmes' fiscal targets are based. For example, these forecast a rate of expansion of activity of 2% in 2002, as against the 1.4% rate projected by the European Commission.

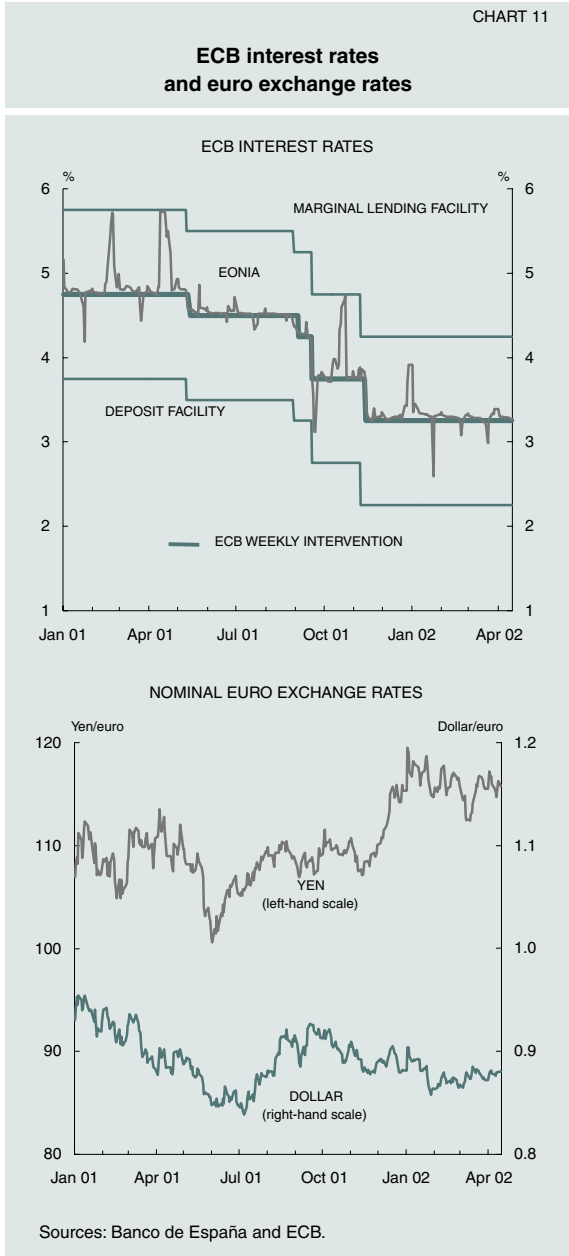
As regards the EU structural reform process, the Barcelona European Council, held in March,

assessed the state of development of the strategy designed at the Lisbon Council in March 2000. Although satisfactory progress has been made in some areas in recent years, the programme of economic reforms in Europe may have lost some steam lately. As a result positive steps were taken in Barcelona that should help achieve the Lisbon targets (see Box 2).

3.2. Monetary and financial developments

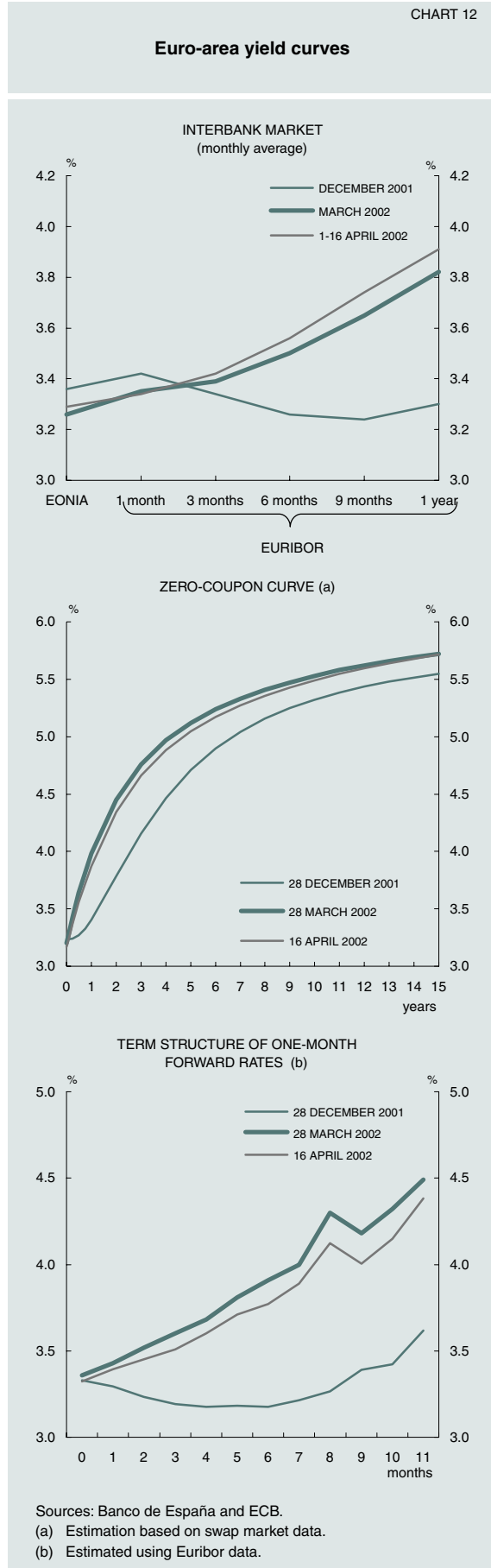
Against the background described above, characterised by the absence of inflationary pressures and by signs of a pick-up in activity, the Governing Council of the ECB decided to keep the interest rates on main refinancing operations unchanged throughout 2002 Q1 and during April to date. Accordingly, since the last reduction of 50 basis points on 8 November 2001, the weekly intervention rate has remained at 3.25% and the rates on deposit and marginal lending facilities at 2.25% and 4.25%, respectively (see Chart 11).

During the quarter, however, there was a mild upward trend in money-market interest rates, which was steeper the longer the maturity. Thus, while the one-month rate fluctuated around 3.35% during the period, rates for the



maturities closest to 12 months rose more sharply, especially in the latter part of the quarter. These developments changed the slope of the interbank market yield curve with respect to December, so that it is now markedly positive (see top panel of Chart 12). In this respect, as shown by the progressive widening during Q1 of the differential between one-month forward rates at the horizons of one and twelve months, a change in the stance of monetary policy has begun to be discounted, in line with the signs of recovery in activity shown by the available indicators, although these expectations have moderated somewhat in recent weeks (see bottom panel of Chart 12).

This improvement in the economic outlook has also been reflected in an increase in ten-



Structural reform in Europe: from the Lisbon to the Barcelona European Councils

With a view to achieving full employment in 2010 and to strengthening social cohesion, the European Union, at the Lisbon Extraordinary Council in March 2000, set itself the strategic goal of “becoming the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”. The social dimension of this strategy was subsequently strengthened by the Nice Social Agenda and the environmental dimension by the Gothenburg sustainable development strategy.

Perhaps the most ambitious targets set at Lisbon were those relating to the labour market. Along with the full employment goal, Lisbon also established that the overall EU employment rate in 2010 should be 70% (in 2001 it was 63.9%), while the rates for women and for elder people (55-64 years) should stand at 60% and 50% respectively (in 2001 they were 54.7% and 38.3%). The design of balanced macroeconomic policies, the implementation of a series of economic reforms, an increase in research and innovation and an increase in investment in human capital were considered essential requirements for achieving average economic growth of 3% in the coming years and for meeting such targets.

Two years on from the establishment of these targets, the Barcelona Council took stock of the development of this process. The areas in which progress has been insufficient are numerous: the opening up of public procurement, the development of risk-capital and financial-services markets, the creation of a Community patent, the establishment of a single energy market and the introduction of satellite navigation systems. On the other hand, there has been significant progress in electronic trade, the communications sector and rail transport, although further progress in these areas is desirable. As regards the full-employment goal, progress has also been modest.

Accordingly, Barcelona has given fresh impetus to the Lisbon process. In the sphere of economic policy, the commitments to fiscal discipline of the Stability and Growth Pact were reaffirmed, it was agreed to reinforce policy co-ordination and the need to accelerate the reform of pension systems was highlighted, both to ensure their financial sustainability and to meet their social objectives. As regards the labour market, the employment and social cohesion strategy has been strengthened, with the establishment of a broad set of actions to influence the tax wedge, the participation rate (primarily for women and elder people), incentives for active job search and wage negotiation. For Europe to become a knowledge-based society and highly competitive, a number of measures relating to telecommunications, education and research were also adopted. In addition, the Barcelona European Council reiterated most of the commitments acquired in Lisbon whose implementation has been delayed. Notable in this respect was the confirmation of the dates for integration of the securities and financial-services markets (2003 and 2005, respectively). The markets for electricity and gas shall be opened up for businesses in 2004, although no agreement has been reached for domestic consumers. In addition, in 2005 there should be electrical interconnections equivalent to at least 10% of installed production capacity in each Member State. The adjoining table summarises the most important commitments entered into or reaffirmed at Barcelona, indicating the date on which they must be met.

	Entry into force
LABOUR MARKET:	
Full employment goal	2010
Reduction in taxation of low wages	no date
Tax and unemployment benefit systems conducive to job search	no date
Wage determination adapted to productivity and skills	no date
Specific and quantified incentives for female labour force participation	2010
Raising retirement age	2010
Promotion of labour mobility	several dates
ENERGY MARKETS:	
Gas and electricity liberalisation for non-domestic consumers	2004
Regulation of services of general interest	2003
Electricity interconnections (10%)	2005
Boost to separation of activities	no date
TRANSPORT:	
Making the Single Sky a reality	2004
Adoption of pending proposals on port services	2002
Revision guidelines on Trans-European Transport Networks	2002
TELECOMMUNICATIONS:	
Galileo project (satellite system)	2008
Transposition of new regulatory package	2003
Second eEurope Action Plan	2005
One internet-connected PC for every 15 pupils	2003
Electronic access to public services	no date
BUSINESS ENVIRONMENT:	
Reduction of directive transposition deficit	2003
Modernisation of competition rules	2002
Reduction and rationalisation of State aids	2003
New public procurement rules	2002
EDUCATION:	
European dimension in education	2004
Community diplomas and qualifications	2003
Promotion of foreign language studies	no date
Creating an indicator of linguistic competence	2003
<i>Internet and computer-user's certificate</i>	no date
Adult education	no date
R & D:	
Sixth Research Framework Programme	2002
Spending on R&D 3% of GDP	2010
Introduction of the Community patent	2002
FINANCIAL MARKETS:	
Integration of securities markets	2003
Integration of financial services	2005

TABLE 2

Monetary and financial situation in the euro area and Spain

%

	1999	2000	2001		2002			
	DEC	DEC	NOV	DEC	JAN	FEB	MAR	APR(c)
MONETARY VARIABLES (a):								
EURO AREA								
M3	5.8	4.1	7.9	8.1	7.9	7.4	7.3	
M1	10.7	5.3	5.9	5.4	6.4	6.0	5.8	
Credit to private sector	10.3	10.1	6.9	6.8	6.3	6.0	5.4	
SPAIN								
Cash and cash equivalents	12.7	4.4	5.9	6.8	6.4	7.6	9.7	
Other bank liabilities	3.9	19.6	11.0	8.4	7.0	7.1	6.8	
Mutual funds	-21.9	-27.1	23.3	26.2	29.0	28.5	30.1	
Financing to the private sector	19.5	18.9	15.6	15.1	14.8	15.0	15.5	
FINANCIAL MARKETS (b):								
EONIA	3.04	4.83	3.51	3.36	3.29	3.28	3.26	3.28
Three-month EURIBOR	3.44	4.94	3.39	3.35	3.34	3.36	3.39	3.41
Public debt								
Euro-area ten-year bond yields	5.32	5.07	4.67	4.96	5.02	5.07	5.32	5.31
US-euro area ten-year bond spread	1.04	0.25	-0.02	0.16	0.05	-0.09	0.02	0.04
Spain-Germany ten-year bond spread	0.22	0.31	0.31	0.23	0.19	0.19	0.18	0.17
Spanish bank interest rates								
Synthetic deposit rate	1.98	3.02	2.31	2.22	2.22	2.25	2.25	
Synthetic lending rate	5.03	6.35	5.11	4.86	4.88	4.85	4.88	
USD/EUR exchange rate	1.011	0.897	0.888	0.892	0.883	0.870	0.876	0.882
Equities (d)								
Dow Jones EURO STOXX Broad Index	39.5	-5.9	-22.3	-19.7	-2.2	-3.2	1.6	-0.1
Madrid Stock Exchange General Index	16.2	-12.7	-6.4	-6.4	-2.6	-1.3	0.6	2.3
Sources: ECB and Banco de España.								
(a) Annual percentage change.								
(b) Monthly averages.								
(c) Monthly average to 16 April 2002.								
(d) Cumulative percentage change during the year. End-of-month data. Latest month: 15 April for the EURO STOXX and 16 April for the Madrid Stock Exchange.								

year government bond yields in the euro area, especially from March. Thus, the long-term interest rate on German debt stood in mid-April at 5.2%, more than forty basis points above the average return in December. The general improvement in economic prospects has also prompted an increase in long-term yields in other economic areas in recent weeks. In particular, the yields on US debt edged up from around 5% to 5.3% during the first few months of the year, which meant that the spread over German debt hardly changed during the period considered (see Table 2).

As seen in the bottom panel of Chart 13, the downward trend in retail bank interest rates in the euro area, which dated back to December 2000, also ended in Q1. In fact, on information to February, the interest rates charged on loans

for house purchase and on business loans with a maturity of more than one year increased slightly, by between six and eight basis points, relative to December. The same trends have been discerned in Spain, although the synthetic rates of Spanish banks did not change significantly during the first two months of the year (see Table 2).

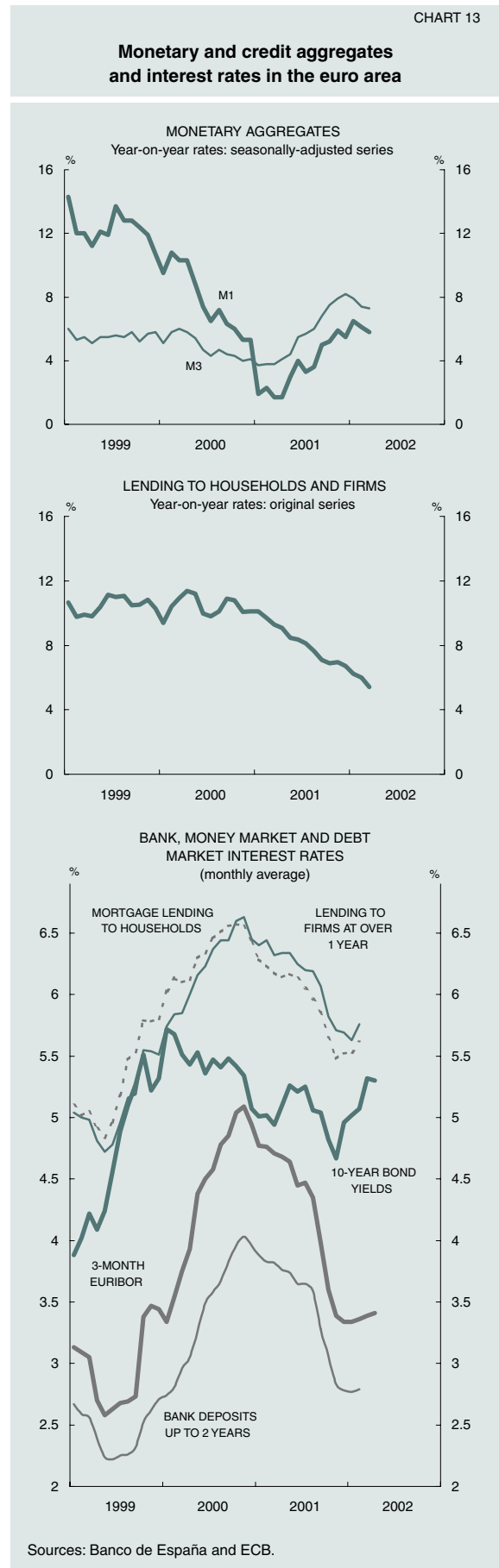
During the first quarter, share prices in the euro area did not move significantly, while the high volatility which characterised them in the wake of the terrorist attacks of September 2001 diminished notably. In particular, in January and February share prices stood somewhat below those at the end of 2001, while in March they recovered and then fell slightly. Stock markets in this period reflected to some extent the improved expectations for activity, although international political conflict and the uncer-

tainty that still exists over the strengthening of the incipient economic recovery in the main industrialised countries have prevented share prices from establishing a firmer upward trend. In mid-April, the Dow Jones EURO STOXX Broad index stood 1.6% below its level at the end of last year. In the case of Spain, the Madrid Stock Exchange general index showed a similar pattern of behaviour in the first few months of the year to that described for the euro area as a whole. However, as from March, it outperformed the euro area, its mid-April level being somewhat higher than that at the end of 2001.

The euro exchange rate, meanwhile, has not moved significantly since December. It has fluctuated at around 0.88 US dollars per euro, while, against the yen, it appreciated slightly in January, and then held at the same level for the rest of Q1 (see Chart 11). The effective exchange rate of the euro against the developed countries stood, as the Spanish version of this bulletin went to press, very close to its level at the beginning of January.

Euro-area M3 changed trend in Q1. The year-on-year rate of change stood at 7.3% in March, having peaked at 8.1% in December. The deceleration is more evident when rates are observed over shorter periods; the annualised quarter-on-quarter rate of increase in the three months to March was 4.3%, as against 10.1% in 2001 Q4. This slowdown reflects the impact on agents' portfolio decisions of the reduced uncertainty surrounding the financial markets, which led to a lower preference for liquidity. The narrower aggregates, such as M1 and M2, displayed lower growth rates (of around 6%), similar to those at the end of 2001. In Spain, by contrast, the most liquid financial assets accelerated slightly in the first few months of the year, since the continued loss of momentum in time deposits was offset by greater buoyancy in cash and cash equivalents and in mutual funds.

With regard to the counterparts of the monetary aggregates, lending to the private sector of the euro area continued to slow, to reach a year-on-year rate of change of 5.4% in March, a low for the period since the start of Monetary Union. The moderation in borrowing has been mainly attributable to the slowdown in the pace of economic activity in recent months, since this variable displays a high degree of synchrony with the business cycle. The data available on lending by type and by agent for 2001 Q4 show that the moderation of lending is explained both by the non-financial corporations and by the households components and, within the latter, by



the trend in consumer credit and by that in lending for house purchase. In Spain, the financing extended to the non-financial private sector increased during the first few months of the year at a relatively constant rate, which continued to be significantly higher than the

rate in the area as a whole (15.5% in March). Lending by resident institutions (the main component of the financing received by the non-financial private sector) grew in March at a year-on-year rate of 14.4%, which was somewhat higher than the end-2001 rate.

4. The Spanish economy

The second half of 2001 saw the prolongation of the cyclical downturn that had been affecting the Spanish economy since the previous year, against the worsening international background described in the preceding sections. Consequently, the contractionary nature of the contribution of external demand to GDP growth increased progressively, owing to the loss of momentum of exports. Meanwhile, national demand continued to slow mildly, meaning it was still able to post a relatively high growth rate in Q4 [2.6% year-on-year, measured on the basis of the trend-cycle series (1)]. Behind increased domestic expenditure was a still-robust rate of job creation, which sustained consumer spending, and the continuing thrust of both public-sector and residential construction. However, productive investment continued to fall significantly, affected particularly by weaker export markets and by the deterioration in expectations. In 2002 Q1, the gradual slowdown in national demand (to rates of around 2.3% compared with the same quarter a year earlier) should have continued owing to the somewhat more moderate growth of consumption and construction, while the rate of change of investment in capital goods should have been somewhat less negative than in the second half of 2001. Net external demand may have subtracted three-tenths of a point from GDP growth in 2002 Q1, a similar amount to that estimated by INE for the previous quarter, with the sluggishness of tourism notable on this occasion.

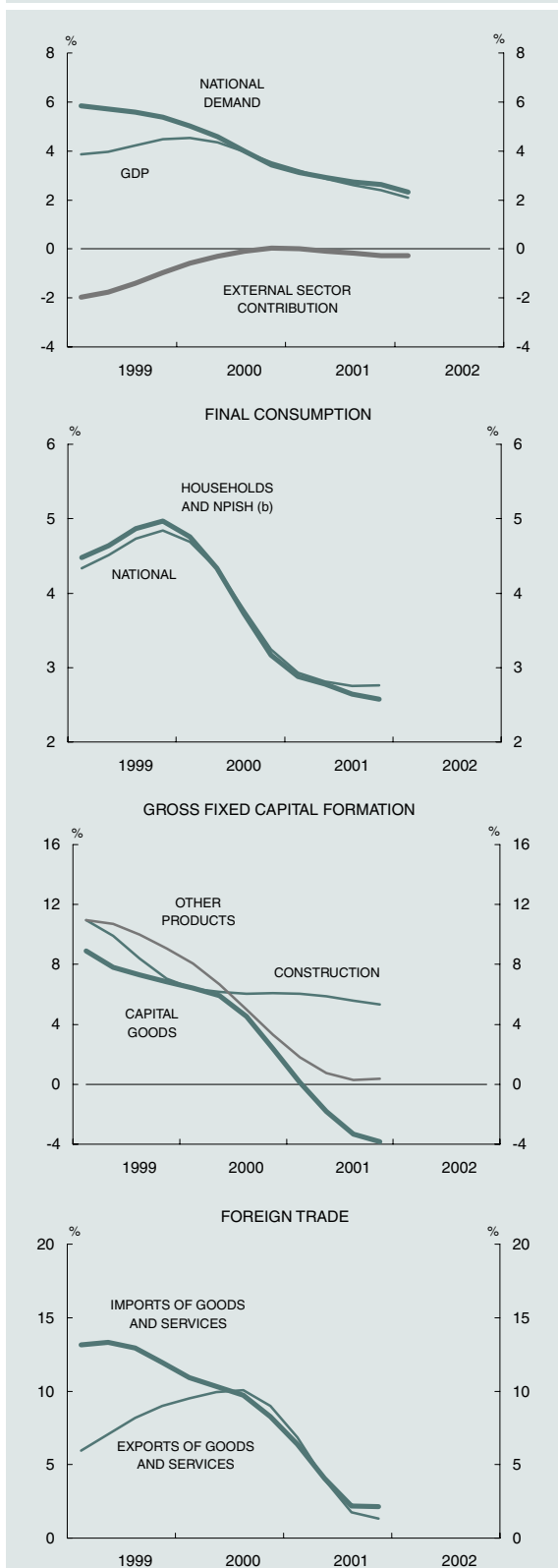
Overall, following a year-on-year increase of 2.4% in 2001 Q4, on QNA estimates in trend-cycle terms, real GDP is estimated to have risen by 2.1% in 2002 Q1. In terms of the seasonally adjusted GDP series, the year-on-year rate would be slightly below 2%, against 2.3% the previous quarter. However, the quarter-on-quarter rate of GDP growth measured in terms of the seasonally adjusted series (which offers a more contemporaneous signal than year-on-year rates, but one which is also more erratic) would have risen from 0.2% at end-2001 to 0.6% in 2002 Q1.

From the standpoint of activity, and according to the latest available indicators, the fresh loss of momentum of output in 2002 Q1 took the form of a weakening in market services and in construction (albeit with still-high rates), accompanied by a less negative performance of industrial activity, whose quarter-on-quarter rates will have turned positive. There is every indication that the moderation in productive activity made for a fresh reduction (one possibly sharper than in previous quarters) in the growth

(1) Unless otherwise indicated, Quarterly National Accounts rates will be expressed in trend-cycle terms.

CHART 14

Main macroeconomic aggregates (a)



Sources: Instituto Nacional de Estadística and Banco de España.
 (a) Non-centred annual percentage change, based on trend-cycle components.
 (b) Non-profit institutions serving households.

rate of employment, which had ended the previous year at a rate of 2% compared with twelve months earlier. Thus, the rate of increase of productivity, though low, would have tended to pick up. The information available shows that the growth of compensation per employee tended to moderate in Q1, which will have had a favourable bearing on unit labour costs. Further, import prices held on a downward course. This partly offset the fresh widening of margins, checking the rises in the main indicators of final prices.

4.1. Demand

On QNA estimates, the gradual slowdown in household final consumption spending in train since the beginning of the previous year (see Chart 14) continued throughout 2001, albeit with less intensity. In annual average terms it increased by 2.7%, while its growth in Q4 in relation to the same period a year earlier was 2.6%. This performance meant a cut of more than one percentage point in relation to the 4% increase in 2000, allowing the household saving ratio to pick up slightly last year. The as yet limited information available on the behaviour of consumption in 2002 Q1 indicates that this variable held at a growth rate close to that estimated at end-2001, which would be compatible with a further weakening of its pace in year-on-year terms.

The indicators most directly related to household spending point to a further moderation in the rate of expansion of durable consumption during the opening months of 2002. Non-durable spending, meanwhile, would have been more sustained (see Chart 15). Drawing on what are still partial data, the index of apparent consumption of consumer goods grew at a similar rate to the previous quarters. This corresponded to a slight increase in the growth rate of the apparent consumption of non-food goods, which was tempered by the less expansionary behaviour of the food component. With data to March, the retail sales index and the retail trade survey also showed signs of stability. Among the durable consumption indicators, those of the apparent consumption of this type of good exhibited a similar trend to that of the closing months of 2001, while new car registrations and consumer surveys in respect of the purchase of these goods fell back in 2002 Q1. Finally, the downward trend of the consumer confidence indicator continued during this period, reflecting worsening employment prospects and less favourable sentiment about the possibility of saving in the near future, against a background of rising price expectations. In any event, the unfavourable trend of incoming tour-

ists in the opening months of the year would suggest that, despite weakening domestic consumption, spending by residents was more sustained.

Among the determinants of household consumption, real disposable income is estimated to have grown less sharply than in 2001, against the background of a slight rise in the inflation rate and nominal wage moderation, accompanied by a lower rate of job creation. Indeed, as indicated in the previous paragraph, these trends have already borne on the decline in consumer confidence. Moreover, given the continuing flatness of securities markets, wealth gains are not expected to provide significant support to spending, except insofar as non-financial wealth should continue to rise, which would underpin less expansionary household consumption.

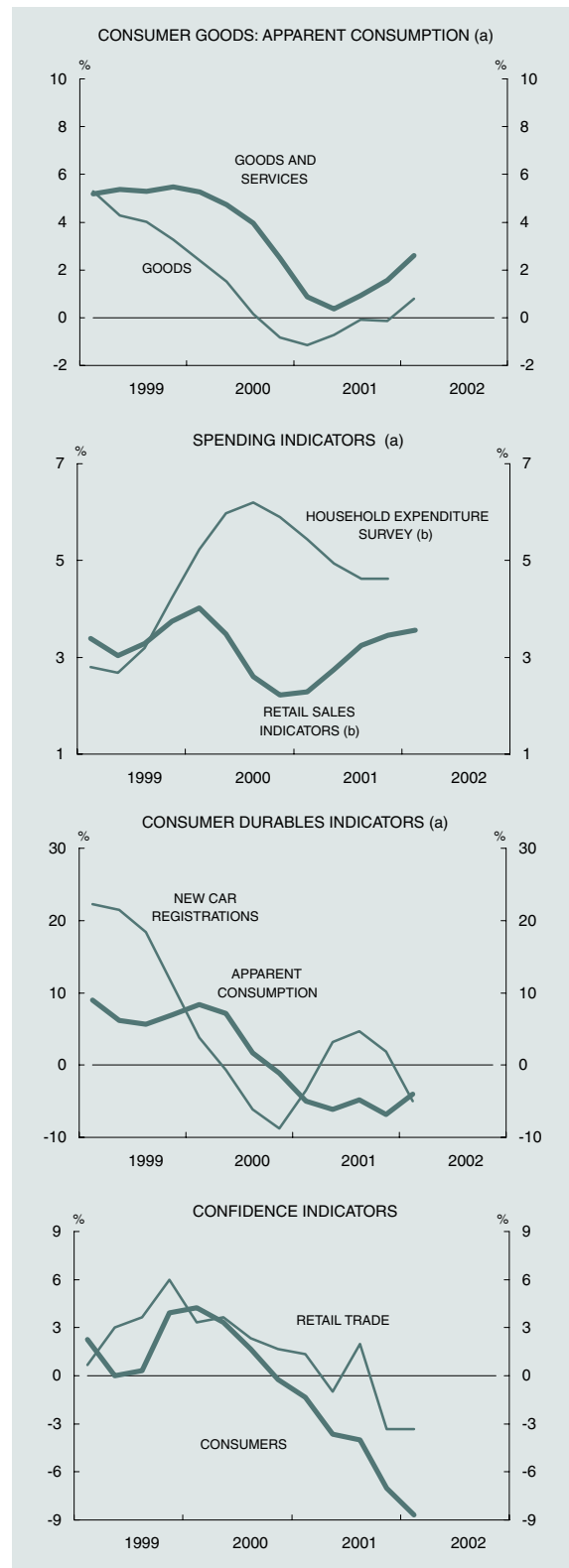
Final general government consumption posted average growth of 3.1% in 2001. The short-term information available, which is still relatively insignificant, points to a slowdown in this aggregate in the opening months of 2002, in line with the budgetary target for the year.

Gross fixed capital formation continued to lose steam last year, in step with its behaviour since early 1999. Its average growth fell to 2.9% against 5% on average in 2000. It was on a constant decelerating course over the year, standing at a rate of 2.3% in the final quarter. Contributing to this was, essentially, the declining behaviour of investment in capital goods, which ended the year having contracted notably. Construction spending was also less resilient than in 2001, despite sustaining a high growth rate. Construction would have been on a similar gradually slowing course in 2002 Q1, while the heavy year-on-year rate of decline of investment in capital goods was checked slightly.

The main economic indicators of investment in capital goods show a continuation of the weakness of and contraction in this variable in the opening months of the year (see Chart 15). Specifically, the index of apparent investment in capital goods, for which the information is still very limited, would appear to have slipped further, though less so than the industrial production of such goods, carried too in the wake of the heavy fall in sales abroad. Along these same lines, expectations regarding industrial orders, provided by the monthly business survey, remain at very negative levels, although they have worsened particularly in respect of foreign orders. Also, the business climate indicator in the capital goods sector remains at strongly negative levels, although its deterioration has been checked.

CHART 15

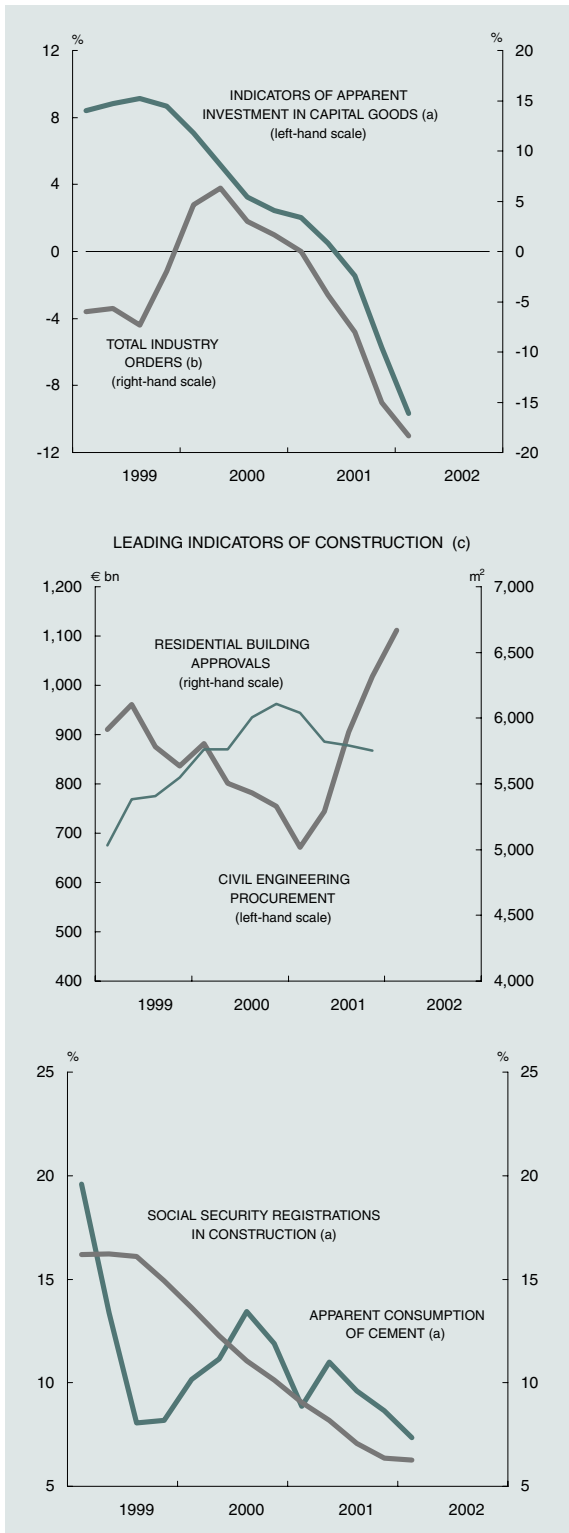
Private consumption indicators



Sources: Instituto Nacional de Estadística, European Commission, Dirección General de Tráfico and Banco de España.
 (a) Non-centred annual percentage change, based on the trend of the indicator.
 (b) Deflated by the CPI.

CHART 16

Gross fixed capital formation indicators



Sources: Instituto Nacional de Estadística, European Commission, Ministerio de Fomento, OFICEMEN, Instituto Nacional de Empleo and Banco de España.

- (a) Non-centred percentage change on same quarter a year earlier, based on the trend of the indicator.
- (b) Level of original series.
- (c) Annual moving averages.

According to the latest data from the half-yearly survey of investment in industry, the corporations covered estimate a nominal decline of investment of 2% in 2002, slightly less than in 2001. In relation to prior years' results, there has been a notable turnaround in the influence that the financial position of firms, which has turned negative, has had on investment decisions. The information from the Banco de España quarterly central balance sheet data survey to 2001 Q4 reflects the consequences of the slowdown in activity on the results of non-financial corporations, which ended the year having posted lower increases than 12 months earlier. Both the return on net assets and the leverage ratio (the difference between this return and the cost of financing received) remain high. However, the increase in indebtedness, against a background of fewer funds generated from operations, might check the scale of any future recovery in capital spending once economic prospects brighten and investment plans are revisited.

The latest economic information on investment in construction shows this variable to be relatively firm, although it confirms the slowing trend initiated in the second half of 1999. The Construction Industry Survey (ECIC) to 2001 Q4 showed an acceleration in the volume of work conducted in this period, with growth of 8.5% in real year-on-year terms. Such buoyancy was the result of robust civil engineering works and of the vigour of building, particularly the residential component.

The coincident indicators of construction (apparent consumption of cement, production of construction materials and social security registrations, some of which can be seen in Chart 16) recovered in January and February this year, being interrupted, in the case of cement, with the March figure. Set against this, the number of unemployed in the industry climbed at increasingly higher rates to March. Likewise, the construction confidence indicator fell in Q1. As to the leading indicators, the data on official procurement pointed to substantial vigour being maintained, particularly so in building. Building permits and approvals by architects' associations, the information on which is somewhat more lagged, show a lower volume of housing starts in 2001.

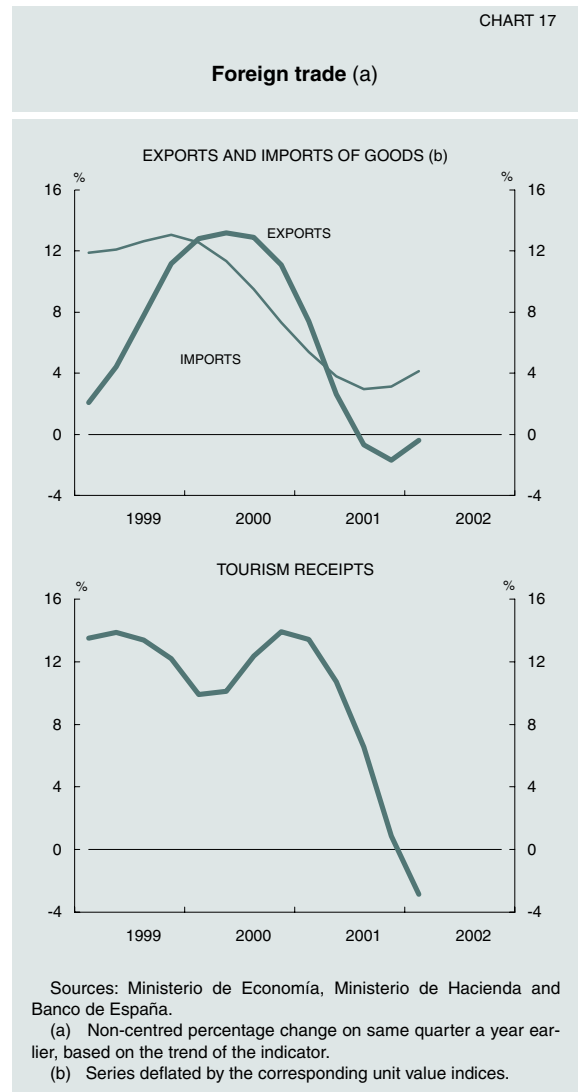
On QNA results, investment in stocks in 2001 Q4 contributed one-tenth of a point to GDP growth. More up-to-date information from the monthly business survey showed stocks to be still above desired levels, in industry as a whole and for the various types of goods.

As indicated at the start of this section, the contribution of net external demand to GDP

growth in 2001 Q4 became more contractionary, subtracting three-tenths of a point of growth. The slowdown in real exports of goods and services, which had started modestly in 2000 Q4, intensified last year set against the sharp weakening of world trade and a certain loss of competitiveness. As a result, the attendant year-on-year increase was only 1.3%. The annual growth rate of imports stabilised at levels very close to those of the preceding quarter, interrupting the progressive deceleration that had marked their course in previous quarters. The as yet incomplete information for 2002 Q1 indicates that the negative contribution of net external demand to GDP stabilised at around the end-2001 levels. In the case of exports, the slight improvement in the terms of trade may have been offset by a deterioration in tourism, while imports should be performing in keeping with the slowdown estimated for final demand.

Throughout 2001 exports were on a slowing path which steepened in the second half of the year as the weakness in activity spread to the EU, the main market for Spanish products. Exports closed the year standing at negative growth rates. The trade figures available for January show slightly positive growth in exports in real terms. However, given the high erraticism of these series, it would be premature to say that this figure marks the end of the deceleration in sales abroad. By region, the data show something of a recovery in exports to the EU, following the slide observed in the closing months of 2001, and a significant increase, when measured in real terms, in exports to other markets. By product groups, the various components strengthened in January with the exception of exports of capital goods and energy products, which continued to slump as they had done for much of the previous year.

As regards exports of services, non-resident consumption, measured by QNA, was on a moderating path during 2001, with this trend stepping up in the final quarter following the heavy reduction in world tourism prompted by the September 11th attacks in the United States. The latest indicators of overnight stays and foreign visitors lodged in hotels continued to trend very negatively in January and February (as did tourism revenue in January), although foreign visitors entering Spain at borders ran at positive rates in the first two months of the year. As to other non-tourist services, these rebounded slightly in 2001 Q4 after having moved on a slowing profile for some time. Indeed, the slowdown in this variable was notable over the year as a whole, in step with the sluggishness of goods exports and foreign visitors entering Spain. In addition, the buoyancy shown by financial services in recent years was interrupted



in 2001 as a result of the reduction in cross-border investment flows.

The slowdown in real goods imports was checked in 2001 Q4, thanks to the sustained increase in consumption in that period. Behind this development was the reduction in import prices; over the year as a whole, however, they were adversely affected by the slowdown in final demand and the weakness of industrial production. Customs data for January 2002 showed a rise in purchases abroad although, as indicated in the case of goods exports, any interpretation of these figures should be qualified in the light of the notable variability of the attendant series. By product groups, there was notable momentum in real capital goods purchases in January, after these had fallen strongly from 2001 Q2 onwards, and purchases of non-energy intermediate goods were more robust, in step with the improved industrial production of this type of good in recent months. However, consumer goods imports, which were

the most buoyant component last year, slowed notably in January, especially in respect of non-food goods. Lastly, purchases of intermediate energy goods – with their prices having been forcefully cut – grew at a burgeoning rate, accentuating the vigour characterising them since 2001 Q3.

The slowing profile of real services imports extended into 2001 Q4, signifying a marked moderation over the course of the year derived from the performance of non-tourist services, the slowdown in goods imports and the slide in foreign investment. However, tourism payments remained buoyant throughout the year, only slightly down on 2000 and in line with the trend of private consumption during 2001.

4.2. Output and employment

All market productive branches contributed to the slowdown in GDP in 2001 Q4, with the exception of the primary branches. The latter ended the year picking up to some degree after having declined in previous quarters. The basis of the pick-up in the sector was animal production, since agricultural output was affected by bad weather while livestock production and animal products (milk and eggs) ended the year 2001 on a clearly expansionary note. The outlook for the primary branches as a whole in 2002 is not favourable, in view of the bad start for the year in terms of rainfall. If there is not greater rainfall in the first two months of spring, there might be appreciable cuts in agricultural output.

The slowdown experienced by industrial activity since early 2000 continued in the closing months of 2001, against an adverse background of diminishing domestic demand and an international economic deceleration. On QNA estimates, industrial activity would have posted growth close to zero in Q4 last year, with production in the IT-related industries (electronic equipment and office machinery) and investment goods sector (essentially those derived from the metal transforming industry) having contracted. The information available for the opening months of 2002 might indicate that industry is undergoing a turnaround. The industrial production index trended favourably in the first two months of the year, posting a rate of decline in output appreciably lower than that in 2001 Q4. Nonetheless, the related confidence indicator held in Q1 at similar levels to those at the end of 2001, with orders still depressed and stocks that have not yet undergone any correction. Lastly, the indicators of employment in industry continue to slow (Social Security registrations posted a lower increase in the opening

months of the year), while unemployment increased in Q1.

The great buoyancy of construction over the past four years (it has recently been the most dynamic sector of the Spanish economy) was also a constant in the final months of 2001. On QNA estimates, construction activity increased in this period at a similar rate to that of 2001 Q3, interrupting the slowdown recorded until then. Notable among its components is the thrust of civil engineering works. As commented on analysing construction spending, the indicators available suggest the sector has remained robust in the opening months of 2002, albeit on a moderating trend.

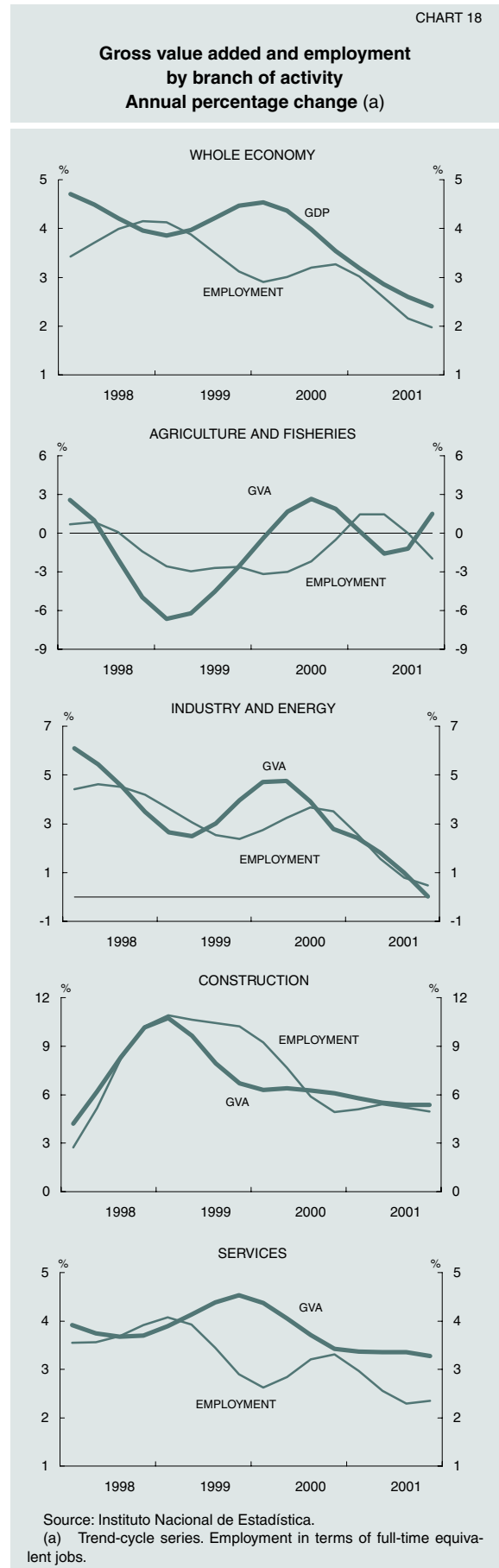
The stable growth evident in tertiary activities since 2000 Q4 continued over the final months of 2001: on QNA figures, growth exceeding 3% was recorded. As in the previous quarters, this stable pattern was the result of market and other services moving in opposite directions. While non-market services continued on an expansionary course, market services moderated slightly as a result of contained consumption and sluggishness in the industrial sector. These factors have remained present in 2002 Q1 and, consequently, market services are estimated to have held on a slow path in this period. Looking at the as yet incomplete information available, Social Security registrations in the services sector have continued decelerating in the opening months of the year, although confidence surveys have tended to show a profile of recovery. Among the market services branches, activity in the distribution trade would have held on the slowing line seen in 2001, in accordance with the course of Social Security registrations in the opening months of 2002. Set against this, the sales index for the sector picked up somewhat in January and February. Yet this should be viewed with caution owing to the methodological change in the survey in question. The growth rate in the hotel and catering trade has also moderated in the opening months of the year, as is reflected in Social Security registrations and overnight stays in hotels. Also, the decelerating pattern observed throughout 2001 in the transport and communications sector has continued, exacerbated by the contraction in air transport in the closing months of the year. However, overland and maritime transport have, along with communications, shown signs of something of a recovery. Lastly, according to labour indicators, there is an ongoing turnaround to higher growth rates in the branches of both financial institutions and business and real estate activities.

The economic slowdown in 2001 had a bearing on employment generation. On QNA

figures, jobs – measured in terms of equivalent full-time employment – increased by 2.4% over the year on average, down on 3.1% the previous year. As a result, apparent labour productivity advanced by only 0.3%. Nonetheless, in the market economy the slowdown in employment was sharper and productivity gains drew close to 1%, above the figures for the three previous years, even if these were low from a historical perspective. In Q4, total numbers employed increased by 2%, entailing a mild slowdown in relation to the summer months, in line with the relative stability shown by the indicators: the year-on-year rate of increase of Social Security registrations fell by one-tenth of a point to 4% from Q3 to Q4, while numbers employed according to the EPA (Labour Force Survey) grew by 1.8% in both periods. The information available for the early months of 2002 points to a further slowdown in job creation judging by the reduction (0.3 percentage points) in the rate of increase of registrations in Q1 and by employers' less optimistic expectations.

The diminished robustness of activity in the market sectors last year passed through to the job-creation process across the board, except in agriculture. The growth rate of employment declined by around two percentage points in the various non-farm activities, giving rise to an increase in productivity which was more significant in market services and in construction. Conversely, in industry, the loss of momentum in GVA was more intense than that in industry. A turnaround in the numbers employed in market services was seen in the final quarter of the year, with the year-on-year rate rebounding by 0.5 percentage points to 1.9%, which might be related in part to the hiring of extra staff for the changeover to the euro. In the other branches of activity, employment was less vigorous than in the autumn. Indeed, negative rates were resumed in agriculture following the increases in the first half of the year. The as yet partial information on Social Security registrations indicates that employment will – especially in industry – have slowed once more in 2002 Q1.

For the first time since 1996, growth in the numbers of self-employed outpaced that in dependent employment, the former growing by 2.8% in 2001 and the latter by 2.4%. In respect of contract duration and according to EPA figures, employees on permanent contracts underwent a greater slowdown in 2001, even though they grew by 2.8%, a rate double that for temporary employees. Consequently, temporary employees as a proportion of total employees fell once more – albeit modestly – to 31.7%. Despite the approval of certain stable-employment-promoting measures in March, the rate of increase of the number of employees on



permanent contracts diminished as from the spring to stand at 2.1% in Q4, while that of fixed-term employees held on a path of recovery. The figures on contracts reflected a gain in weight of permanent contracts. This ran into 2002 Q1 and was centred on conversions of temporary into permanent contracts, favoured by the reintroduction in March of rebates and confirmation of the employment-promoting permanent contract. As regards part-time employment, the effects of the new regulations are not yet perceptible in the EPA data: the number of part-time employees as a percentage of total workers (8.2%) increased slightly during the year, and did so to a greater extent through the rise in temporary rather than permanent contracts. In fact, part-time stable contracts ceased to be to the fore as from 2001 Q2, following the entry into force of Royal Decree-Law 5/2001.

From the standpoint of labour supply, the labour force grew moderately in 2001, although in the last two quarters of the year it began to move onto a rising trend. The participation rate stood at 51.6%, up 0.2 percentage points on the previous year, with a rising profile as from the spring that took the rate to 51.8% in the final months of 2001. The slight rise in participation made for a fall in unemployment of 6.6% during 2001, a process which progressively lost momentum as the year went by. Judging by the increase in registered unemployment, this process appears to have continued in the opening months of 2002. The unemployment rate declined by 1 percentage point to 13%, both in the course of 2001 as a whole and in its final months. For the year on average, the cut was to a greater extent among women (despite which the female unemployment rate is still twice the male rate) and among the young. The relative significance of long-term unemployment also diminished.

4.3. Costs and prices

On QNA estimates the GDP deflator – which summarises the domestic components of inflation – posted year-on-year growth of 3.5%, five-tenths of a point below the rate for the previous quarter, and four-tenths below the annual average. This slowdown was the result, first, of the moderating influence of indirect taxes (net of subsidies) on price formation, a fact which accounts for the value added deflator increasing by 3.8%, outpacing the GDP deflator. Further, there was a slowdown in the surplus per unit of value added (a squeeze on margins), while unit labour costs grew at 4%, a very similar rate to that of the previous quarter. Among the components of unit labour costs, value added per employee grew by 0.6%, as in Q3, while compen-

sation per employee held at the same growth rate as the previous period (4.7%).

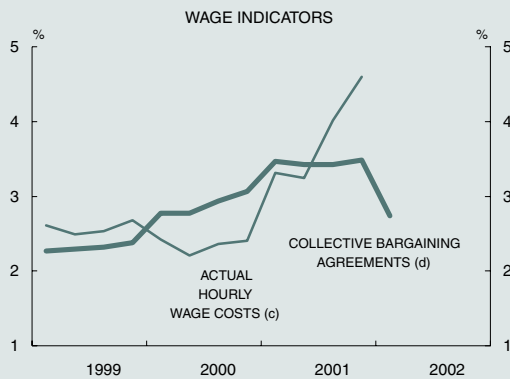
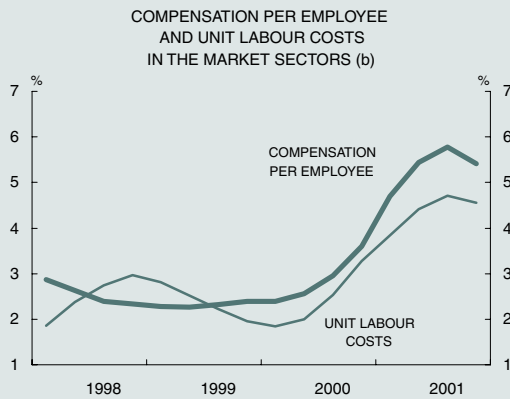
In the market economy, the growth of the gross value added deflator was 4% in Q4, six-tenths of a point down on the preceding quarter. As in the case of the economy as a whole, this slowdown was on a greater scale than that in unit labour costs, which grew by 4.6%, compared with 4.7% the previous quarter. In this instance, the increase in compensation per employee amounted to 5.4%, against 5.8% the previous quarter. The growth of the surplus per unit of value added moderated to 3.2%, 1.3 percentage points down on the preceding quarter, and also below the increase in the deflator. In annual average terms, the unit operating margin picked up slightly, although a progressive contraction was apparent in the second half of the year.

Among the indicators available on labour costs, the ICL (Labour Costs Index) posted a year-on-year increase of 5.1% per actual hour worked in Q4, up on the related figure for the previous quarter (see Chart 19). This result was the combination of a 4.5% rise in wage costs and a 7.2% increase in other labour costs, with both figures higher than in the previous quarters. By branch of activity, the ICL rose by 5% in industry, by 5.8% in construction and by 5.1% in services. Per employee per month, growth was more moderate: 4.4% for labour costs, and 3.7% for wage costs. The information available on collective bargaining in 2002 reveals a significant reduction in wage settlements, which stood at 2.7% with data to 31 March, eight-tenths of a point below the related rate in 2001 (without including the effect of inflation-adjustment clauses). Revised agreements, which are virtually all those recorded to date, incorporate a wage increase of 2.7%. In newly signed agreements, the agreed increase is 2.8%, in line with the content of the Inter-Confederal Pact for Collective Bargaining. Across the various branches, the biggest increase – though it remains rather unrepresentative – is in construction (3.7%), outpacing services (2.5%), industry (2.9%) and agriculture (3.3%).

Chart 20 depicts the performance of prices and costs across the different branches of activity, as approximated by QNA. In industry, the value added deflator slowed to 2.9% in Q4 after rising sharply in the first half of the year, while unit labour costs quickened as a result of the loss of steam in productivity. Accordingly, the gross unit operating margin narrowed significantly. The growth of the market services deflator was below that of the previous quarter, despite the slight acceleration in unit labour

CHART 19

Wages and labour costs (a)



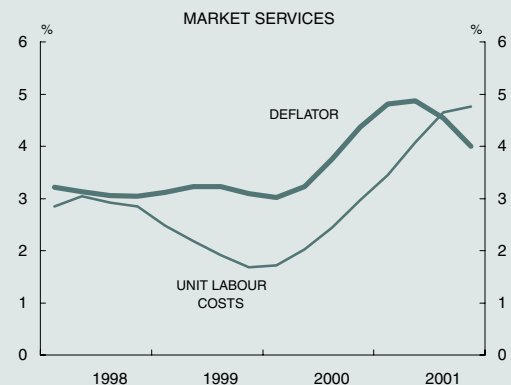
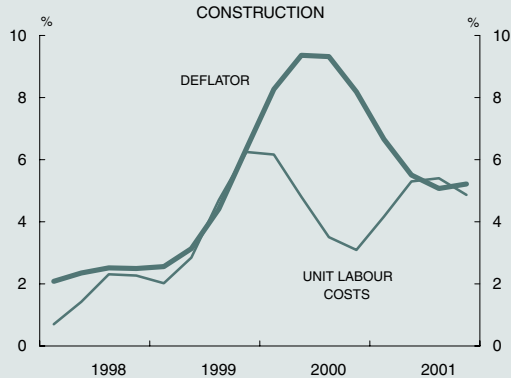
Sources: Instituto Nacional de Estadística and Ministerio de Trabajo y Asuntos Sociales.
 (a) Percentage change on same quarter a year earlier.
 (b) Rates based on QNA trend-cycle series.
 (c) Total earnings.
 (d) Average wage increase for the current year, up to the reference month (excluding the effects of inflation-adjustment clauses).

costs. As a result the unit margin contracted, following the strong widening of margins in the first half of the year. Lastly, in construction, unit labour costs and the deflator grew at very close rates as from Q2, whereby margins tended to stabilise.

Final prices in the economy, approximated by the final demand deflator, slowed appreciably during 2001. The year-on-year rate of change of this deflator fell by more than two percentage points between Q1 and Q4, standing at 2% at the end of the year. Import prices were most influential here. The deflator of goods imports fell by 0.4% over the year as a whole (3.5% in Q4), compared with the increase of 1.4% in 2000, helping ease the pressures on domestic prices. The reduction in import prices was in response to the fall in energy prices, to the marginal appreciation of the euro and to the general easing of prices in the international economy.

CHART 20

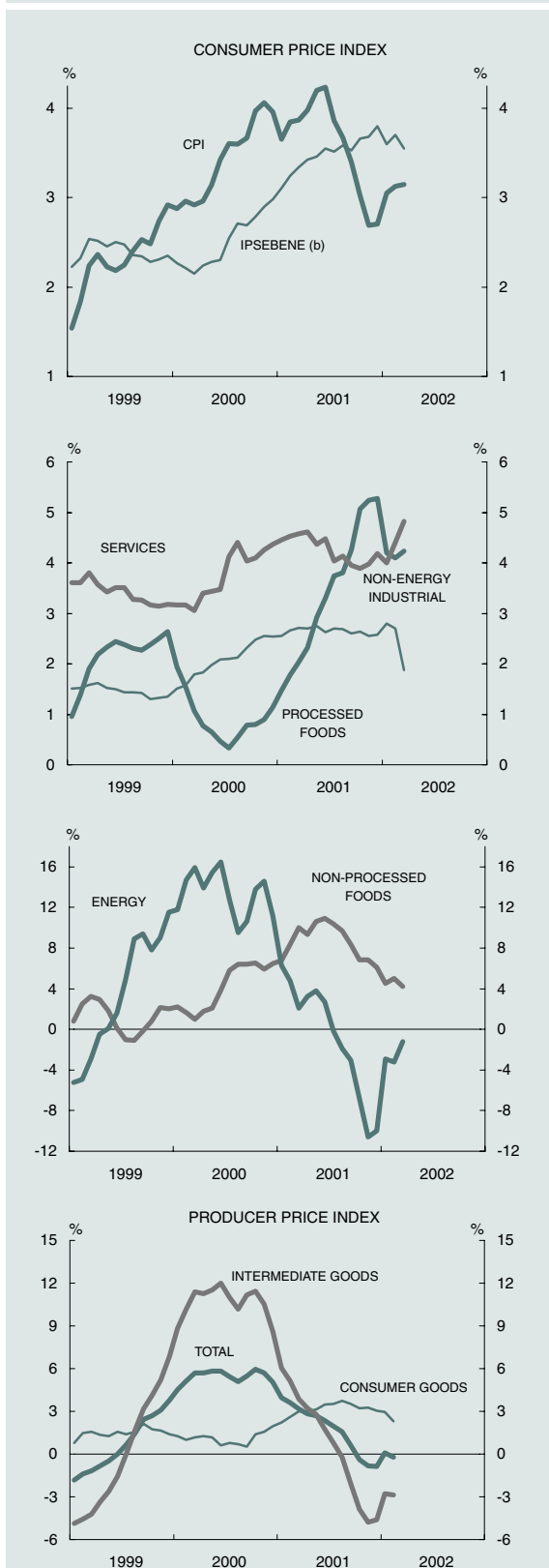
Prices and costs by branch of activity (a)



Source: Instituto Nacional de Estadística.
 (a) Non-centred annual percentage changes based on the QNA trend-cycle series.

CHART 21

**Price indicators (a)
Spain**



Source: Instituto Nacional de Estadística.
 (a) Twelve-month percentage change based on the original series.
 (b) Index excluding energy and fresh food.

Among final price indicators, the twelve-month growth rate of the consumer price index (CPI) held at 3.1% throughout Q1, following the rise in January (see Chart 21). Before further analysing this indicator, mention should be made of the methodological change (2) introduced into the calculation of the CPI in January this year. The change means that comparisons between rates of change for the year 2002 and those for prior years should be interpreted with caution. The IPSEBENE (one of the usual measures of underlying inflation) slowed by three-tenths of a point during Q1, with the twelve-month rate for March standing at 3.5%. In terms of the main CPI components, energy and services prices quickened in Q1, while there was a steepening of the declining year-on-year trend in food prices that had begun in the final quarter of the previous year. Lastly, the prices of non-energy industrial goods, having rebounded slightly in January, slowed markedly in March.

The year-on-year increase in energy prices in January was the result of tax increases on fuel and butane gas, and of the strong reduction at the start of the previous year being stripped out of the calculation. In the following months fuel prices moved onto a rising trend. This was steeper in March, in step with the trend of oil prices on international markets against the background of the relatively stable euro exchange rate. The slowdown in unprocessed food prices was due to the declining course of meat and fish prices, which had more than offset the sizeable rises in fruit and vegetable and potato prices in the opening months of the year. The various processed food components behaved very moderately, with the notable exception of oil prices. As regards services prices, the rebound in Q1 to a rate of 4.7% year-on-year in March reflects the price pressures in the hotel and catering trade and in public transport, which might be related to the adjustments made to set more attractive prices in euro. Tourism prices were under more marked pressure in March, as a result of the Easter holiday period. Lastly, non-energy industrial goods prices posted a heavy reduction in March to a twelve-month rate of 1.9%. Clothing and footwear, after undergoing abnormally high increases in the first two months of the year, resumed a more habitual rate in March. The behaviour of the remaining items was very moderate; the prices of video, sound, photographic and computer equipment were all on a falling trend.

In March, the inflation differential between Spain and the euro area, measured via the har-

(2) See Boletín económico (2002), "Principales cambios metodológicos en el IPC base 2001", febrero.

monised index of consumer prices (HICP), stood at 0.8 percentage points. Of note is the narrowing of the inflation gap in the prices of non-energy industrial goods in the opening months of the year and the negative differential in the case of unprocessed food. Both offset the positive differentials in the case of processed food and, especially, services.

The producer price index continued to post twelve-month changes of around 0% in the early months of 2002, although these were less accentuated than in 2001 Q4. The prices of intermediate goods posted successive declines in recent months, adding to which was the slowdown in consumer food prices. Lastly, the rate of increase of prices received by farmers continued to diminish following the burgeoning growth seen as from April 2001, taking the related twelve-month growth rate in December to -0.5%. This decelerating path would have also affected the household consumer prices component.

4.4. The State Budget

The National Accounts figures on the State Budget outturn to March 2002 show an increase in the surplus on public finances compared with the same period a year earlier. However, it should be borne in mind that the figures for the year 2002 (in both National Accounts and cash-basis terms) reflect the new financing arrangements for the Autonomous (Regional) Communities. These involve fresh assignments of certain taxes and, in parallel, a reduction in transfers from the State on the expenditure side. While these changes should not in principle affect the deficit for the year as a whole, as the arrangements are freshly in place their effect on month-to-month changes in the deficit cannot be known and, by extension, it is not possible to assess to what extent the increase in the surplus during this first quarter might be reflecting changes in the seasonality of the series.

In the first three months of the year, the State ran a surplus of €3.67 billion (0.5% of GDP), compared with €632 million (0.1% of GDP) in the same period a year earlier (see Table 3). Both revenue and expenditure fell appreciably on the same quarter of the previous year (8.2% and 18.3%, respectively), owing to the effects of the change in regional financing arrangements. Among the items not affected by this change, mention may be made of the fewer resources arising on property income, owing to the fall in Banco de España profits, and the increase in capital transfers received (virtually in their entirety from the European Union). Under

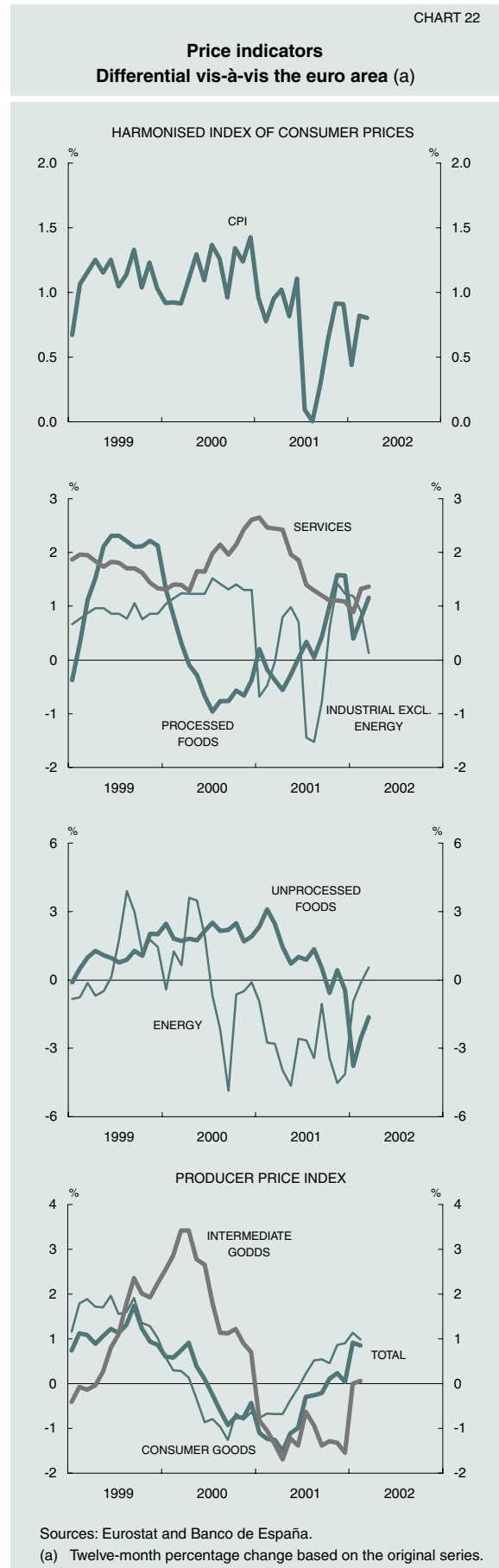


TABLE 3

State Budget outturn

€ millions and %

	Outturn		Budget		Outturn		
	2001	Percentage change 2001/2000	2002	Percentage change 2002/2001	2001 JAN-MAR	2002 JAN-MAR	Percentage change
	1	2	3	4=3/1	5	6	7=6/5
1. Revenue	125,187	5.5	110,620	-11.6	31,005	27,948	-9.9
Direct taxes	55,697	8.3	52,084	-6.5	11,375	10,327	-9.2
<i>Personal income tax</i>	<i>36,469</i>	<i>13.4</i>	<i>30,967</i>	<i>-15.1</i>	<i>10,619</i>	<i>9,326</i>	<i>-12.2</i>
<i>Corporate income tax</i>	<i>17,217</i>	<i>0.1</i>	<i>18,982</i>	<i>10.3</i>	<i>528</i>	<i>601</i>	<i>13.8</i>
<i>Other (a)</i>	<i>2,012</i>	<i>-3.0</i>	<i>2,134</i>	<i>6.1</i>	<i>228</i>	<i>400</i>	<i>75.8</i>
Indirect taxes	53,157	3.7	45,489	-14.4	15,919	13,751	-13.6
<i>VAT</i>	<i>34,674</i>	<i>3.8</i>	<i>30,266</i>	<i>-12.7</i>	<i>11,590</i>	<i>10,600</i>	<i>-8.5</i>
<i>Excise duties</i>	<i>16,612</i>	<i>3.5</i>	<i>13,170</i>	<i>-20.7</i>	<i>3,880</i>	<i>2,681</i>	<i>-30.9</i>
<i>Other (b)</i>	<i>1,871</i>	<i>2.5</i>	<i>2,052</i>	<i>9.7</i>	<i>449</i>	<i>470</i>	<i>4.9</i>
Other net revenue	16,333	2.1	13,047	-20.1	3,711	3,870	4.3
2. Expenditure (c)	128,072	5.7	114,294	-10.8	36,579	30,794	-15.8
Wages and salaries	16,827	3.5	17,525	4.1	3,873	3,843	-0.8
Goods and services	2,554	7.7	2,320	-9.2	697	565	-19.0
Interest payments	18,264	3.1	17,736	-2.9	8,986	7,465	-16.9
Current transfers	77,151	5.9	62,890	-18.5	18,930	15,373	-18.8
Investment	6,461	7.1	6,978	8.0	2,322	2,095	-9.8
Capital transfers	6,815	15.2	6,845	0.4	1,770	1,452	-17.9
3. Cash-basis balance (3 = 1 – 2)	-2,884	18.7	-3,675	27.4	-5,573	-2,846	-48.9
MEMORANDUM ITEM: NATIONAL ACCOUNTS (d):							
Revenue	126,338	5.9	—	—	31,007	28,476	-8.2
Expenditure	129,380	5.0	—	—	30,375	24,810	-18.3
Net lending (+) or borrowing (-)	-3,042	-22.3	-3,525	15.9	632	3,666	—

Source: Ministerio de Hacienda.

(a) Includes the revenue from the tax on the income for non-residents.

(b) Includes taxes on insurance premiums and tariffs.

(c) Includes unclassified expenditure.

(d) The figure for the forecast for 2002 (column 3) is from the Spanish Finance Ministry's reply to the Excessive Deficit Protocol.

expenditure, operating expenses (wages and salaries, and goods and services) were contained somewhat, growing by 3.3%.

In cash-basis terms, the data available give a State deficit of €2.85 billion to March 2002, considerably down on the €5.57 billion deficit accumulated in the same period in 2001. It is estimated that the discrepancy with National Accounts figures is due above all to other accounts receivable and to the difference between interest paid and accrued. This reduction in the cash-basis deficit in 2002 Q1 has been due to a fall in revenue less than that budgeted for the

year as a whole and to a decline in expenditure greater than that budgeted (see Table 3).

To analyse revenue, resort is had to uniform data that include all the main revenue captions, both the portion assigned to the State and that to other government tiers (which are not included in Table 3). In homogenous terms, personal income tax revenue grew 4.2% in Q1, slowing significantly on the year 2001 as a whole. The deceleration in personal income tax is due, on one hand, to the decline in withholdings on capital income and, on the other, to a clear slowdown in withholdings on income from work.

Conversely, indirect taxes quickened significantly in Q1. VAT grew by 8.7% in homogenous terms, compared with 3.8% in 2001 as a whole, and excise duties rose – also in homogenous terms – by 4.8% (3.5% in 2001). These developments are partly affected by the increases in certain tax rates, which were most relevant in the case of excise duties.

On the expenditure side, there was a fall in current transfers in Q1 in line with that projected for the whole of 2002. There were notable declines in spending on wages and salaries and on goods and purchases, which are not affected by the new regional financing arrangements. Interest payments also fell substantially owing to the public debt maturity schedule, as a result of which this fall may be expected to moderate during the year. Capital expenditure also diminished, though it will foreseeably pick up over the course of 2002, especially in the case of investment, in step with the Budget and with the guidelines laid down in the Stability Programme.

Turning to the Social Security budget out-turn, only partial information on the System for January is available. In terms of recognised entitlements, social security contributions increased by 3.6% compared with the same month a year earlier. Bearing in mind the odd one-off effect arising in that month, the growth rate – in homogenous terms – would have been 5.4%, a substantial deceleration in relation to the year 2001. This slowdown is partly attributable to the lower growth of the number of Social Security registrations, which was 3.4% in January 2002 (and has dipped to 3% in March) compared with 3.9% in 2001. On the expenditure side, pensions were up 6.4% in January on the same month a year earlier, slightly above budget for the year as a whole. The number of contributory pensions, however, has trended very moderately, with the related cumulative growth rate to March at 0.8%. The upward deviation in unemployment benefits is greater, their growth standing at 12.8% to March. This is due both to the rise in registered unemployment (5.2% to March) and to a higher eligibility ratio, the percentage equivalent of which was 72.9% in February against 68.5% at end-2001.

4.5. The Spanish balance of payments and capital account

In January 2002 the joint balance on current and capital account resulted in a surplus of €174 million, against the deficit of €881 million in the same month a year earlier. This improvement is due to the sharp increase in the capital-account balance, given that the current-account

TABLE 4
Balance of payments: summary table (a)

€ m

	JAN-JAN	
	2001	2002
	Receipts	Receipts
Current account	18,524	18,827
Goods	10,193	10,337
Services	4,604	4,353
<i>Tourism</i>	2,367	2,094
<i>Other services</i>	2,237	2,259
Income	2,083	1,958
Current transfers	1,643	2,180
Capital account	507	1,644
	Payments	Payments
Current account	19,807	20,208
Goods	12,435	12,675
Services	2,994	3,365
<i>Tourism</i>	528	553
<i>Other services</i>	2,466	2,812
Income	3,152	3,198
Current transfers	1,227	969
Capital account	105	89
	Balance	Balance
Current account	-1,283	-1,381
Goods	-2,242	-2,338
Services	1,610	988
<i>Tourism</i>	1,839	1,541
<i>Other services</i>	-229	-553
Income	-1,068	-1,241
Current transfers	417	1,211
Capital account	403	1,555

Source: Banco de España.
(a) First provisional results.

deficit widened in this period owing to the deterioration of most of the attendant captions.

The trade-balance deficit increased by 4.3% year-on-year, compared with the 6.6% fall seen over the previous year as a whole. The improvement in the terms of trade in January could not fully offset the greater vigour that (as discussed in the previous section) real merchandise import flows continued to show in relation to export flows. The tourism surplus stood at €1.54 billion in January, signifying a decline of €298 million on the same period a year earlier, the result of the 11.5% fall in nominal proceeds in this month set against the 4.7% rise in expenditure. The deficit on the balance of other non-tourist services also worsened by €324 million to €553 million.

The income-balance deficit continued to widen – to €1.24 billion – in January, showing a year-on-year increase of 16.2%. This was the result of the revenue reflected by the private financial sector. Payments, though they slowed notably, exhibited slightly positive growth (1.5%) owing to the acceleration in public-sector spending. The balance on transfers, conversely, improved notably in January (€794 million), standing at €1.2 billion thanks to the increase in flows from the EU in connection with the EAGGF-Guarantee fund and to the decline in payments earmarked for the VAT resource.

Finally, the capital-account surplus also increased substantially (€1.06 billion) to €1.56 billion, further to the increase in total structural funds from the EU, especially those earmarked for the FEDER (Regional Development Fund).

The lending capacity displayed in these figures would suggest an improvement in the balances of the accounts of the households and corporations sector, derived in turn from the progressive slowing of residential investment and from the weakness of private productive investment, against a background of more moderate growth.

5. Financial flows in the Spanish economy

5.1. Financial flows in the economy as a whole

In 2001 Q4, in line with developments during the first three quarters, the debit balance of the net financial transactions of the nation fell slightly to stand at -1.9% of GDP, in cumulative four-quarter terms (1) (see Table 5). This moderate reduction in the net recourse to the savings generated in the rest of the world was, however, the result of disparate behaviour by the various institutional sectors of the Spanish economy.

On the one hand, general government completed the process of fiscal consolidation initiated several years ago and ended the year with its financial accounts in balance, a landmark in the recent history of Spanish budgetary policy. On the other, however, the net borrowing of the non-financial private sector increased, to stand at over 3% of GDP. According to the provisional information available for 2002 Q1, credit received by this sector from resident credit institutions is growing at lower rates than in 2001, although they are still high (around 14%) considering the relative cyclical weakness of activity.

The trend in the net balance of the non-financial private sector was determined by the behaviour of households. Thus, the information on Q4 seems to confirm the slowdown, already signalled in the previous quarter, in the recovery in the saving of this sector. This slowdown occurred in the final months of 2001 while household consumption was growing at a faster rate than GDP leading to a further increase in household indebtedness. Non-financial corporations, for their part, had the same net balance as in Q3 (-4.4% of GDP), which shows a relatively high level of net borrowing.

5.2. Financial flows of households

The net financial saving of households and NPISHs in 2001 Q4 was 0.2% of GDP, so that, in cumulative terms, in the year as a whole, it stood at 1.3% of GDP. This seems to confirm the slowdown of the recovery in household saving seen in the first two quarters of the year (see Table 5). This behaviour and that of private consumption (which in Q4 grew by more than GDP) may be at least partly attributable to the ongoing revaluation of wealth in real estate and also, to a certain extent, to the implications of the proximity of the launch of euro-denominated banknotes and coins.

(1) Throughout this chapter, including in the tables and charts, the figures refer to cumulative four-quarter data, unless stated otherwise.

TABLE 5

**Net financial transactions and inter-sectoral flows
(Cumulative data for the last four quarters)**

% GDP

	NET FINANCIAL TRANSACTIONS								
	1996	1997	1998	1999	2000	2001			
					Q4	Q1	Q2	Q3	Q4
Total economy	1.2	1.6	0.5	-1.1	-2.5	-2.3	-2.2	-2.0	-1.9
Non-financial corporations and households and NPISHs	5.1	4.0	2.1	-0.5	-2.8	-3.1	-2.5	-2.5	-3.1
Non-financial corporations	-0.1	-0.5	-1.2	-2.5	-3.8	-4.8	-5.1	-4.4	-4.4
Households and NPISHs	5.2	4.5	3.3	2.0	0.9	1.7	2.6	1.9	1.3
Financial institutions	1.0	0.7	1.0	0.5	0.7	0.7	0.8	0.8	1.2
General government	-4.9	-3.2	-2.6	-1.1	-0.3	0.0	-0.6	-0.3	0.0
	INTER-SECTORAL FLOWS (a)								
Households and NPISHs	5.2	4.5	3.3	2.0	0.9	1.7	2.6	1.9	1.3
Vis-à-vis:									
Credit institutions (b)	-2.7	-6.7	-4.4	0.2	-0.2	-0.2	0.0	-0.5	-1.4
Institutional investors (c)	8.8	10.8	7.4	0.7	0.5	1.6	2.5	3.1	4.2
Non-financial corporations	-0.1	-0.5	-1.2	-2.5	-3.8	-4.8	-5.1	-4.4	-4.4
Vis-à-vis:									
Credit institutions (b)	-0.3	-3.2	-4.3	-3.8	-6.7	-5.7	-4.4	-4.3	-3.9
Rest of the world	0.4	1.7	0.9	-0.8	1.5	0.8	-0.6	-0.4	-2.2
General government	-4.9	-3.2	-2.6	-1.1	-0.3	0.0	-0.6	-0.3	0.0
Vis-à-vis:									
Credit institutions (b)	-0.4	1.4	1.4	1.0	2.3	0.5	-0.3	-0.8	-2.4
Institutional investors (c)	-5.9	-3.9	-2.6	1.7	3.5	3.8	3.6	2.8	2.6
Rest of the world	-0.2	-2.0	-1.1	-3.9	-5.9	-4.8	-4.5	-3.1	-1.8
Rest of the world	-1.2	-1.6	-0.5	1.1	2.5	2.3	2.2	2.0	1.9
Vis-à-vis:									
Credit institutions (b)	0.9	2.8	7.1	2.0	5.1	5.3	3.3	4.7	3.9
Institutional investors (c)	-0.9	-2.5	-6.3	-3.6	-5.8	-5.5	-5.2	-5.0	-4.7
Non-financial corporations	-0.4	-1.7	-0.9	0.8	-1.5	-0.8	0.6	0.4	2.2
General government	0.2	2.0	1.1	3.9	5.9	4.8	4.5	3.1	1.8

Source: Banco de España.

(a) A positive sign indicates the extension of financing to the counterpart sector. A negative sign denotes financing received from the counterpart sector.

(b) Defined in accordance with the First Banking Directive.

(c) Insurance corporations and collective investment undertakings.

Analysing the trends in the financial instruments in which household saving is invested shows that in Q4, as during the whole of 2001, household acquisition of financial assets was less intense than in the preceding quarter, standing at 8.2% of GDP (see Table 6 and Chart 23). *Cash and cash equivalents* increased slightly to 1.3% of GDP (with a significant shift, away from cash, towards sight and saving deposits), but *other deposits and fixed-income securities* declined (3.1%, as against 4.6% in Q3). The acquisition of shares in FIAMM, as already mentioned, increased at high rates, confirming the change in the downward trend that dates back to 1999. Ex-

pansion of this form of collective investment is consistent with the more stable trend in its yield relative to other instruments with higher risk, against a background of great uncertainty over the course of economic activity and of pronounced volatility in domestic and international stock markets. Finally, insurance technical reserves stabilised in Q4 (2.7% of GDP), which may at least partly reflect the petering out of the process of growth of unit-linked.

With respect to transactions on the liabilities side (see Table 6), the financing received by households totalled 7% of GDP, slightly down

TABLE 6

**Financial assets and liabilities of households, NPISHs and non-financial corporations
(Cumulative data for the last four quarters)**

% GDP

	1998	1999	2000	2001		
				Q2	Q3	Q4
HOUSEHOLDS AND NPISHs:						
Financial transactions (assets)	9.7	9.3	8.7	10.2	9.1	8.2
Cash and cash equivalents	3.2	4.5	1.0	1.4	0.9	1.3
Other deposits and fixed-income securities (a)	-1.8	2.5	6.3	5.3	4.6	3.1
Shares and other equity (b)	0.0	0.1	0.5	0.4	0.5	-0.1
Mutual funds	5.0	-2.2	-3.4	-0.4	0.2	0.8
<i>FIAMM</i>	-1.1	-1.4	-1.4	0.1	0.7	1.3
<i>FIM</i>	6.1	-0.8	-2.0	-0.5	-0.5	-0.5
Insurance technical reserves	2.4	3.2	3.4	2.5	2.4	2.7
Of which:						
<i>Life assurance</i>	1.2	2.0	2.0	1.1	1.0	1.7
<i>Pension funds</i>	1.0	0.9	1.1	1.1	1.1	0.6
Other	0.9	1.1	1.0	1.1	0.5	0.6
Financial transactions (liabilities)	6.4	7.3	7.8	7.6	7.3	7.0
Credit from resident credit institutions	5.9	6.5	6.8	6.3	5.8	5.0
Securitisation funds	0.5	0.6	0.1	0.0	0.2	0.3
Other	0.1	0.2	0.8	1.2	1.2	1.6
NON-FINANCIAL CORPORATIONS:						
Financial transactions (assets)	14.0	17.5	27.4	24.9	19.6	18.0
Cash and cash equivalents	1.5	0.7	0.9	0.6	0.7	1.6
Other deposits and fixed-income securities (a)	0.2	-0.2	1.1	1.0	0.2	0.5
Shares and other equity	3.1	8.2	14.0	11.6	8.2	4.3
Of which:						
<i>Vis-à-vis rest of the world</i>	2.2	6.5	10.8	9.5	7.6	3.6
Other	9.2	8.8	11.3	11.7	10.5	11.6
Financial transactions (liabilities)	15.2	20.0	31.1	30.0	24.0	22.3
Credit from resident credit institutions	4.6	4.8	6.7	5.5	5.3	6.1
Securitisation funds	0.2	0.4	0.9	0.7	0.9	0.8
Foreign loans	1.6	3.0	3.5	4.9	3.3	3.5
Debt securities (a)	0.0	0.5	-0.5	-0.2	0.1	0.1
Shares and other equity	2.7	5.1	12.3	11.3	7.2	3.9
Other	6.2	6.0	8.2	7.7	7.1	7.9
MEMORANDUM ITEMS: YEAR-ON-YEAR GROWTH RATES (%):						
Financing (c)	16.7	19.5	18.9	17.5	15.2	15.1
Households and NPISHs	19.3	19.6	17.3	15.0	14.0	12.2
Non-financial corporations	14.7	19.4	20.0	19.4	16.0	17.3

Source: Banco de España.

(a) Not including unpaid accrued interest, which is included under "Other".

(b) Not including mutual funds.

(c) Including bank credit extended by resident credit institutions, foreign loans, fixed-income securities and financing through securitisation funds.

from the 7.6% and 7.3% levels of the preceding quarters. Credit from resident institutions, still the main source of household financing, was equal to 5% of GDP. When this proportion is adjusted for the growth of securitisation funds the slowdown in the financing of households is seen to have been only moderate. Box 3 provides more information on the relative weight of

the main factors that have influenced the recent path of this variable. The behaviour of credit has led to an additional increase in the indebtedness of Spanish households (see Chart 25).

According to the available information on the distribution of credit by end-use, the financing extended by resident institutions for house purchas-

CHART 23

Households and NPISHs (a)
(Cumulative four-quarter data)

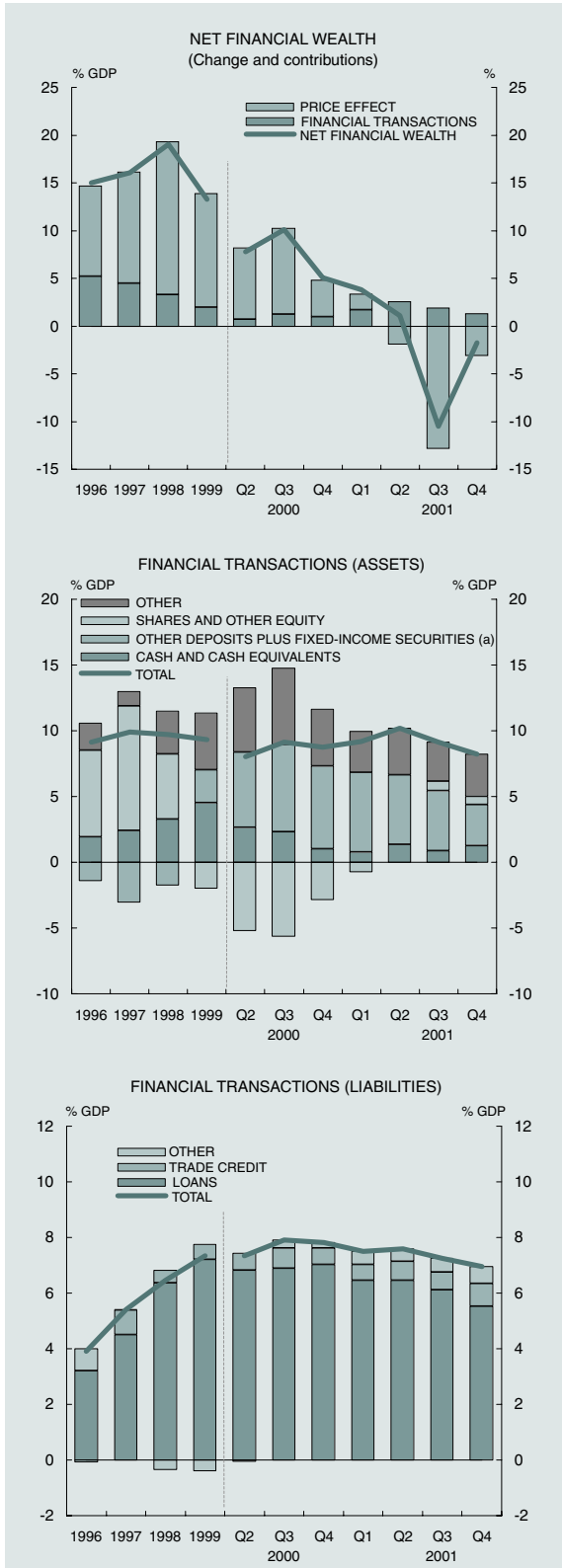
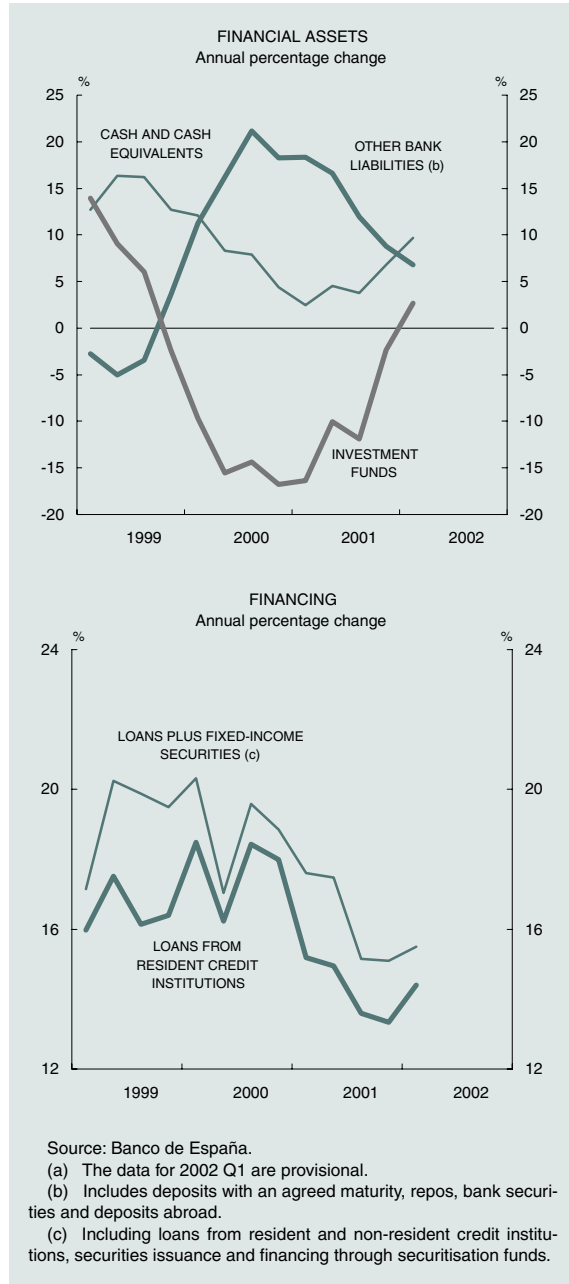


CHART 24

Non-financial corporations.
Households and NPISHs (a)



es decelerated, although it continued to grow at high year-on-year rates (16.5%, as against 19.8% in the previous quarter). For its part, consumer credit continued to display significant year-on-year growth rates (above 22% in Q4), which may have helped maintain the relative strength of private consumption last year.

The provisional information available for the first few months of 2002 shows relative continuity of the main patterns described above (see Chart 24). On the side of net financial investment, shares in FIAMM and, to a lesser extent, in fixed-

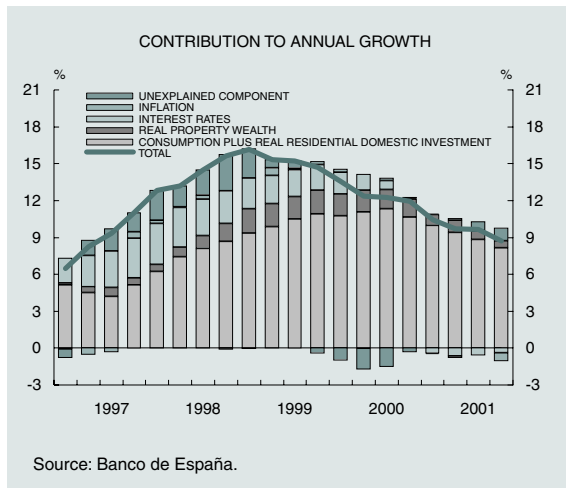
The determinants of the growth of lending to households

In the second half of the nineties lending by resident financial institutions to households and non-profit institutions serving households (NPISHs) grew rapidly, reaching high nominal growth rates of over 17% during the period 1998-2000. In 2001, the financing of this sector decelerated to an end-year growth rate of around 12%. The factors responsible for this behaviour are closely related to the cyclical position of the economy, changes in financial conditions and the balance-sheet position of households. That, at least, is what is indicated by the results of a recently estimated single equation econometric model.

Among the determinants of bank lending to households, this model has included, first, the sector's spending on consumption and house purchase. As well as being a scale variable, spending is also an indicator of the cyclical position of the economy and, in that sense, may also incorporate the influence of cycle on the lending policies of financial institutions. A second relevant factor in the determination of the credit obtained by households is the cost of bank loans, which directly affects their borrowing capacity. A third group of variables that influence bank lending are those related to the solvency of economic agents, in particular, those referring to their balance sheet position: wealth or net worth, financial assets, real assets and debt. Thus, the net worth of households affects, on one hand, their borrowing capacity, through its effect on the permanent income of the sector. On the other hand, the balance-sheet position of households, through its effect on their financial solvency, has a significant influence on the readiness of institutions to lend to this sector. Finally, the demand for finance from the non-financial private sector, as well as the lending policy of banks, is also affected by the degree of price stability.

The estimation of the equation so constructed enables the contribution of each of these factors to the annual growth of lending to be analysed. The expansion of lending, in real terms, since 1997, is basically explained by the growth of consumption and domestic residential investment, the contributions of which were increasing until 2000 (see adjoining chart). The slowdown in household spending since the end of that year would partly explain the reduction in the rate of growth of credit, in real terms. Also, the reduction in the cost of bank loans during the period 1997-1999 (within the context of interest-rate convergence prior to the start of Stage Three of EMU) also helped to increase bank lending significantly (its average contribution during that period was 2.5 percentage points). The expansionary effect of this variable diminished notably during 2000, turning negative in 2001, as a consequence of the progressive increase in retail bank lending rates. As the interest-rate effect was gradually tailing off, the importance of the increase in real wealth was increasing, driven by the sharp rise in real-estate asset prices. During the period 1999-2000, the average contribution of this variable was almost two percentage points, although it fell slightly thereafter. Finally, inflation seems to have had only temporary effects in recent years.

Real lending by financial institutions to households and NPISHs



income FIM, whose prospects have improved following the announcement of the abolition of the withholding on change-of-fund operations, are still growing at a brisk rate. At the same time, a moderate expansion of cash and cash equivalents is discernible, although it is offset by slower growth in other bank liabilities. As for financing, loans from resident credit institutions continue to grow at a relatively high rate.

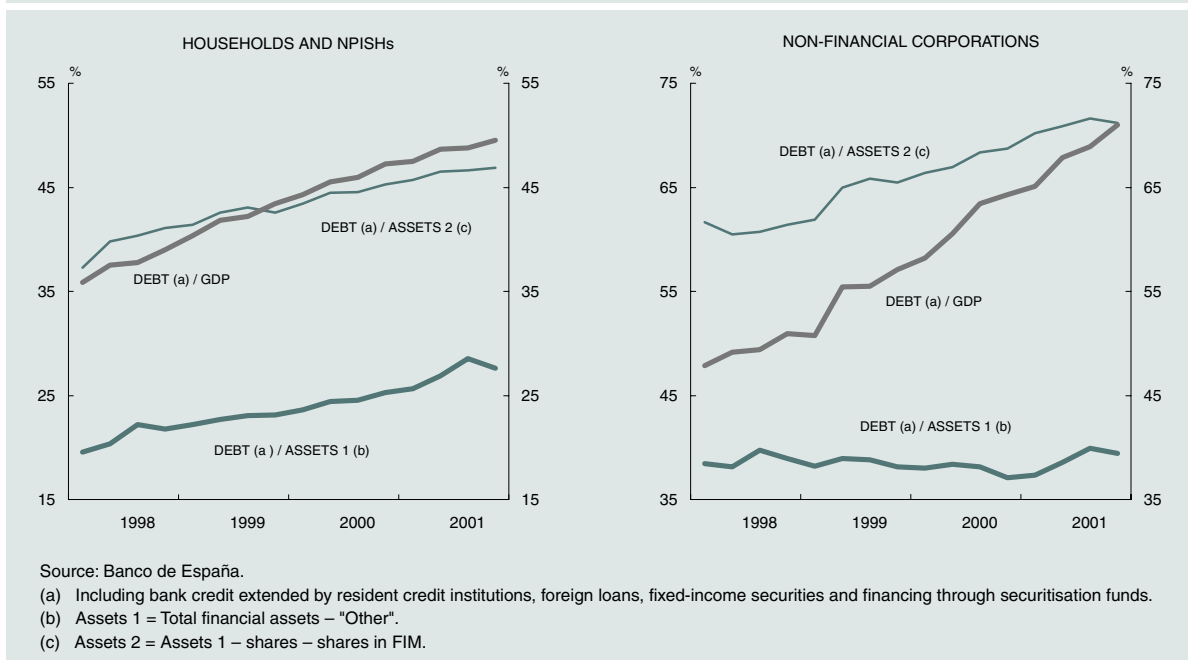
It should be pointed out finally that, at the end of Q4, household debt rose both in terms of the most liquid component of household financial wealth and in terms of GDP. In the latter case, in particular, it showed significant growth (49.6%, as against 48.7% in the previous quarter) (see Chart 25). However, the rapid recovery in stock exchange indices following the attacks of 11 September meant that, relative to the total

volume of financial assets, the level of debt fell slightly to 27.6%, which was still higher than at the end of 2000.

5.3. The financial flows of non-financial corporations

During 2001 Q4 the balance of the net financial transactions of non-financial corporations was -0.3% of GDP, which in cumulative four-quarter terms entailed a debit balance of 4.4% of GDP. This was a similar level to that seen in the previous quarter (see Table 5) which, as mentioned in the last report, may be reflecting firms' diminished capacity to generate funds (and, therefore, to finance themselves) against a background of deceleration in capital goods investment and continued buoyancy in construction.

Debt ratios



The volume of financial assets acquired and of liabilities incurred by this sector sustained the downward trend that commenced at the beginning of 2001. It should be recalled, however, that the figures for 2000 included special transactions associated with the sharp increase in purchases of businesses abroad and with the financing of third generation mobile telephone licences (see Chart 26 and Table 6).

On the assets side, the net acquisitions of non-financial corporations represented, in 2001 Q4, 18% of GDP, as against almost 20% in Q3. This reduction was the net result of the continuation of trends apparent in previous quarters: on one hand, the decline in purchases of shares and other equity continued (4.3% of GDP, as against 8.2% in Q3). On the other hand, as seen in Table 6, cash and cash equivalents peaked at 1.6% of GDP. Although this level is relatively moderate, it may, to some extent, reflect a temporary phenomenon arising from higher cash needs as a result of the proximity of the euro changeover.

As for liabilities, the reduction in flows was similar in size. One of the most notable aspects was the behaviour of the financing received from resident credit institutions (adjusted for the effects of securitisation), which increased in Q4 by one percentage point, to reach almost 7% of GDP. By productive sector, the growth of credit to the services sector accelerated (to 12.1% year-on-year), while that of credit to the construction sector held

at the same level as in the previous quarter (9%). However, lending to industry (excluding construction) decelerated sharply. Foreign loans accelerated, albeit moderately (3.5% of GDP), but firms reduced their share issuance from 7.2% of GDP in Q3 to 3.9% in 2001 Q4.

As a consequence of the increase in the volume of financing received by non-financial corporations debt ratios rose further, to reach, as at end-December 2001, 70% in terms of GDP and 71.2% relative to their most liquid assets (see Chart 25). These levels are similar to those recorded in other European countries, although they are higher than those observed historically in Spain under similar cyclical conditions.

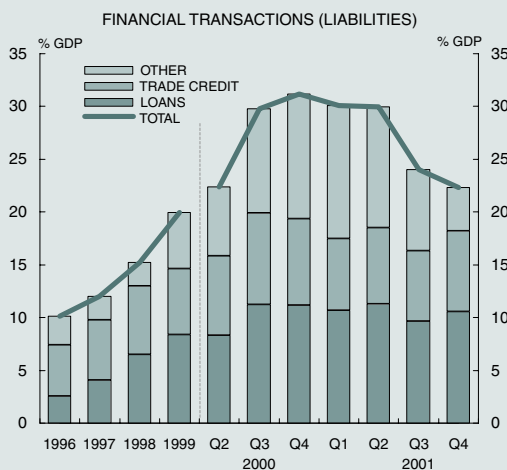
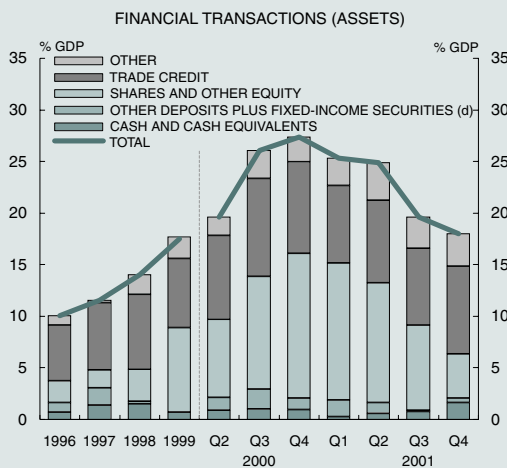
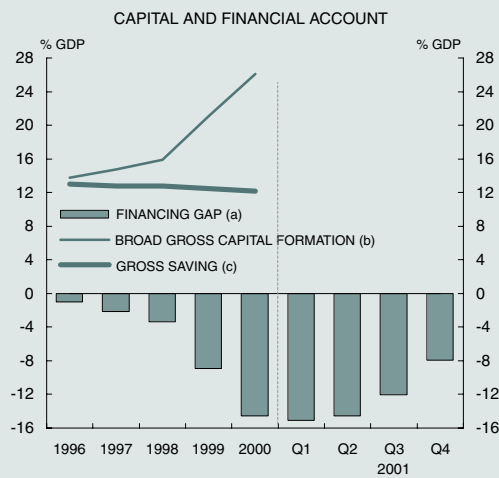
5.4. General government financial flows

The balance of general government financial transactions was negative in 2001 Q4 (see Chart 27). However, in cumulative four-quarter terms this meant net borrowing was zero. This balancing of the budget was the result of a Social Security System surplus combined with central and territorial government deficits.

The absence of further net borrowing did not, however, halt the restructuring of the general government financial accounts (see Chart 27). On one hand, the net financing received from financial institutions continued to grow (2.6% of GDP), as a consequence, among other factors,

CHART 26

**Non-financial corporation
(Cumulative four-quarter data)**

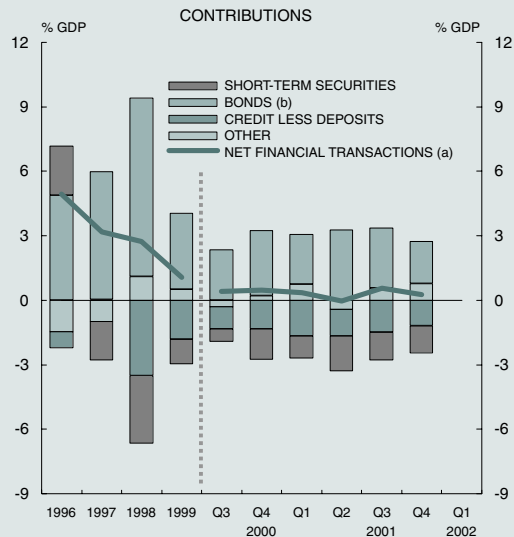
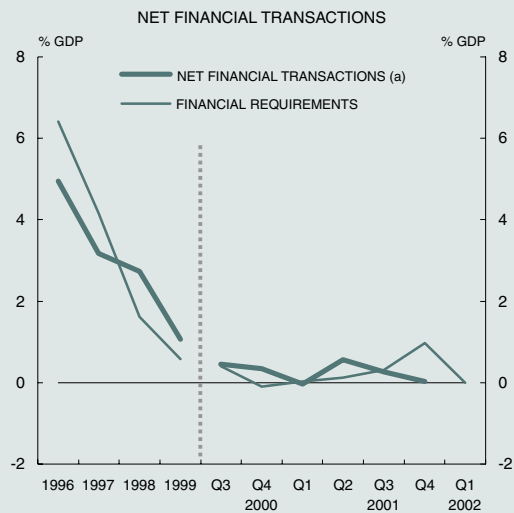


Source: Banco de España.

- (a) Financial resources that cover the gap between real and permanent financial investment and gross saving.
- (b) Including gross capital formation, stockbuilding and foreign equities.
- (c) Including capital transfers.
- (d) Not including unpaid accrued interest, which is included under "Other".

CHART 27

**General Government
(Cumulative four-quarter data)**



Source: Banco de España.

- (a) Sign changed.
- (b) Not including unpaid accrued interest, which is included under other.

of the large drawdown on the State deposits held at the Banco de España and of the Treasury's liquidity tenders. On the other hand, although the rate of acquisition of debt by non-residents was unchanged (1.8% of GDP), it was more than offset by the net disinvestment in these assets by resident institutional investors.

The provisional information available on flows in 2002 Q1 suggests that the general government accounts remained in balance. On the liabilities side, the net issuance of short-term securities (€ 574 billion) continued to decline, while the issuance of long-term securities (€ 1,961 billion) increased. At the same time, credit received grew at the same rate as in the pre-

TABLE 7

Financial transactions of the nation (Cumulative data for the last four quarters)

% GDP

	1998	1999	2000	2001		
				Q2	Q3	Q4
Net financial transactions	0.5	-1.1	-2.5	-2.2	-2.0	-1.9
Financial transactions (assets)	12.3	14.8	24.4	23.1	16.0	10.3
Gold and SDRs	0.0	-0.2	0.0	0.0	0.0	0.0
Cash and deposits	3.2	1.7	2.8	2.4	-0.5	-2.6
Credit system	0.0	3.7	2.5	1.8	-0.5	-2.8
Other resident sectors	3.2	-2.0	0.4	0.6	0.1	0.1
Securities other than shares	3.4	2.8	3.8	6.6	5.7	6.8
Credit system	-1.4	-0.9	-0.3	1.8	1.0	2.0
Other resident sectors	4.7	3.7	4.1	4.9	4.8	4.8
Shares and other equity	4.3	9.8	15.1	10.9	8.1	3.6
Credit system	0.4	0.7	1.7	0.6	0.3	-0.1
Other resident sectors	3.9	9.0	13.3	10.2	7.8	3.7
Of which:						
Non-financial corporations	2.2	6.5	10.8	9.5	7.6	3.6
Loans	1.4	0.7	2.7	3.1	2.6	2.5
Credit system	0.2	-0.2	0.5	0.6	0.7	0.8
Other resident sectors	1.2	0.9	2.2	2.5	1.9	1.8
Financial transactions (liabilities)	11.8	15.9	26.9	25.3	18.0	12.2
Deposits	5.9	4.1	6.7	5.9	5.0	2.8
Of which:						
Credit system	5.9	4.1	6.8	6.0	5.0	2.8
Debt securities issued	1.0	5.4	6.9	5.6	4.0	3.1
Credit system	0.2	0.9	0.8	0.8	0.6	0.6
General government	1.0	4.3	5.7	4.3	2.9	1.6
Other resident sectors	-0.2	0.2	0.5	0.5	0.4	0.9
Shares and other equity	2.9	3.9	9.0	8.4	5.9	3.5
Credit system	0.1	0.3	1.6	1.1	0.4	0.5
Other resident sectors	2.8	3.6	7.4	7.3	5.5	3.0
Loans	2.2	3.4	4.5	5.8	4.0	4.3
General government	0.1	-0.4	0.1	0.0	0.0	0.1
Other resident sectors	2.1	3.7	4.4	5.8	4.0	4.2
Other, net (a)	-0.2	-0.9	-0.3	-0.5	-0.9	-1.5

Source: Banco de España.

(a) Includes the asset-side caption reflecting insurance technical reserves.

vious quarter. On the side of financial assets, the growth of the balance on the current account of the State at the Banco de España was notable (€ 2,488 billion). It is also important to point out that, during 2002, Spanish debt has established a differential with respect to the German *bund* of around 15-20 basis points (almost 10 basis points smaller than at the beginning of 2001), as a result of the decision of Moody's to raise its credit rating to top grade in December 2001.

5.5. Financial flows between the Spanish economy and the rest of the world

As already mentioned at the beginning of this chapter, the balance of the nation's financial transactions during 2001 Q4 was somewhat less negative than in the same quarter of the previous year, standing at -1.9% of GDP in cumulative terms (see Table 7). As in the three previous quarters, the volume of financial transactions (assets and liabilities) with non-resi-

TABLE 8

**Net financial assets vis-à-vis the rest of the world (a)
(Q4 data)**

% GDP

	1996	1997	1998	1999	2000	2001 (b)
Total economy	-20.2	-21.0	-21.8	-22.0	-20.2	-22.5
Non-financial corporations and households and NPISHs	-13.3	-10.8	-8.6	-8.7	-0.8	-2.1
Non-financial corporations	-18.3	-17.1	-14.8	-16.3	-8.4	-9.7
Households and NPISHs	5.0	6.3	6.2	7.6	7.6	7.6
Financial institutions	8.3	6.7	4.7	6.8	5.1	4.6
Credit institutions (c)	6.7	2.4	-5.4	-7.5	-12.5	-14.6
Institutional investors (d)	1.7	4.4	10.5	14.9	18.4	20.8
Other financial institutions	-0.1	-0.1	-0.4	-0.6	-0.8	-1.6
General government	-15.3	-17.0	-17.9	-20.1	-24.5	-24.9

Source: Banco de España.

(a) Calculated as the difference between the stocks of financial assets and of liabilities vis-à-vis the rest of the world according to quarterly financial accounts data.

(b) Q4 data.

(c) Defined according to the First Banking Directive.

(d) Insurance corporations and collective investment undertakings.

dents continued to moderate in 2001 Q4. This more subdued financial activity with the rest of the world reflects, first, the moderation in the cross-border acquisitions of financial and non-financial corporations. Likewise, the decline in cross-border financial flows is associated with the weakening of activity in a large number of the world's economies and with the increase in uncertainty on international financial markets, arising, initially, from the attacks of 11 September, and subsequently sustained by energy-price developments, the conflict in the Middle East and the social and political crises in certain Latin American countries.

In 2001 Q4, the acquisition of external financial assets amounted to 10.3% of GDP, as against 23.1% and 16% in Q2 and Q3, respectively. The growth in purchases of fixed-income securities, as a result of the ongoing internationalisation of the portfolios of resident sectors (primarily credit institutions and institutional investors), was notable (6.8% of GDP), but was outweighed by the significant reduction in the cross-border acquisition of

shares and other equity. Credit to non-residents held at similar levels to those of the previous quarter (around 2.5% of GDP).

On the liabilities side, net flows totalled 12.2% of GDP in 2001 Q4, as against 18% and 25.3% in Q2 and Q3, respectively. The most notable aspect of this decline in financing raised was the significant reduction in the acquisitions of shares in non-financial corporations by non-residents, which fell by 2.5% of GDP during the quarter. The financing raised by the credit institutions, mainly through deposits and by general government through the placement of government debt abroad, was also less than in the preceding quarter.

With respect to 2002 Q1, balance of payments information is only available for January. In broad terms, this points to a certain continuity in the patterns observed in the preceding quarter.

29.4.2002.