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ABBREVIATIONS

AIAF	Association of Securities Dealers
BCBS	Basel Committee on Banking Supervision
BE	Banco de España
BIS	Bank for International Settlements
CBSO	Central Balance Sheet Data Office
CCR	Central Credit Register
CEMLA	Center for Latin American Monetary Studies
CEPR	Centre for Economic Policy Research
CNE	Spanish National Accounts
CNMV	National Securities Market Commission
CPI	Consumer price index
DGS	Directorate General of Insurance and Pension Funds
EAGGF	European Agricultural Guidance and Guarantee Fund
ECB	European Central Bank
ECCO	ECB External Communications Committee
ECOFIN	Council of the European Communities (Economic and Financial Affairs)
EDP	Excessive Deficit Procedure
EMU	Economic and Monetary Union
EONIA	Euro overnight index average
EPA	Official Spanish Labour Force Survey
ERDF	European Regional Development Fund
ESA 79	European System of Integrated Economic Accounts
ESA 95	European System of National and Regional Accounts
ESCB	European System of Central Banks
EU	European Union
EU-15	Countries making up the European Union as at 31/04/04
EU-25	Countries making up the European Union as from 1/5/04
EUROSTAT	Statistical Office of the European Communities
FASE	Financial Accounts of the Spanish Economy
FDI	Foreign direct investment
FIAMM	Money market funds
FIM	Securities funds
FISIM	Financial Intermediation Services Indirectly Measured
GDI	Gross disposable income
GDP	Gross domestic product
GFCF	Gross fixed capital formation
GNP	Gross national product
GVA	Gross value added
HICP	Harmonised index of consumer prices
IADB	Inter-American Development Bank
ICT	Information and communications technology
IGAE	National Audit Office
IMF	International Monetary Fund
INE	National Statistics Institute
INVERCO	Association of Collective Investment Institutions and Pension Funds
LIFFE	London International Financial Futures Exchange
MEFF	Financial Futures and Options Market
MEFF RF	Fixed-income derivatives market
MEFF RV	Equity derivatives market
MFIs	Monetary financial institutions
MMFs	Money market funds
MROs	Main refinancing operations
NCBs	National central banks
NPISHs	Non-profit institutions serving households
OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of Petroleum Exporting Countries
PFs	Pension Funds
PPP	Purchasing power parity
QNA	Quarterly National Accounts
RoW	Rest of the World
SCLV	Securities Clearing and Settlement Service
SDRs	Special drawing rights
SICAV	Open-end Investment Companies
SMEs	Small and medium-sized enterprises
TARGET	Trans-European Automated Real-time Gross settlement Express Transfer system
TFP	Total factor productivity
ULCs	Unit labour costs
VAT	Value added tax
XBRL	Extensible Business Reporting Language

COUNTRIES AND CURRENCIES

In accordance with Community practice, the EU countries are listed using the alphabetical order of the country names in the national languages.

BE	Belgium	EUR (euro)
CZ	Czech Republic	CZK (Czech koruna)
DK	Denmark	DKK (Danish krone)
DE	Germany	EUR (euro)
EE	Estonia	EEK (Estonia kroon)
GR	Greece	EUR (euro)
ES	Spain	EUR (euro)
FR	France	EUR (euro)
IE	Ireland	EUR (euro)
IT	Italy	EUR (euro)
CY	Cyprus	CYP (Cyprus pound)
LV	Latvia	LVL (Latvian lats)
LT	Lithuania	LTL (Lithuanian litas)
LU	Luxembourg	EUR (euro)
HU	Hungary	HUF (Hungarian forint)
MT	Malta	MLT (Maltese lira)
NL	Netherlands	EUR (euro)
AT	Austria	EUR (euro)
PL	Poland	PLN (Polish zloty)
PT	Portugal	EUR (euro)
SI	Slovenia	SIT (Slovenian tolar)
SK	Slovakia	SKK (Slovakian koruna)
FI	Finland	EUR (euro)
SE	Sweden	SEK (Swedish krona)
UK	United Kingdom	GBP (Pound sterling)
JP	Japan	JPY (Japanese yen)
US	United States	USD (US dollar)

CONVENTIONS USED

M1	Notes and coins held by the public + sight deposits.
M2	M1 + deposits redeemable at notice of up to three months + deposits with an agreed maturity of up to two years.
M3	M2 + repos + shares in money market funds and money market instruments + debt securities issued with an agreed maturity of up to two years.
Q1, Q4	Calendar quarters.
H1, H2	Calendar half-years.
bn	Billions (10^9).
m	Millions.
bp	Basis points.
pp	Percentage points.
...	Not available.
—	Nil, non-existence of the event considered or insignificance of changes when expressed as rates of growth.
0.0	Less than half the final digit shown in the series.

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APPEARANCE BY THE GOVERNOR OF THE BANCO DE ESPAÑA, MIGUEL FERNÁNDEZ ORDÓÑEZ, BEFORE THE PARLIAMENTARY BUDGET COMMITTEE

Appearance by the Governor of the Banco de España, Miguel Fernández Ordóñez, before the Parliamentary Budget Committee

Ladies and gentlemen,

This appearance, as part of the Parliamentary discussion of the State budget for 2007, is my first as Governor of the Banco de España before the nation's elected representatives. As this is my first testimony, allow me, before going into specific details, to refer to the importance I attribute to relations with Parliament.

The Banco de España is entrusted with specific functions relating to macroeconomic and financial stability of far-reaching scope for the performance of the economy, economic growth and the welfare of citizens. To perform these functions it has considerable institutional independence, under the terms of the Law of Autonomy and the treaties of the European Union, which is its main identifying feature.

The responsibility exercising this independence entails demands an appropriate explanation of the courses of action followed in relation to the objectives laid down and transparency mechanisms that allow for monitoring by the public at large, economic agents and financial markets. From this standpoint, appearances by the Governor before Parliament are of great importance and play a key role when communicating the analysis of the economy on which the Banco de España's conduct is based. I am convinced these appearances will be very fruitful for fulfilling the mission entrusted to us by law.

I stand before you at a time at which the latest data reveal the firming of the European recovery, as part of the expansionary climate of the world economy, and which, in our case, have led to an upward revision of the Spanish economy's growth rate. The latest Spanish National Accounts figures have exceeded the forecasts of the various agencies and portray a picture that confirms the prolongation, with renewed buoyancy, of what is already a long-lasting upturn.

Adding to the continuity of the expansionary factors accompanying the setting in place of a stable macroeconomic regime are the step-up in the demographic impulse from immigration and from growing female participation, and, more recently, the recovery in the euro area. I feel I should stress that this recovery and the gradual withdrawal of the expansionary stance of the single monetary policy (which naturally accompanies it) are taking place at a particularly timely juncture for the Spanish economy. The combination of both movements, on one hand, tends to sustain growth via the impulse of external demand, while on the other, the adjustment of monetary conditions is conducive to the containment of domestic demand and helps rebalance the composition of growth.

We thus face conditions which, in principle, allow us to project the current scenario of economic dynamism onto the horizon for the coming years. But it is a scenario that is not free from either external or domestic risks, especially as regards its long-term sustainability. These risks require prompt and effective economic policy action so as to prevent or hinder their emergence.

At a more detailed level, I shall firstly refer to the euro area's situation in the current international context, and to the single – and indeed our – monetary policy. Subsequently, I shall move on to the situation of the Spanish economy, within which the State budget for the coming year is framed.

During the current year, the international economic outlook has been marked by the continuing notable strength that global activity and trade have been exhibiting in recent years, and which is proving extensive to most of the main geographical areas. This buoyancy has been maintained despite oil and non-energy commodities prices that remain high, although they have turned down significantly from their highs during the summer.

The outlook for the medium term points to the continuity of the expansionary phase of the world economy, albeit at a somewhat more moderate pace. These forecasts are shrouded in uncertainty owing to the persistence of macro-financial imbalances, the uncertain course of oil prices (despite their recent moderation against a rather unstable geopolitical background) and the possibility that the slowdown in the US economy will be on a greater scale than currently anticipated. Accordingly, although the most realistic scenario is encouraging, there are some downside risks.

Against this global backdrop, we have witnessed the long-expected firming of the recovery in the euro area economy during the year. Following the slackness of recent years, activity gathered growing momentum and led output to quicken to an increase of around 2.5% at the end of the first half of the year. Significantly, after the initial impulse provided by the external sector, strengthening domestic demand has begun to take up the baton. Underpinning it has been the buoyancy of investment, spurred by favourable financial conditions, and, moreover, the recovery in corporate earnings and the restructuring of firms' balance sheets. Private consumption has also improved, albeit hesitantly, and will progressively firm insofar as the recovery in employment is confirmed. In the medium term, the current economic robustness is most likely to run into the coming quarters, whereby GDP will maintain growth rates around potential output. Naturally, this favourable outlook broadly shares the same risks as those described for the international environment.

Turning to inflation, the growth rate of the HICP had held persistently above 2% until August, this figure – allow me to remind you – being the reference used for the Eurosystem's definition of its price stability objective. It did however dip to 1.8% in September, further to the recent correction of energy commodities prices, as the indices referring to product baskets excluding these goods had generally been behaving more favourably. The absence to date of underlying inflationary pressures is likewise discernible in the moderate course of labour costs and the indicators of inflationary expectations. However, there are upside risks to inflation in the short and medium term, since the more dynamic economic context might be conducive to a gradual emergence of the indirect effects of the past rises in oil and the increase in wage demands on the non-energy components of the HICP.

The monetary policy pursued in recent years has contributed effectively to improving the economic situation and outlook for the euro area as a whole that I have just described. In particular, despite the recurrence of upward pressures on the general level of prices, the ECB has managed to keep inflation expectations at levels compatible with its priority goal, which reflects the high credibility it enjoys. This has been propitious to the containment of corporate costs, to strengthening agents' confidence and, as a result, to moderating the adverse effects of the rise in oil prices. All these developments attest to the benefits associated with the central bank's independence and with the clarity of its strategic objectives.

Economic policies in the euro area, for their part, face three major challenges: population ageing, globalisation and technological change. Firstly, the foreseeable budgetary impact of the changes ahead in the demographic structure of the population means the measures aimed at countering such effects are very important, as is the application of the current institutional framework following the reform of the Stability and Growth Pact. In this respect, it is particularly important for countries running an excessive deficit to harness the improvement in the march of the economy to reduce their imbalances in a durable fashion.

Secondly, technological progress and the changes brought about by the incorporation of new geographical areas to the global economic scenario require structural reforms conducive to competitiveness to be set in train. These are vital if it is intended to successfully transform the current phase of economic recovery into a sustainable expansion. The unsatisfactory performance of euro area GDP since the start of the current decade reflects both the slowdown in labour productivity and, despite recent progress, the still-insufficient use of this production factor. To reverse this trend, certain aspects of product and labour market regulation must be reviewed so as to provide for the reallocation of resources as required by the twin phenomena of globalisation and technological change. Europe has decided to advance in this area by means of the reforms and timeframes contained in the Lisbon Agenda. This is an excellent programme, but fulfilling it will require resolve by national economic policymakers and broad-based political and social consensus.

The sustained improvement of European citizens' welfare requires, in any event, the involvement of all areas of public policy. Accordingly, the current smooth functioning of institutional relations between the central bank and national and Community economic authorities is essential in my view. These institutional arrangements are based on the monthly presence of the President and Vice-President of the ECB at the meetings of the Eurogroup, and of the Chairman of the Eurogroup and the European Commissioner for Economic and Monetary Affairs at the meetings of the ECB Governing Council. Experience shows that interaction is very fruitful when the agreed distribution of responsibilities is adhered to and, in particular, when the monetary authority's independence – the cornerstone of its credibility – is observed.

As earlier indicated, it is precisely the credibility gained by the central bank that has allowed it to adjust monetary conditions recently to the sluggishness of the economy without jeopardising the fulfilment of its priority goal. Likewise, if the current expectations of economic growth are confirmed, monetary policy will have to continue gradually withdrawing the accommodative stance still in place. In this connection, the normalisation of monetary conditions may be seen as the natural outcome of the current economic buoyancy and of the need to ensure its compatibility with the maintenance of price stability.

From the standpoint of the Spanish economy, the improvement in the euro area and the gradual normalisation of monetary conditions I have referred to frame a scenario propitious to the prolonged dynamism of economic activity and of employment.

In the first half of 2006 the Spanish economy continued to show marked strength. Indeed, economic activity could be seen to be moving on a mildly accelerating path in Q2, which placed GDP at a year-on-year growth rate of 3.7%. The latest Quarterly National Accounts figures available exceed the growth previously forecast for the first two quarters of the year by a fraction of a percentage point. However, in terms of the intensity and composition of growth, that chiefly reflects the revisions to the rate of increase of GDP in 2004 and 2005, for which a somewhat less negative contribution of the external sector than initially estimated can be seen.

The prolongation of the expansion in 2006 has continued to be underpinned by the resilience of national demand. And while this variable began to slow to some extent, this has been offset by the gradual improvement in the contribution of the external sector to growth. These data appear to indicate an incipient rebalancing of the composition of growth, to which the still-moderate effect of the adjustment of monetary and financial conditions on expenditure and the economic recovery in the euro area would both be contributing.

Of the different components of national demand, only private consumption and government consumption have shown signs of slowing slightly in the year to date, while investment in construction has retained notable strength and the rate of increase of investment in equipment has stepped up in Q2 after dipping slightly in mid-2005.

The slowdown in private consumption has been the outcome of factors acting in opposite directions. Among those that may have checked household consumption are the erosion of purchasing power, which has come about in the face of the high inflation rates recorded in the first half of the year, and the effect of interest rate rises, which might be prompting some correction in the tendency of the household saving ratio to fall in recent years. Conversely, the continuing buoyancy of job creation – standing at a rate of around 3% – and the persistence of a potentially still-powerful wealth effect would have continued to sustain the dynamism of household consumption. In this respect, although the rise in real estate wealth is beginning to show signs of slowing, in recent months there have been significant stock market gains that might have countered this effect.

As regards the different components of gross capital formation, investment in construction has, as mentioned, remained considerably stable. The growth rate of this variable exceeds 5%, in a setting in which the demand for housing has remained most resilient and in which the non-residential building and civil engineering segments have continued to show signs of intense activity. Of note is the rise in investment in equipment, which continues to be the most dynamic component of demand, reflecting greater export activity and the improvement in the industrial sector, against a background of corporate profitability and financial conditions highly propitious to expanding productive capacity.

But perhaps the most notable aspect of the current situation is the incipient easing in the pressure from net external demand, whose negative contribution to output growth has declined in recent quarters to around 1 pp. The recovery in goods exports, boosted by the strong increase in world trade and by the take-off of economic activity in the euro countries, accounts virtually in full for the relief from the negative contribution of net external demand. Imports, meanwhile, have remained very buoyant, reflecting the increase in final demand. Against this backdrop, export shares appear to have stabilised after falling off last year, although import penetration has continued to increase.

It is not easy to diagnose the scope of this improvement in the external sector, but the lack of significant changes in the course of the price-competitiveness indicators – which have generally continued to worsen in the year to date – might slow and even interrupt the improvement in the external sector.

So far in 2006 the Spanish economy has continued to display intense employment generation capacity. As a result, the labour market has continued to absorb a highly dynamic labour supply while the unemployment rate fell to levels not seen since the 70s, posting a figure of 8.5% in Q2. The latest labour market indicators confirm the prolongation of this trend.

Labour costs rose slightly in the first half of 2006, with increases of around 3%. These are, however, lower than those negotiated in collective bargaining agreements if the effect of the indexation clauses is taken into account. This discrepancy may be due to the effect on aggregate wage growth of the lower wages of the sizeable numbers joining the labour market, where immigration plays a significant role. Despite the minor upward revision in the rate of increase of productivity inferred by the latest National Accounts figures, the differential between respective Spanish and euro area labour costs per unit of output has continued to widen, although in manufacturing, where productivity gains are proving significant, some stabilisation can be seen for the first time.

On the prices front, the inflation rate moved on an upward course in the first half of the year, driven by labour costs and the widening of margins, but above all by higher oil prices, which I referred to earlier. Against this background, the year-on-year rate of increase of the CPI held at close to 4% to July, although it dipped in August to 3.7% and the increase in the harmonised index for September points to a further cut to 3%, due mainly to the marked fall in energy prices in the past two months. It should not be forgotten, however, that underlying inflation has held persistently at a rate of around 3%, above the figure for the past two years, and that the consumer price differential with the euro area has remained at a high level.

Despite the improved export performance and the slowdown in spending, the external deficit continued to increase both in nominal terms and as a percentage of GDP during the first half of 2006, albeit at a lesser rate than that observed in the last two years. Here, too, dearer oil has played a significant part in the deterioration.

The still-incomplete and fragmentary economic information available for 2006 Q3 points to the continuing strength of economic activity, suggesting that the increase in GDP on average in 2006 might be slightly higher than in 2005.

The outlook for 2007 points to a slight slowdown in GDP growth and to the continuity of the patterns observed in recent quarters. National demand is projected to hold on a mildly slowing path and there are expected to be further improvements in the contribution of net external demand. This profile would be in line with the macroeconomic scenario on which the State budget for 2007 was based, although the starting point would be somewhat higher growth rates in 2006. As regards inflation, the outlook for the rest of the year points to a slowdown in the year-on-year rate of the CPI, owing largely to the lesser contribution of energy prices to the overall index, although average growth will ultimately be higher than that in 2005.

The outlook I have sketched is one of sustained growth and the start of a gradual correction of imbalances over the course of 2006 and in the opening quarters of 2007. This picture is not, however, free from risks in the medium term. In the international domain I have already mentioned the risks to the prospects for the world economy and the uncertainty still surrounding the intensity of the European recovery. Domestically, I should particularly like to highlight the risks stemming from the continuing inflation differential and from high household debt.

Sustaining price increases higher than those in the euro area is a cause for concern if the indexation mechanisms built into collective bargaining prolong the inertia of price rises, with the subsequent adverse impact on competitiveness. In turn, the fact underlying inflation should have stabilised at a relatively high rate suggests that some effects of dearer oil may be passing through more permanently to other prices. That might all bear negatively on the ongoing improvement in exports. Against this background, containing inflation and bringing it closer to rates compatible with the concept of price stability is needed to pursue the rebalancing of domestic and external demand and to ensure continuing economic dynamism in the medium term.

As to the risks stemming from the increase in private-sector (especially household) debt and from the pronounced growth in residential investment, I should first remind you that these are phenomena consistent with the recent changes in our economy and, notably, with the low level at which interest rates have been holding.

However, the financial position of agents and, therefore, their propensity to spend have been becoming more sensitive to changes in their income, in interest rates and in house prices. Such sensitivity becomes all the more significant when interest rates are in an upward cycle and house prices are tending to slow. Nonetheless, the financial position of households and firms is healthy and provides a sound basis for adaptation to interest rate levels in keeping with the greater economic dynamism of the euro area. It cannot be ruled out, however, that a portion of lower-income indebted households and of real estate services companies may be vulnerable.

In any event, the environment of price stability, which bounds the foreseeable range in which interest rates may move, and the forecast of a gradual slowdown in house prices (to which the latest official published data point) contribute to dampening these risk factors. Further, the solvency of the financial system and the healthy position of public finances, which I shall refer to later, represent an important safety valve for maintaining the general stability of the economy.

In short, the growth outlook for the Spanish economy in the coming quarters is a relatively healthy one, whose continuity in the medium term requires further headway in containing domestic demand and in expanding aggregate supply response capacity. In this setting, economic policies should contribute to attaining these objectives.

I referred earlier to the single monetary policy and mentioned the fact that the gradual withdrawal of its expansionary stance is occurring at a particularly timely moment for the Spanish economy, since the adjustment of monetary conditions is conducive to the containment of domestic demand and helps rebalance the expansion.

As to fiscal policy, the latest forecasts for the general government balance in 2006 point to a surplus of 1.1%, 0.2 pp up on the figure set in the last update of the Stability Programme (0.9% of GDP). An end-year result for public finances around this figure would suffice to meet comfortably the European fiscal requirements established under the Stability and Growth Pact and to extend the declining trajectory of public debt, the ratio of which in proportion to GDP might stand below 40% at the close of the year.

This improvement in the fiscal position is indicative of the fact that the Spanish economy has been posting higher-than-forecast growth, and that revenue from the main taxes has more than exceeded the estimates made in the budgetary programming exercise.

The draft State budget for 2007 sets an overall general government surplus target of 0.7% of GDP, under a macroeconomic scenario which, as I mentioned, entails a slight slowdown in GDP. The continuity of the economic boom scenario and the foreseeable extension of buoyant tax revenue should enable this objective to be exceeded. And that despite the confluence in 2007 of a series of factors that will tend to reduce revenue, such as the entry into force of the personal income tax and corporate income tax reform, the new EU financial perspectives and specific elements of the labour reform enacted last July. The attainment of a higher-than-programmed surplus, in line with that in recent years, would be more in step with the role that corresponds to fiscal policy in the current circumstances of the Spanish economy. This is a policy stance that should not be relaxed. The sound results obtained by the Spanish economy in recent years illustrate clearly how fruitful budgetary stability strategies can be and their full compatibility with the maintenance of prolonged phases of economic growth.

The spending policy priorities incorporated into the Budget are geared to areas of great importance for improving productivity, such as increased resources for education and innovation and higher investment in infrastructure. It is thus important to oversee the efficiency of the measures undertaken, so as to ensure that the increase in resources makes for effective improvements in capitalisation and productivity in the medium term.

To make further headway in improving the structural fiscal position, it is vital to raise the efficiency of the different tiers of government in managing expenditure. In this respect, it should be recalled that the State executes only 20% of general government public spending and that, on recent estimates, it will run a fiscal surplus for the second year running in 2006, which will continue into 2007 according to the projections of the draft State budget for next year. It is therefore essential to obtain the support of the Regional (Autonomous) Governments, which continue to post a budgetary deficit (and will do so in 2007). The aim is not only to ensure further progress in improving the general government fiscal position, but also to bring about more efficient management of spending by the Regional Governments, which account for more than 35% of total expenditure.

These efforts will contribute to building more suitable foundations to address the challenges posed by ageing and the undertaking to meet the requirements derived from social protection in situations of dependency.

In terms of supply-side policies, efforts should focus on achieving more flexible factor and product markets that help the Spanish economy adapt to an increasingly competitive environment and to efficiently use the productive resources available. That will require retaining the current capacity for job creation and generating, at the same time, productivity gains. The National Reforms Plan lays down a series of measures geared in this direction, which should be resolutely and ambitiously applied. However, there are certain areas in the economy, such as the labour market, where reform measures must continue to be pushed through.

The picture that emerges from the recent information I have set out is that of an economy that has retained its dynamism with renewed momentum and with a tendency to rebalance the factors supportive of growth. However, the risks to its long-term sustainability, on which the Banco de España has warned, remain present. Accordingly, it would be advisable to remain cautious and to push through the outstanding reform agenda. In this way, the Spanish economy might harness the opportunities offered by the prolongation of the long upturn it is currently experiencing and continue progressing in the medium and long run in respect of convergence towards the levels of welfare in the more advanced economies.

10.10.2006

APPEARANCE BY THE GOVERNOR OF THE BANCO DE ESPAÑA,
MIGUEL FERNÁNDEZ ORDÓÑEZ, BEFORE THE SENATE BUDGET COMMITTEE

Appearance by the Governor of the Banco de España, Miguel Fernández Ordóñez, before the Senate Budget Committee

Ladies and Gentlemen,

Appearances by the Governor of the Banco de España before Upper and Lower House committees, as part of the discussion and approval of the State Budget, have traditionally been one of the main occasions for Parliament to deliberate on the analysis of the Spanish economy that forms the basis of the central bank's actions.

As this is my first appearance as Governor before the Senate, allow me to reiterate, as I did in the Lower House, the importance that I attach to relations with the people's representative bodies for the proper performance of the tasks entrusted to the Banco de España. Tasks which are of great importance in the light of macroeconomic and financial stability, and which justify the independence granted by European laws and treaties to the Banco de España. Indeed, this is one of the Bank's main identifying features, but one whose corollary is full transparency and fluidly operating accountability. At issue here, therefore, is an institutional arrangement whose balance hinges significantly on relations between the Banco de España and Parliament.

Before moving to the analysis of the Spanish economy, I should dedicate some time to the external environment, focusing on the euro area, which is where our monetary policy is designed and decided.

The international economic scene has been marked throughout 2006 by the continuing robust growth in global trade and activity seen in recent years. Such growth has been particularly notable in that it has come about against a background of considerably high oil prices which have only eased in recent months. It is very likely that in the coming quarters this dynamism will be maintained in most of the main geographical areas. Nonetheless, signs have emerged lately of growth easing in certain areas, most notably in the United States, meaning that the pace of expansion of global activity as a whole should be somewhat more contained in the immediate future.

Thanks to this global framework, the euro area's economic situation has improved substantially. On most available forecasts, GDP in the area could grow by around 2.5% this year, marking a significant acceleration on 2005. Accompanying this greater dynamism has been the recovery in internal demand, which should contribute to extending the length of this upturn. Prominent among the internal expenditure components is the robustness of investment, both in capital goods and in construction. The persistence of highly favourable financial conditions, companies' improved financial position and their higher earnings have contributed to buoyant corporate investment, in a setting in which capacity utilisation has reached the highest levels of the past five years and unit labour costs remain moderate.

Household spending has recently gained some momentum and the course of the determinants of this variable paint a favourable picture. In particular, the employment growth rate has reached levels unknown since the start of the decade, and this has been duly reflected in the indicators of consumer confidence.

Overall, the information available suggests the expansionary phase of euro area output will continue over the coming quarters, though possibly at a somewhat lower rate than in the first half of 2006. In any event, around the turn of the year the economic situation will foreseeably be perturbed by the temporary impact of the rise in the main VAT rate in Germany in early 2007. Against this background, medium-term risks of a growth downswing cannot be ruled out if the slowdown in the US economy becomes more intense. Adding to this uncertainty is the possibility that oil prices will resume the upward course interrupted in August and, over a longer horizon, that there will be a disorderly correction of the macro-financial imbalances between the main world areas.

The most recent changes in the growth rate of the harmonised index of consumer prices have been much assisted by the marked decline in oil prices since mid-August and by the stripping out of the base effects from the previous year. These factors have meant that, for the first time since early 2005, inflation has stood below 2%, the ECB target (it stood in fact at 1.6% in October). Beyond the temporary variations in this variable, the index that excludes energy goods prices has also performed more favourably throughout the year. The absence to date of underlying inflationary pressures is also seen in the moderate evolution of labour costs and of the indicators of long-term inflationary expectations. However, the upside risks to inflation have been growing in step with the improvement in activity and employment, which might drive the pass-through to consumer prices and wages of past rises in energy product prices. Faced with this, the ECB decided to readjust monetary conditions by raising its official interest rates on five occasions since December 2005. These measures have proved necessary to keep inflationary expectations anchored at lower levels, against a background of strengthening aggregate demand and a gradual move closer towards the potential level of output. In any event, I should stress that at present, even following these interest rate rises, the financial conditions in place remain conducive to economic activity.

Having a monetary policy geared to ensuring price stability is a vital requirement for economic dynamism to be sustainable. However, monetary policy can in no way supplant the other economic policies which, in fact, are of paramount importance for the growth of our economies.

In particular, the European authorities must strive more resolutely to eliminate the structural obstacles holding back growth potential. The relatively disappointing results in terms of economic expansion in the euro area in the past decade are due, above all, to the scant dynamism of labour productivity which, in turn, is largely a response to the relatively modest pace of innovation, and its spread and application to the rest of the economy. Overcoming this problem requires the implementation of a broad array of measures aimed at stimulating human capital formation, providing for the creation of new companies promoting the development of new products and combating rigidities in the different markets.

On the other hand, there has recently been an improvement in the use of the labour factor, suggesting that labour market reforms and wage moderation have yielded some benefits. However, much room remains for further progress, since the unemployment rate is still high and the number of hours worked and the employment rates for specific groups (women, youths and older individuals) are too low.

On the fiscal policy front, budget balances have recently seen what was in part an unexpected improvement. This is because the pick-up in activity has given rise to more vigorous growth in certain tax receipts than was foreseen a year ago. The increase in revenue is therefore essentially transitory, and the authorities of these countries would be mistaken to become complacent and believe that budgetary consolidation has become a less pressing task. On the contrary, it is necessary to maintain sufficient control of spending in the economic upturn so as to speed up the correction of budgetary imbalances. This objective is vital for creating a stable macroeconomic environment and increasing the headroom available to tackle the challenges posed by population ageing in the future.

The changes I have described in the international setting, where the greater dynamism of the euro area and, therefore, of our export markets is notable, along with the gradual withdrawal of the impulse provided by monetary conditions, all shape a favourable scenario in which the Spanish economy may continue growing at a high rate in a sustained fashion. The easing in oil prices has led to a marked slowdown in the inflation rate, which it would be highly desirable to consolidate in the coming quarters.

The information available on the first half of 2006 shows the Spanish economy has remained very strong, with activity even moving on a mildly accelerating path. This means that the improved external environment has so far offset the slight tightening of financial conditions, which has made for some re-balancing of the sources of growth of our economy, in favour of the external sector and with a smaller contribution by national demand. The increase in GDP growth in Q3 is along similar lines, with a year-on-year growth rate of 3.8%, as a result of a further improvement in the contribution of net external demand to output. This will allow activity to expand over the course of 2006 at a sharper rate than in 2005, meaning the current year would show the highest growth rate of the present decade.

Yet despite this narrowing of the gap between the contributions of national and external demand to growth that I have referred to before, the expansion of the Spanish economy in 2006 has essentially been underpinned by the buoyancy of domestic spending. In particular, gross capital formation has retained considerable strength, while only private consumption and government consumption have slowed slightly in the year to date.

The somewhat less dynamic behaviour of private consumption in the first three quarters of 2006 is a result of the interplay of numerous factors whose effects, in some cases, have tended to counter each other. The losses of purchasing power caused by the high inflation rates in the first half of the year have affected household disposable income and, therefore, they will have tended to reduce consumer spending. Further, the increase in borrowing costs following the successive rises in official interest rates by the ECB must have curtailed the spending capacity of some sectors of households. Conversely, intense job creation – running at a rate of over 3% – and the notable rise in household wealth are factors that should have sustained the growth of private consumption. Regarding household wealth, it should be pointed out that, although house prices have begun to show signs of slowing, there have continued to be very significant stock market rises in 2006, outpacing those in recent years, which were already considerable.

As I mentioned earlier, gross capital formation has been very robust throughout 2006. Its soundness has, moreover, been appreciable in all its components. In the case of investment in construction, growth rates of over 5% have been observed. In this respect, residential investment, along with the non-residential building and civil engineering works segments, were particularly buoyant. In the case of housing, the latest available data suggest that this dynamism might run into 2007. Investment in equipment has not only remained the most dynamic component of demand, but it also moved on a rising path in the first half of the year. This facet of the current growth pattern is, perhaps, one of the most favourable points, since it may be interpreted as a renewed effort by Spanish firms to extend and modernise their productive apparatus at a time at which returns are high and the financial conditions for undertaking such spending are still attractive. Evidently, increased export activity and the improvement in the industrial sector in 2006, which I shall address hereafter, are very closely connected to the momentum of investment in equipment.

The dynamism of exports is in fact one of the key features of the current economic situation, as it has served to raise the contribution of net external demand to GDP growth and offset the slight slowdown in national demand. The pick-up in goods exports has been driven by the forceful increase in world trade and by the take-off of economic activity in the euro area countries. This has led our export shares in international markets to stabilise somewhat, following the losses recorded in the two previous years. However, no substantial changes to the gradual deterioration in the price-competitiveness indicators seen in recent years are discernible yet. Combined with the buoyancy of final demand, this has meant that purchases abroad have retained strong momentum, whereby import penetration has continued to increase.

Despite the better export performance and the slowdown in expenditure, the external deficit has continued to increase both in nominal terms and as a percentage of GDP during the first half of 2006, albeit at lower rates than in the two previous years. The rise in the external deficit reflects, first, the impact of some temporary or one-off factors such as more expensive energy and the cyclical discrepancy between our economy and that of the euro area. We may also include here the import intensity of investment in capital goods, although this component may have a more permanent underpinning. Foreseeably, the recent course of energy prices and the recovery in the euro area will contribute to alleviating the tendency towards deterioration. However, we must not lose sight of losses in competitiveness. Reversing these losses may prove much more complex since that will ultimately depend on the economy's efficiency and flexibility.

The labour market has continued to be governed by the patterns of previous years, with strong job creation that has provided for the incorporation of a growing number of workers into the market and a reduction in the unemployment rate. As in past years, the dynamism of the labour force has been underpinned by a higher participation rate among women and continuing sizeable migratory flows. On Eurostat figures, the unemployment rate fell to the point of reaching the same level as the euro area average (7.8%) in October, a rate not seen in Spain since the 1970s.

The dynamism of job creation is linked to the relatively moderate rate of increase of compensation per employee seen in recent years. In any event, these figures should be properly analysed. Firstly, labour costs – which have risen slightly in the first half of 2006, standing at a rate of around 3% – are appreciably lower than negotiated wage settlements under collective bargaining agreements. When taking into account the effect of indexation clauses, these settlements exceed 4% in 2006. That means that the more moderate rate of increase seen in compensation per employee masks very relevant composition effects. Specifically, the sizeable inflows of new workers at low wage levels – with immigrants accounting for a significant portion – is alleviating the rising labour costs that would have stemmed from the rises negotiated in collective agreements.

Further, it is important to note that, when this relatively moderate trend of compensation per employee is combined with the low productivity of the Spanish economy, the result is unit labour costs that are continuing to grow at a higher rate than those in the euro area. The manufacturing sector, however, has recently seen high productivity gains and some stabilisation of unit labour costs relative to the euro area countries.

Turning to inflation, we have seen two very different trajectories in 2006. In the first half of the year, price increases were very high, driven by labour costs and by widening margins, but especially by higher oil prices. The 12-month rate of increase of the CPI held at close to 4% until July, with a differential in relation to the euro area that at one point was 1.8 percentage points (pp), above the average differential observed since 1999.

However, the decline in oil prices that began in August has swiftly passed through to prices in the Spanish economy. As a result, the CPI rate stood at 2.5% in October, 1.4 pp below the July rate. That enabled the differential with the euro area countries to be cut by 1 pp, to slightly below the average in recent years. The improvement in underlying inflation was, however, very limited, and this variable is holding at a rate of close to 3%.

Admittedly, 2006 may possibly close with a growth rate somewhat higher than that of the previous year. But the outlook for 2007 points to a slight slowdown in GDP growth, as part of a continuation of the patterns in recent quarters I have described to you. National demand is estimated to hold on a mildly slowing path, and there will be further improvements in the contribution of net external demand. This profile would be in line with the macroeconomic scenario on the basis of which the State budget for 2007 has been prepared, although the starting point is somewhat higher growth rates in 2006. As to inflation, although the growth of the CPI in 2007 on average will be far below that of the current year if cheaper oil takes root, it is clear that there will only be significant headway in inflation rate convergence with the euro area if this reduction in energy prices feeds through permanently to agents' expectations.

We are therefore faced with a picture of sustained growth and some gradual correction to certain imbalances in the Spanish economy. Yet this scenario is not free from risks in the medium term. On the international front I have already mentioned risks relative to the outlook for the world economy and the uncertainty over the intensity of the European recovery. Furthermore, oil prices are subject to the influence of numerous economic and geopolitical factors, any changes in which may prompt a reversal of the fall seen in recent months. Within Spain, both the persistent inflation differential with the euro area and the high indebtedness of Spanish households harbour uncertainties that economic policy should contribute to dispel.

The maintenance of price increases higher than those in the euro area over a lengthy period is a cause for concern. Underlying inflation appears to have stabilised at a relatively high rate close to 3% in recent years. This persistence relates partly to the presence of factors that add inertia into the inflation rate, such as the indexing mechanisms in collective bargaining. The differential with the euro area is particularly high in the case of services, standing at around 2 pp. Against this background, the recent reduction in the inflation rate offers the perfect opportunity for this containment of inflation to be incorporated fully into the price formation process, providing for a moderation in expectations of price increases. That would allow it to have a lasting effect on future inflation and, thereby, we would see progress in the narrowing of our differential with the euro area. The lesser impact that the activation of the indexation clauses will foreseeably have in 2007, along with the fact that wage bargaining next year may unfold while the main inflation reference is at a rate of below 3%, substantially down on the related rate in the first half of 2006, should be conducive to such moderation. This improvement would, moreover, be important for further re-balancing domestic and external demand and ensuring the continuity of economic dynamism in the medium run.

In my recent appearance before the Lower House Budget Committee, I referred to the growing debt of companies and, in particular, of households as one of the sources of medium-term risk to the scenario of sustained growth and the tendency towards the re-balancing of the Spanish economy that I have set out today. Given the importance of the issue, I believe it would be useful to reiterate what I consider is a balanced analysis of this phenomenon.

The Banco de España has been on a vigilant footing regarding the rate at which corporate and, especially, household debt has been growing in recent years, particularly given that most of such debt is floating-rate. This tends to increase households' exposure to potentially unfavourable changes in their income or in the cost of borrowing. Such exposure may particularly affect those segments of the population whose room for manoeuvre in these situations is more limited. There is thus no reason for complacency.

A balanced analysis requires the joint assessment of all factors making up the household financial position. In this connection, it should be remembered that the payments associated with the debt incurred have grown at a substantially lesser extent than the volume of the debt and, at present, they account for a proportion of household income which, at the aggregate level, is still fairly moderate. The value of household financial and non-financial assets has also risen considerably in recent years. That is due in particular to the property market boom, on which the recent structural changes in the economy, including immigration, have had a bearing. Consequently, the financial position of the sector as a whole is fairly sound.

The trend of indebtedness in the past ten years has been sufficiently significant as to identify it as one of the risks to consider in the essentially favourable scenario of the Spanish economy. The Banco de España should signal this fact, particularly in a setting in which credit continues to show signs of being very buoyant. But, at the same time, we cannot ignore the fact that the financial position of households and firms is healthy and provides a sound basis for adaptation to the interest rate levels in keeping with the recovery in economic growth in the euro area. The solvency of the Spanish financial system is a further guarantee for the maintenance of stability in the economy as a whole.

In sum, the outlook for growth in the Spanish economy in the coming quarters is, in my view, relatively healthy. And economic policies can contribute to providing continuity to this expansion in the medium term, defusing some of the risks highlighted. In that connection, it will be essential to restrain demand impulses and improve supply-side functioning.

The change in the ECB's monetary policy stance is not only useful for sustaining the recovery in the euro area in a manner which is compatible with price stability, but is also beneficial for the Spanish economy, since the least easing of monetary conditions is conducive to containing domestic demand and helps re-balance the expansion.

Spanish public finances, for their part, remain very healthy. On the latest official forecasts, the general government budget balance will run a surplus of 1.1% in 2006, 0.2 pp up on the figure set in the last Stability Programme update. A balance on this scale obviously complies comfortably with the European fiscal discipline rules in the Stability and Growth Pact. Moreover, it will allow for a further reduction in the public debt/GDP ratio, possibly to below 40% of GDP at the end of the current year. In view of the figures available for the budget outturn during the first three quarters of 2006, it seems very likely that the final balance will be above the latest official forecast.

The sound fiscal position reflects the fact that revenue from the main taxes has amply exceeded the estimates made in the budgetary programming exercise, which can be explained only in part by the higher-than-forecast economic growth recorded.

The draft State budget for 2007 sets a surplus target for the overall general government sector of 0.7% of GDP, under a macroeconomic scenario marked by a slight slowdown in GDP. True, various factors will tend to diminish revenue in 2007, such as the entry into force of the personal and corporate income tax reform, the new EU financial perspectives and certain aspects of the labour market reform applied last July. But if we take into account the better-than-estimated closing budgetary balance in 2006 and the continuity of the economic boom scenario, revenue should foreseeably continue to be buoyant, enabling the surplus target set in the draft budget for the coming year to be exceeded. Achieving a higher-than-forecast budget surplus would also be favourable both from the standpoint of the Spanish economy's conjunctural situation and from a medium-term perspective. In this respect, a budgetary consolidation drive would contribute to setting in place the right foundations for tackling the challenges posed by ageing and the commitment to meet the requirements arising from protection in situations of dependency.

In the budget for 2007, some expense items have been accorded particular attention, such as those aimed at improving productivity; in this connection, the resources earmarked for education and innovation and for investment in infrastructure have been increased. The priority given to these items is most appropriate, given the poor productivity figures witnessed. Yet what is important is to ensure the efficiency of the measures undertaken, so that increased resources effectively translate into actual improvements in the Spanish economy's capitalisation and productivity in the medium term.

Improving the efficiency of expenditure management by the different tiers of general government is also a vital requirement for maintaining a healthy fiscal position. This is a challenge that calls for the involvement of all levels of government. From this standpoint, it is very important to adapt the analysis of public finances and its economic policy implications to the current Spanish situation, marked by highly decentralised public spending. Leaving aside the transfers between different tiers of government and interest payments, which reflect past financing patterns, the volume of spending by territorial governments is almost two and a half times that within the State sphere. Such a figure shows the enormous increase in the role of these agents, which has significant consequences for budgetary policy conduct, both in terms of its contribution to macroeconomic equilibrium and as regards its influence on the economy's growth capacity in the medium and long run.

From the standpoint of the contribution to macroeconomic equilibrium, the initial data on the regional governments' budgets for 2007 point to a balanced budget target for the year. We might wonder, however, whether the macroeconomic situation I have described, at a cyclical juncture marked by a prolonged expansion, would require the setting of somewhat more ambitious targets, in line with the spirit of the new Budgetary Stability legislation, even though these are only legally binding as from the 2008 budget. Also, from the standpoint of their contribution to long-term growth, the role of the territorial governments in managing the public spending items of most relevance for improving the Spanish economy's competitiveness acquires considerable importance. Illustrative of this point is the fact that the territorial governments are responsible for more than 90% of public spending on education.

As regards supply-side policies, the main thing is to bring about an improvement in the capacity of the economy, its agents and its markets to adapt, which enables them to respond flexibly to a changing and highly competitive environment. Better supply-side functioning would help square the continuation of the current strong employment generation with the attainment of productivity gains. The National Reforms Plan lays down a series of measures geared in this direction, and they should be resolutely applied. Moreover, there are areas such as the labour market where it is still necessary to push through reform measures to increase flexibility and efficiency, harnessing the current good times to adopt reforms that will prevent a cyclical change from causing job destruction as occurred in the past.

The picture that emerges from the recent information I have set out is that of an economy which continues to show signs of high dynamism, with the prospect of this continuing – with somewhat less momentum – in the coming years. Yet this favourable situation prolonging an exceptionally long upturn should not be understood as signifying the absence of problems in the medium term. On the contrary, over a longer horizon the Spanish economy will have to face major challenges in competitiveness, productive efficiency and the flexibility of the markets for goods, services and factors. Integrating new labour force entrants into the labour market will have to be compatible, moreover, with improved productivity. In this connection, it will be necessary to better incorporate technical progress and innovations into business and general government activity, and to enhance human capital skills. Likewise, prospective demographic developments will pose significant demands in respect of pensions and protection in situations of dependency. This will all call for further policies geared to re-balancing the sources of growth and stepping up the reform agenda in order to dispel the risks that are emerging and to ensure the continuity of the ongoing improvement in well-being in the medium and long term.

23.11.2006.

1 Overview

The past two quarters have seen a prolongation of the phase of buoyant activity and employment in the Spanish economy. The rate of increase in both variables has moved on a mildly accelerating path which has been compatible with some re-balancing of the contribution of national demand and of net exports to growth. During 2006 Q2, on QNA figures, the year-on-year growth rate of GDP rose to 3.7%, 0.1 pp up on Q1, thanks to the improved contribution of net external demand to GDP, which offset the small reduction in national demand.

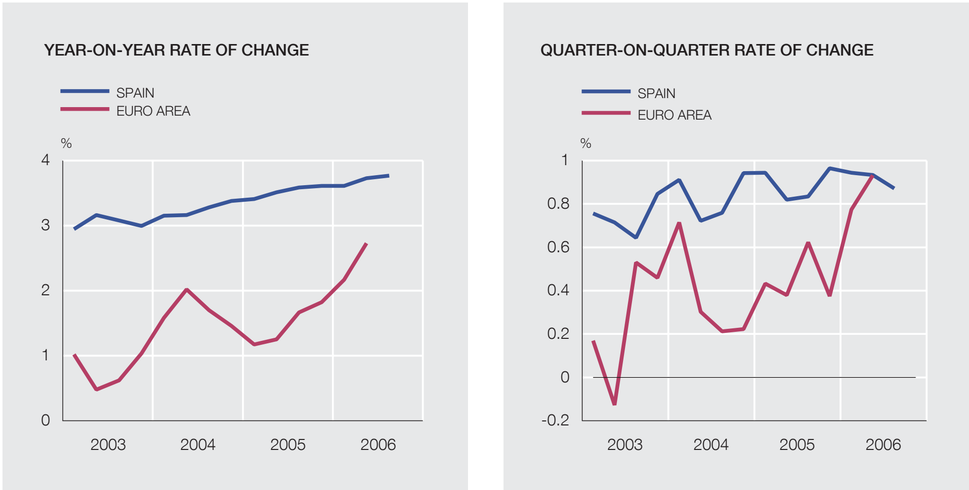
The information available for Q3 this year indicates that output has continued to gain in dynamism, taking its growth rate to 3.8% and signifying a quarter-on-quarter rate of 0.9%, similar to that in Q2 (see Chart 1). Underpinning the rise in GDP is the continuing relative momentum of domestic expenditure, following the slow deceleration that had marked this component since the first half of 2005, and the further improvement in the contribution of external demand, which is more modest than in the previous quarter. National demand is estimated to have grown at a year-on-year rate of 4.6% in this quarter, with the negative contribution of external demand having dipped from 1.1 pp in Q2 to 1 pp in Q3.

Apparent under national demand were the robustness of household consumption, the rate of increase in which held stable in Q3, and the buoyancy of investment in construction, which may have increased slightly, against a background of resilient residential investment, civil engineering works and non-residential building. Investment in equipment may have eased off slightly, though it should continue to expand sharply at a year-on-year rate of around 9%. On the supply side, industrial output continued to quicken in Q3, driven by the pick-up in exports and the sustained increase in investment in equipment. Employment also accelerated, in a setting in which the population and the participation rate have continued to grow forcefully. The unemployment rate fell further to 8.1%. Turning to inflation, there has been a very significant cut since August in the 12-month growth rate of the CPI, which stood below 3% in September, compared with a rate of close to 4% in Q2. The cause of this slowdown is essentially the marked decline in energy prices, although in the past two months there has been a slight slowdown in underlying inflation which, in any event, remains close to 3%. The inflation differential with the euro area in terms of the HICP was 1.2 pp in September, a reduction of almost half a percentage point on the differential observed in the first half of the year.

The international economic outlook in recent months has been marked by the substantial fall in oil prices since August and by the clearer signs of a slowdown in the United States and, to a lesser extent, in Japan. In the case of the US economy, the loss of momentum in Q2 was confirmed in Q3, with a deceleration based more on investment (residential and business investment alike) and on external demand than on household expenditure, which continued to show resilience. In Japan, uncertainty was centred on private consumption, which displayed signs of sluggishness in Q3. In contrast to the lesser momentum of these developed economies, the emerging economies have sustained fairly robust growth rates, particularly China and other Asian economies but also most of the Latin American and eastern European countries. Regarding this latter group of countries, it should be highlighted that the European Commission approved the entry of Bulgaria and Romania into the EU on 1 January 2007, which will take the number of Member States up to 27.

Oil prices, after reaching an all-time high in early August of around $78 per barrel of Brent, underwent a marked fall of around 20%. This reduction in price is connected with the lesser

GROSS DOMESTIC PRODUCT (a) CHART 1



SOURCES: ECB, INE and Banco de España.

a. Seasonally adjusted series.

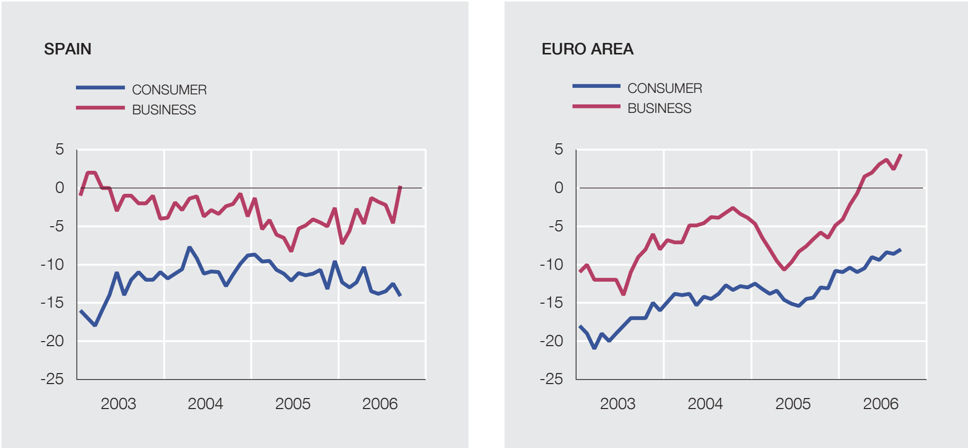
dynamism of activity expected in certain industrialised countries, although further influential factors have been the easing of geopolitical pressures, especially in the Middle East, the favourable inventories figures in the United States and the end of the summer season, entailing less demand. However, the futures curve continued to evidence similar or higher prices than the spot price.

The prospect of lesser inflationary pressures entailed by the slowdown in activity and cheaper oil has prompted some change in market expectations about official interest rate movements in certain countries, and also about a fresh decline in long-term interest rates. Nonetheless, in the case of the United States, the Federal Reserve has continued to show concern about the high level of the underlying inflation rate. In the United Kingdom, the Bank of England has kept the official interest rate at 4.75% since it raised it in August, although the outlook is for a fresh rise in the future. In the emerging Asian countries and in the eastern European economies, the monetary policy stance generally continued to tighten. During Q3 the international financial markets trended favourably, with rises on equity markets and a narrowing of sovereign spreads on the emerging markets. In sum, the outlook for the global economy remains favourable, although there is uncertainty over how long oil prices will remain at their lower level and over the capacity of the emerging economies and those in other developed areas to maintain robust and autonomous growth in the absence of a more appreciable contribution by the United States to this dynamism.

In the euro area, the economic recovery initiated in 2005 has continued with some intensity, with a year-on-year growth rate in Q2 of 2.7%, the highest since 2001. The expansion was fairly widespread across the area, though not in terms of components, since a greater contribution by investment (both in equipment and in construction) was seen, but private consumption continued to show signs of weakness. The European economies are expected to maintain robust growth in Q3, although this will probably be less in quarter-on-quarter terms than in the first half of the year, as it would not seem that the sharp expansion in Q2 in some countries, such as Germany and France, can be sustained in Q3. However, average GDP growth in 2006 will foreseeably be above 2.5%, in line with the estimates by certain international agencies. The main source of uncertainty is the behaviour of private consumption, which has been greatly affected by the poor results in Germany and Italy, where there is a perceptibly looser connec-

CONFIDENCE INDICATORS

CHART 2



SOURCE: European Commission.

tion than in the past between job creation, which has been relatively vigorous, and household expenditure. In any event, the improvement in disposable income attributable to cheaper energy and the brighter outlook apparently augured by the confidence indicators might boost private consumption in the future (see Chart 2). The increase in the VAT rate in Germany in January 2007 is a factor that may affect the profile of demand, providing a greater prop to activity in 2006 but, above all, detracting from its momentum the following year. Although the buoyancy of national demand has played a more relevant role in growth in recent quarters, the main risk to activity in the euro area is related to the effects that a sharper slowdown in the US economy might have and to the possibility that such a circumstance might lead to a disorderly correction of global external imbalances.

Despite the momentum of activity, underlying inflation has held relatively stable in the euro area in recent quarters. Moreover, the recent reduction in oil prices has been reflected in a rapid decline in the HICP, whose rate was substantially below 2% in September. Nonetheless, the risks to inflation in the medium term remain on the upside, owing both to uncertainty over the continuity of cheaper oil and to the potential pass-through to consumer prices of past increases in energy prices. The ECB Governing Council's assessment of these risks, particularly against the background of growing buoyancy in demand, led it to raise once more its official interest rate by 25 bp at its meeting on 3 August and again at that on 5 October, meaning it stands at present at 3.25%. Financial conditions may, however, continue to be viewed as relatively loose.

Fiscal policy has broadly retained a neutral stance in the euro area as a whole. Moreover, it is likely that the favourable trend of tax revenue will see the related budgetary balances for 2006 exceed those contained in the stability programmes, although some countries will still be posting deficits of over 3% of GDP this year. The experience of the early years of the present decade, when the economic slowdown led some Member States to overstep rather too readily the deficit thresholds established in the Treaty and in the Stability Pact, advises harnessing the current greater economic dynamism to make more resolute headway in fiscal consolidation, so there may be sufficient leeway in the future to withstand any losses in the vigour of activity.

This fairly favourable international scenario, with world economic growth broadly holding up and, in particular, a clear recovery in the euro area, has seen a significant improvement in the contribution of the external sector to the expansion of the Spanish economy; and this, throughout 2006, has offset the greater moderation in national demand. As indicated at the start of this report, this pattern has prevailed during Q3, although the slowdown in national demand came to a halt in this period and the gradual improvement in the contribution of the external sector to GDP growth was somewhat lower than in the previous quarter. The robustness of industrial activity and of exports continued to be a distinctive feature of the growth pattern in Q3, which contrasts with the slackness of these items the previous year. Further, investment in both equipment and in construction remained very resilient, as did private consumption, meaning that the relative tightening of monetary and financial conditions – which took the form of an increase of somewhat over 30 bp in one-year interbank market rates in Q4 and of an increase in the cost of bank loans to households and firms – has not yet clearly impacted agents' spending decisions.

The rate of increase in private consumption held at a similar rate to that of the previous quarter, owing to the continuing vigour of job creation and the persistence of a significant wealth effect. This effect was due to the fact that, although house prices continued on a gradually slowing path in Q3 (at a year-on-year rate of 9.8%, 1 pp down on the rate the previous quarter), there was also a significant rise in the value of stock market assets, reflecting sound corporate earnings, the positive effects of the fall in oil prices on the economic outlook, and the mergers and acquisitions that have been taking place in recent quarters. The net outcome has been that consumption has outgrown disposable income, whereby it is estimated that the household saving ratio has continued to decline. Since the resilience of residential investment has in turn been prolonged, the financing requirements of this sector have continued to increase, meaning that households' resort to debt to finance their expenditure has been maintained. In this respect, the year-on-year increase in credit was similar to that seen during the first half of the year, with rates at somewhat over 20%. That said, a downturn in the rate of expansion of mortgage lending and an acceleration in resources for financing consumption have begun to be discernible, perhaps as a consequence of the greater recorded expenditure on consumer durables other than cars.

Investment in equipment has also continued to show marked vigour in recent months, underpinned by greater export activity – predominantly centred on sales abroad of this type of good – and by the momentum of the industrial sector. As with households, the financing of business activity was through growing resort to debt, with a year-on-year growth rate of financing obtained standing at slightly over 26%. That made for a rising trajectory in both the debt ratio and in the debt burden of non-financial corporations. In any event, this evidence should be qualified by the figures for bank credit extended to the different productive branches, where the highest growth rates can be seen to be those in financing to construction and real estate activities, while in the other branches the expansion of credit was at a more moderate year-on-year rate of around 10%-15%.

As to investment in construction, the high figures for previous quarters were maintained in Q3, with a rate close to 6%. This was against a background in which the demand for housing remained very strong, while activity in non-residential building and, in particular, civil engineering works showed signs of being intense. In the case of residential investment, it is difficult to determine to what extent its current dynamism may be in response to the bringing forward of specific investment decisions as a result of certain regulatory changes.

Foreign trade flows followed a similar pattern in Q3 to that of the previous quarter, with export growth rates more in keeping with the growth of export markets and with a sharp increase in imports. As a result, a clear pick-up in exports has been observable in 2006 to date, following the poor results in 2005. The reason is to be found in the strong increase in global trade and in the take-off in the European countries' economic activity, since no improvements in price-competitiveness indices have been observed. Product by product, the greater buoyancy of exports has been across the board, though the expansion in sales of capital goods and of textiles has been notable, while that in cars showed some sluggishness, but not to the same extent as in 2005. Despite the recovery in the euro area, the main increases in exports in 2006 have been in non-euro area markets. The tourist industry indicators performed favourably during the summer and tourism receipts improved on the previous quarter, with a pick-up in average expenditure per tourist.

The strong growth rate of imports in real terms in Q3 is consistent with the rise in final demand, the high import content of exports and of investment in capital goods, and the improved competitiveness of imported as opposed to domestic products. In terms of products, the expansionary behaviour of imports of capital goods and of non-energy intermediate products was notable, which is in step with the dynamism of both investment and industrial activity. Tourist service imports may have continued on the slowing path observed since late 2005.

In the light of these figures, and on the provisional information available on the growth of world trade, the Spanish export share would be tending to stabilise in 2006 after the fall-off recorded in the two previous years, although import penetration would have continued increasing. In any event, the gap between the growth rates of exports and imports has continued to give rise to a widening of the external deficit.

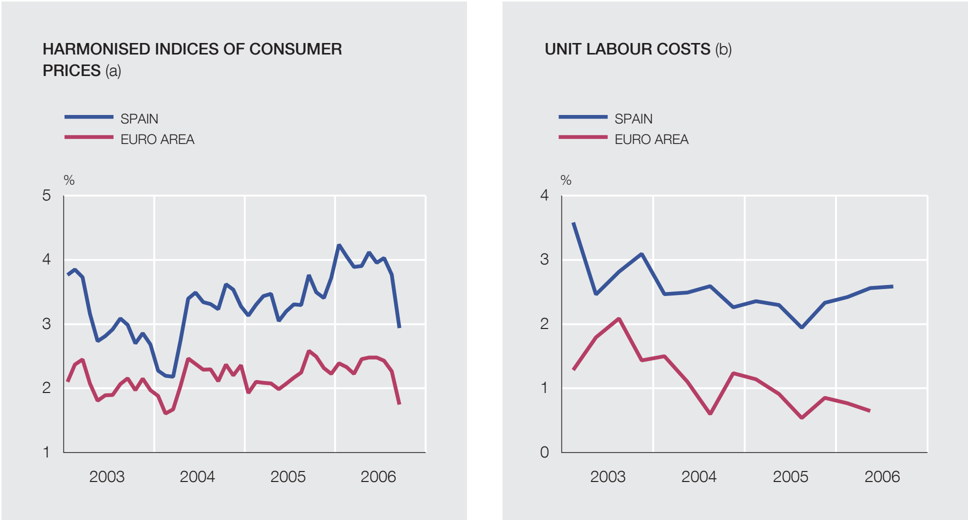
Employment in the Spanish economy has remained very dynamic. As in previous quarters, the recovery in industrial output did not significantly boost job creation in this branch, meaning that construction and services were once again the sectors where employment showed the highest rate of expansion. Accordingly, there have been no substantial changes apparent in productivity either across the different sectors, where the increase taking root in the industrial sector remains prominent, or in the economy as a whole.

Compensation per employee quickened in the first half of the year in the market economy, posting a rate of 2.7% in Q2, 0.7 pp up on end-2005. This trajectory, which is partly in response to the activation of the 2005 wage indexation clauses, has probably continued into Q3. In any event, it should be stressed that the pace of growth of compensation is running below wages negotiated in collective bargaining agreements, which reflects the importance of the effects of the incorporation of new workers into the labour market on the aggregate. However, low productivity rates have meant that the increases in compensation largely pass through to unit labour costs, which are moving on a significantly more expansionary path than in the euro area countries (see Chart 3). This, combined with the behaviour of margins, which have increased sharply, has contributed to inflation holding at relatively high levels during Q3.

In terms of the CPI, however, most of the cheaper oil since August has swiftly been reflected in the figures for the past two months, meaning that the 12-month rate of the CPI in September fell to 2.9%, compared with 4% in June. This rapid pass-through, together with the greater weight of the energy component in the Spanish consumer price basket and with the slight easing in parallel in underlying inflation, has led to a narrowing of the price differential with the euro area from an average of 1.6 pp in the first half of the year to 1.2 pp in September. While this slowdown in prices has an evident transitory component, it also has significant implications both for public finances, since it will entail a reduction in spending on pensions in 2007, and for labour costs in the coming year, since it will lessen the impact of the activation of the wage indexation clauses. Further, it is possible that wage bargaining in 2007 will take place

PRICES AND COSTS

CHART 3



SOURCES: Eurostat, ECB and INE.

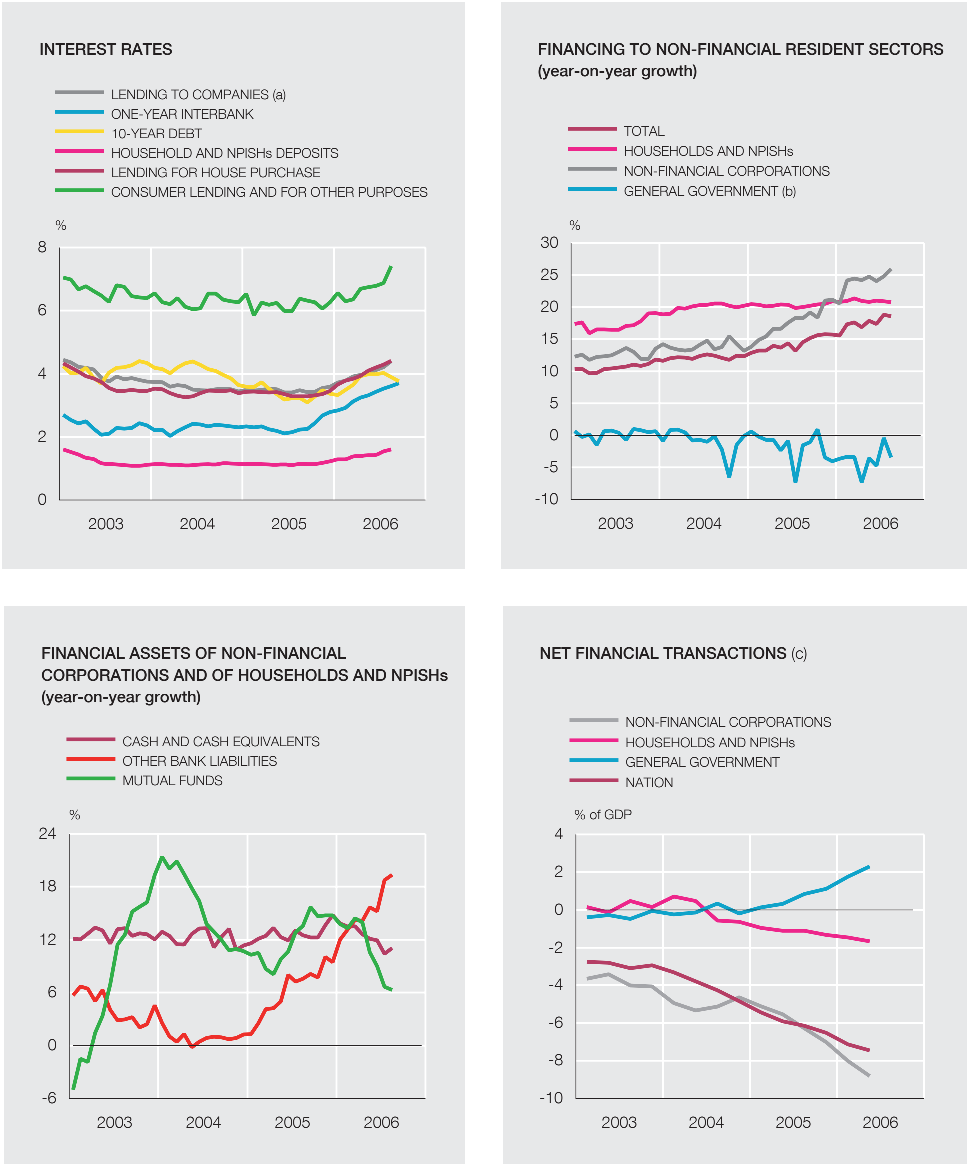
a. Year-on-year rate of change.
b. Per unit of output. Year-on-year rate of change calculated on the basis of seasonally adjusted series.

while the main inflation reference is at a rate of less than 3%, a substantially more moderate rate than that in the first half of 2006. Accordingly, it would be important for this reduction in the CPI to be fully incorporated into the price formation process and to translate into a moderation in inflation expectations, which would enable it to exert a permanent effect on future inflation and, thereby, provide for further progress in the narrowing of our price differential with the euro area.

In sum, the Spanish economy has been seen to be gaining momentum in Q3. While this has been supported by some re-balancing of the sources of growth in favour of external demand, it continues to be essentially underpinned by very robust national demand. Moreover, the improved contribution of the external sector appears to respond more to the vigour of the international environment than to favourable price-competitiveness developments in Spain. In this respect, the continuation of the process of strong economic growth has not been accompanied by a reduction in the imbalances observed in previous years, in the form of a high external deficit, a persistent inflation differential with the euro area and sharp increases in the indebtedness of the private sector (see Chart 4). Faced with this situation, the contribution of economic policies, tempering the impulse of demand and improving supply-side workings, is fundamental.

In recent weeks the draft State budget for 2007 was unveiled, and the expected budgetary balance for 2006 was provided as part of the Excessive Deficit Procedure notification. The balances furnished for these two years – representing surpluses of 1.1% of GDP in 2006 and 0.7% of GDP in 2007 –would, if reached, entail a relatively expansionary budgetary policy stance. However, the buoyancy of tax revenue in 2006 to date augurs a better balance than indicated, whereby the fiscal policy stance would tend to be neutral this year. As regards 2007, the better starting point the present year represents should also entail a higher-than-projected surplus, although in this case the application of the personal income tax and corporate income tax reform will foreseeably involve a certain expansionary bias in the fiscal policy stance. Against this background, it would be advisable to use the potential upward deviations in tax revenue, in line with what is happening in the current expansionary setting, to improve the

FINANCIAL INDICATORS OF THE SPANISH ECONOMY CHART 4



SOURCE: Banco de España.

a. Weighted average of interest rates on various transactions grouped according to their volume. For loans exceeding €1 million, the interest rate is obtained by adding to the NDER (Narrowly Defined Effective Rate), which does not include commission and other expenses, a moving average of such expenses.
b. Consolidated financing: net of securities and loans that are general government assets.
c. Four-quarter data.

budget balance and thus contribute to alleviating the tendency to imbalance caused by the pressure of national demand.

As to the recent labour market reform, it is still too early to assess its impact in detail. Nonetheless, information from the INEM figures on employment contracts shows an appreciable rise in permanent hiring since July, due above all to the conversion of temporary contracts. The reform includes an exceptional period running to 31 December this year in which these conversions entail a rebate in the related social security contributions, which means that this high dynamism may be expected to continue in the coming months. The EPA (Labour Force Survey) data for Q3, which have recently been published by INE, show that the proportion of temporary to total employees rose to 34.6%, 0.2 pp up on the previous quarter, although in the summer there is usually something of an increase in this ratio for seasonal reasons and this year the increase has been lower than that observed for the same period in the two previous years.

Finally, on 13 October the Council of Ministers approved the Annual Progress Report for 2006 of the National Reform Programme (NRP). The NRP shows the economic policy strategy for the period 2005-2010, whose two fundamental goals for the end of the current decade are full convergence in per capita income with the European Union (EU 25) and to reach an employment rate of 66%[1]. In 2005, the figures for the foregoing variables were 98.8% in the case of per capita income and 63.2% in that of the employment rate. Both the NRP and the current Progress Report stressed the poor results obtained in respect of productivity, which is growing more slowly than in the EU and thereby hampering convergence in income with this area. The implementation of the Plan is moving soundly ahead, since during its first year in force somewhat more than half of the 310 measures contained in it have been approved. In any event, given the nature of this Programme, the effects of the bulk of these measures will foreseeably unfold in this and the following years; accordingly, its results should be evaluated over a somewhat longer time horizon. A prompt and ambitious application of the guidelines of this Plan is very important for ensuring the sustainability of economic growth under the demanding conditions stemming from membership of the euro area and from ongoing globalisation.

1. More information on the NRP can be found in Box 1.4 of the 2005 Banco de España *Annual Report*.

2 The external environment of the euro area

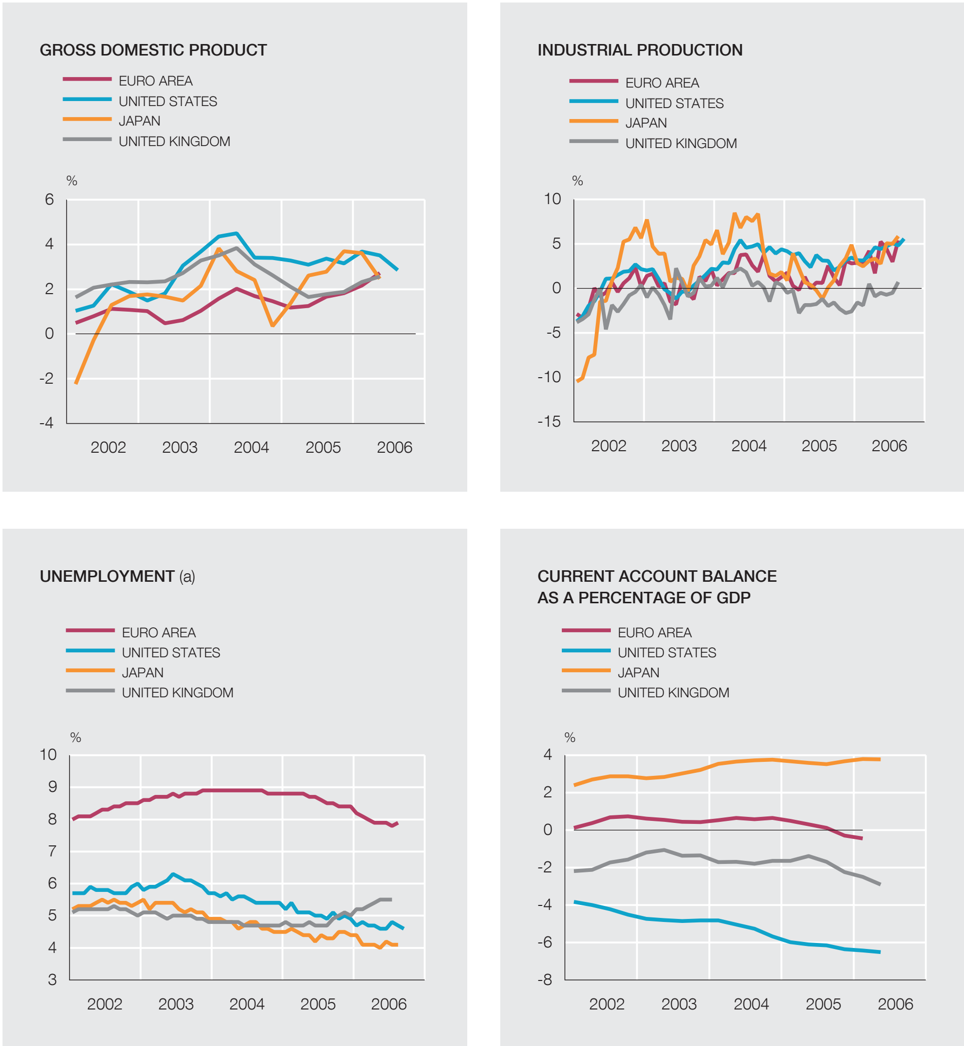
During the last quarter, developments in the external environment of the euro area were essentially marked by the economic slowdown in the United States and, to a lesser extent, in Japan. Combined with the prospect of lesser inflationary pressures, this prompted a fresh decline in long-term interest rates and changes in expectations on financial markets regarding movements in official interest rates. The slowdown in economic activity spread to most of the emerging economies, which nevertheless maintained fairly high rates of increase, especially China and other Asian economies. As to the behaviour of the markets, the most relevant development was the notable fall in oil prices from mid-August.

The revised market expectations about movements in official interest rates in the United States – where the futures markets began to incorporate downward movements, after the Federal Reserve had kept its federal funds rate target at 5.25% at its last three meetings – and in Japan were accompanied by gains in stock market indices and reductions in the credit spreads on corporate bonds. On the foreign exchange markets, the dollar hovered between 1.29 and 1.25 against the euro, while the yen depreciated against both currencies and reached all-time lows against the euro. The emerging markets recovered from the period of volatility they underwent in Q2, despite limited and transitory corrections being observed in some countries as a result of domestic factors. Oil prices, after reaching an all-time high of $78 per barrel in early August, stood at below $60 per barrel at the end of September, 20% below the spot price three months earlier. Conducive to this fall were the diminished geopolitical tensions, the favourable US inventories figures and the end of the summer season, and these coincided with declines in the prices of certain precious metal commodities, especially gold. In mid-October the OPEC members agreed on a reduction in the oil supply of 1.2 million barrels per day (1.4% of world consumption) as from 1 November. This caused only a slight and temporary rise in prices, which are holding at around $60 per barrel.

GDP in the United States grew by 1.6% in Q3, in annualised quarterly terms, 1 pp down on the previous quarter; the related year-on-year rate dipped from 3.5% to 2.9%. This slowdown was due to the strong decline in residential investment, which subtracted 1.1 pp from GDP growth, and to the negative contribution of external demand, as a result of the acceleration in imports. Conversely, both private consumption and non-residential investment quickened. Against the background of the slowdown in activity and the correction in the real estate market (with year-on-year falls in the main indicators of house prices), the fall in petrol prices was propitious to the firmness of private consumption and of consumer confidence. The labour market data were also relatively favourable. The significant reduction in the pace of job creation in September was offset by strong upward revisions of the figures for the previous months; moreover, the unemployment rate held at 4.6% of the labour force. Looking ahead, the course of private consumption poses the main risk to growth, linked to the possible contractionary impact of the adjustment of house prices and to uncertainty over the capacity of other forces – such as the reduction in energy prices, the favourable financing conditions or labour market developments – to offset that impact. Turning to inflation, the decline in energy prices prompted a significant easing in the CPI in September, which posted a month-on-month fall of 0.5%, with its year-on-year rate falling to 2.1%, compared with 3.8% the previous month. The base effect of the strong increase in prices in September 2005 also contributed to this cut. Nonetheless, the underlying inflation rate rose by 0.1 pp to 2.9%, against a background of accelerating labour costs, and the risk remains that these increases may pass through to agents' inflation expectations, as several Federal Reserve comments have indicated. With regard to

MAIN MACROECONOMIC INDICATORS
Year-on-year rate of change

CHART 5



SOURCES: Banco de España, national statistics and Eurostat.

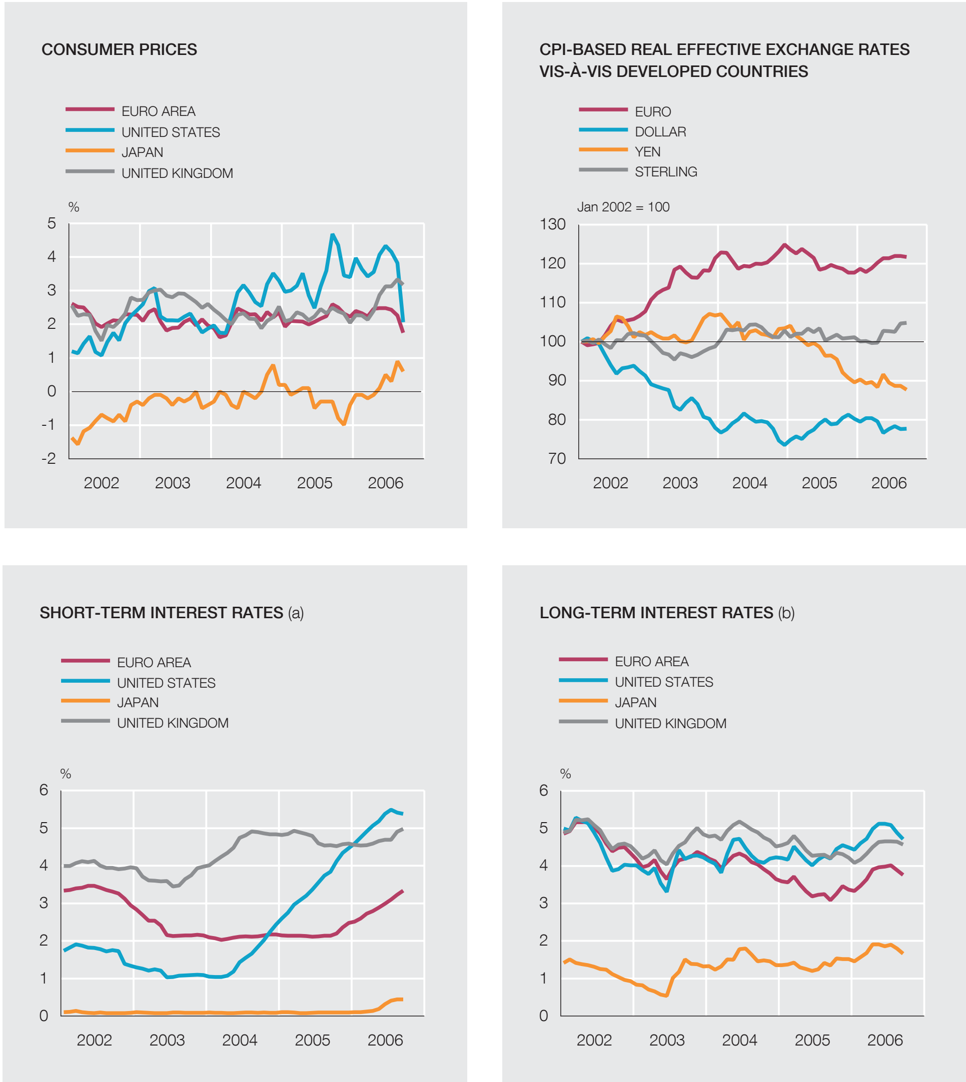
a. Percentage of labour force.

fiscal policy, the Federal deficit for fiscal 2006 stood at 1.9% of GDP, compared with 2.6% of GDP in 2005, thanks to the buoyancy of revenue.

In Japan, following a hesitant start to the quarter, economic activity regained greater momentum, with positive supply-side indicators – in particular the Tankan business confidence survey and machinery orders – and favourable labour market developments, which placed the unemployment rate at 4.2% of the labour force in September. Despite employment growth, private consumption showed signs of less steam during Q3 owing to a deterioration in confidence and to the flatness of wage remuneration. On the external front, the acceleration in exports and the easing of the pace of expansion of imports in recent months gave rise to an improvement in the external balance. As to prices, the September CPI eased off by 0.3 pp to 0.6% year-on-year, while underlying inflation declined by 0.1 pp to 0.2%, due largely to the slowdown in energy prices. Wholesale prices moved surprisingly up in September, posting year-on-year growth of 3.6%. Lastly, the Bank of Japan held its official interest rates unchanged at 0.25% at its October monetary policy meeting.

PRICES, REAL EXCHANGE RATE AND INTEREST RATES

CHART 6



SOURCE: Banco de España.

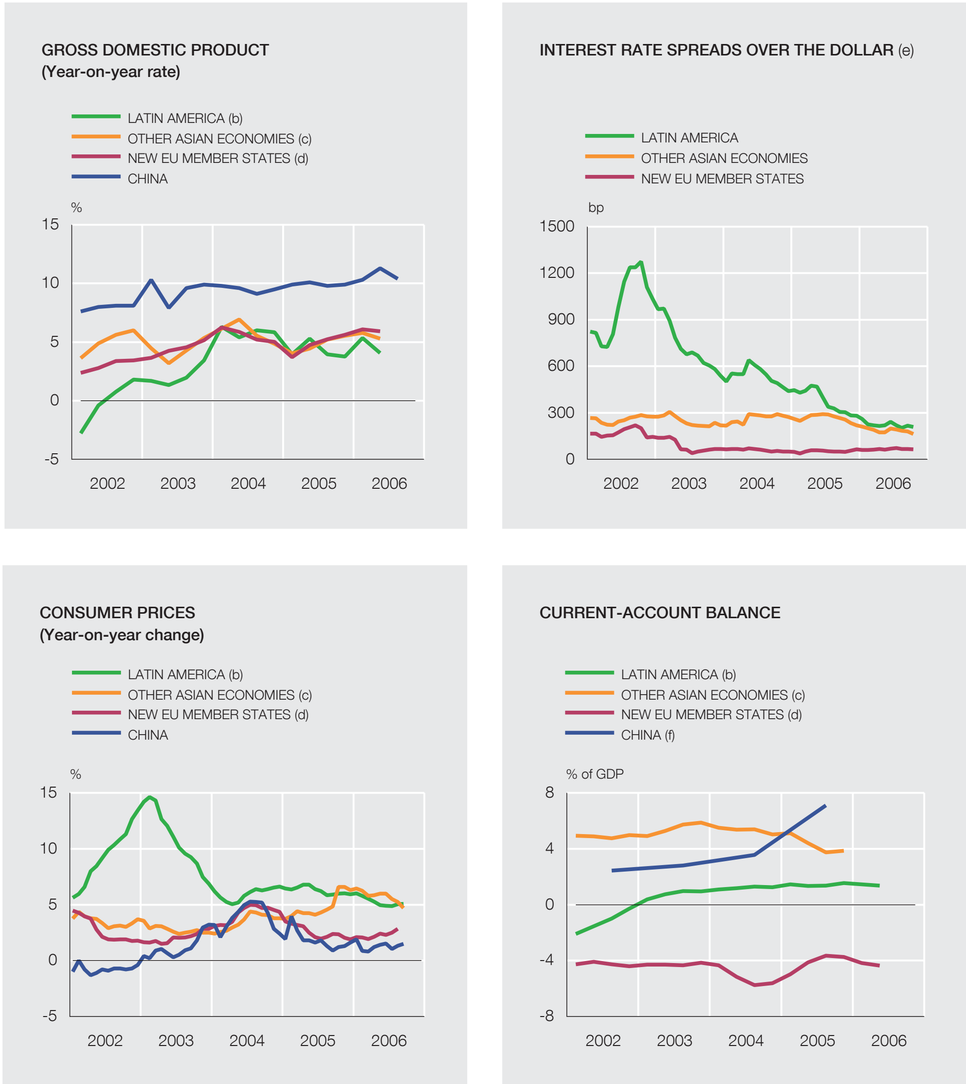
a. Three-month interbank market interest rates.
b. Ten-year government debt yields.

In the United Kingdom, GDP grew at a quarterly rate of 0.7% in Q3, the same as in the first two quarters of the year (in year-on-year terms the rate edged up from 2.6% to 2.8%), showing signs of the robustness of the economy and confirming the positive message emitted by recent supply-side indicators such as industrial output and the PMI. Private consumption also tended relatively favourably during the quarter, although there was some sluggishness in retail sales in September. Turning to the labour market, the unemployment rate increased during the quarter to 5.5% of the labour force. As to prices, inflation dipped by 0.1 pp in September to 2.4% year-on-year, while producer prices slowed notably to 1.8%. The rate of expansion of house prices firmed and grew at over 8% in September compared with a year earlier. Against this backdrop, the Bank of England held its official interest rate at 4.75% in September and October, following the 25 bp rise in August.

GDP slowed in almost all the new EU Member States in Q2, although it sustained a very robust rate of increase, averaging 5.6% year-on-year compared with 6% in Q1. Once again, the buoyancy of domestic demand offset the negative contribution of the external sector. The in-

EMERGING ECONOMIES:
MAIN MACROECONOMIC INDICATORS (a)

CHART 7



SOURCES: National statistics and JP Morgan.

a. The aggregate of the different areas has been calculated using the weight of the countries that make up these areas in the world economy, drawing on IMF information.
b. Argentina, Brazil, Chile, Mexico, Colombia, Venezuela and Peru.
c. Malaysia, Korea, Indonesia, Thailand, Hong Kong, Singapore, Philippines and Taiwan.
d. Poland, Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Latvia and Lithuania.
e. JP Morgan EMBI spreads. The data on the new EU Member States relate to Hungary and Poland. The aggregate for Asia does not include China.
f. Annual data.

dicators of activity and of demand in 2006 Q3 generally remained firm. Inflation rates continued on an upward path in most cases owing to the rise in energy and food prices, although notable variability persists from one country to another (from 1.4% year-on-year in Poland to 5.9% in Latvia and Hungary). Prices eased in some of these countries in September owing to lower energy prices. As a result of the rise in inflation, there were increases in official interest rates in several countries, such as the Czech Republic and Slovakia, and also in Hungary, where in addition to the rise in inflation expectations there was a notable deterioration in public finances. The new convergence programme presented by the Hungarian government envisages a budget deficit of 10.1% of GDP in 2006, which will fall to 3% in 2009. The bulk of the fiscal adjustment – over 6 pp – is foreseen for 2007 and 2008, and would entail a significant contractionary effect on domestic demand. In Turkey, GDP rose in Q2 from 6.5% to 7.5% year-on-year, despite the financial turbulence in May and June. Although the financial markets appear to have stabilised, the deterioration in the current account deficit and in inflation has continued in recent months. Finally, the European Commission approved EU entry for Bulgaria and Romania on 1 January 2007.

In China, GDP in Q3 grew at a year-on-year rate of 10.4%, 0.9 pp down on Q2, confirming the signs of deceleration shown by certain indicators of activity such as investment in fixed assets or industrial output, following the measures adopted from April to combat the risks of overheating. The money supply and domestic credit also moved along these lines and resumed more sustainable paths of expansion. The exchange rate of the renminbi appreciated significantly in Q3 (by 1.1% against the dollar), although there was a record trade surplus of $48.7 billion, 57% higher in the first nine months of 2006 than in the same period a year earlier. However, foreign direct investment inflows continued to decline, albeit slightly. The inflation rate fluctuated during the quarter: after dipping in July, it rose in August and September to 1.5% year-on-year, while producer prices oscillated at around 3.5%. In most of the other big Asian countries, GDP in Q2 slowed moderately, the result of the lesser increase in exports and, in certain cases, in domestic demand. Even so, growth rates were very high, especially in India, which posted a year-on-year growth of 8.9%. In July and August, economic activity was generally firm, and exports were considerably dynamic, especially in India and South Korea. Inflation posted a high for the year in August in several countries in the region, although it fell in some others as a result of the easing off in the growth of energy prices, a trend which continued in September. Against this background, the moderate tightening of monetary policies in the area continued.

In Latin America, the indicators of activity released for July and August suggest that the general trends observed in Q2 in the two biggest economies in the region were maintained in Q3: sluggish activity in Brazil, albeit with a slight recovery, and greater dynamism in Mexico. Likewise, activity slowed even further in Chile and quickened slightly in Argentina, Colombia and Peru. The favourable behaviour of the trade balance figures and sound fiscal results were factors that bore on the improved sovereign ratings for Argentina, Brazil, Chile, Peru and Uruguay. On the prices front, the year-on-year inflation rate for the region as a whole rose by 0.2 pp in Q3 to 5.1% in September, from the historical low attained in June. Nonetheless, the inflation performance was heterogeneous, since it declined in Argentina, Brazil and, notably so, in Chile, while it increased in Peru, Colombia, Mexico (by almost 1 pp in the quarter) and, especially, in Venezuela, where it climbed from a rate of 11.8% in June to 15.3% in September. Interest rates rose in Q3 in Colombia, Chile and Argentina, while they fell in Brazil (by 150 bp to 13.75%).

The National Accounts information for the first half of 2006 confirmed the soundness of the recovery in activity in the euro area. In that period, economic dynamism was more generalised across countries and branches of activity. Also, the pattern of growth was more balanced, with a greater contribution by domestic demand, making growth more sustained and less dependent on the external environment. The mainly qualitative indicators of activity and employment available for Q3 reflect the extension of this scenario into the second half of the year, albeit at a somewhat lesser rate than in the first six months. Accordingly, GDP will foreseeably post an average growth rate in 2006 above 2.5%, in line with the estimates by some international agencies.

Beyond this time horizon, the scale of the upturn will largely depend on the course of private consumption, which still shows no firm signs of recovery in some countries, although it is expected that the increase in employment and the decline in oil prices, should they firm, will give an upward impulse to disposable income and, potentially, to household spending. In the medium and long run, the risks to the economic outlook in the euro area remain on the downside and are related to the effects that a greater-than-anticipated slowdown in the US economy might have on Europe and to the possibility of a disorderly correction of global external imbalances.

As regards prices, no underlying inflationary pressures are perceptible so far. Moreover, the reduction in oil prices since mid-August, along with the base effect derived from their high growth in the summer of 2005, has had a significant impact on the HICP, whose 12-month rate of increase stood clearly below 2% in September. This slowdown in consumer prices, though partly temporary, is a factor acting in favour of the containment of wage demands in the collective bargaining that will take place shortly in some countries. Nonetheless, medium-term inflation risks remain on the upside, owing to the uncertainty over the recent fall in oil prices continuing and to the possible pass-through to consumer prices of past rises in the price of energy products.

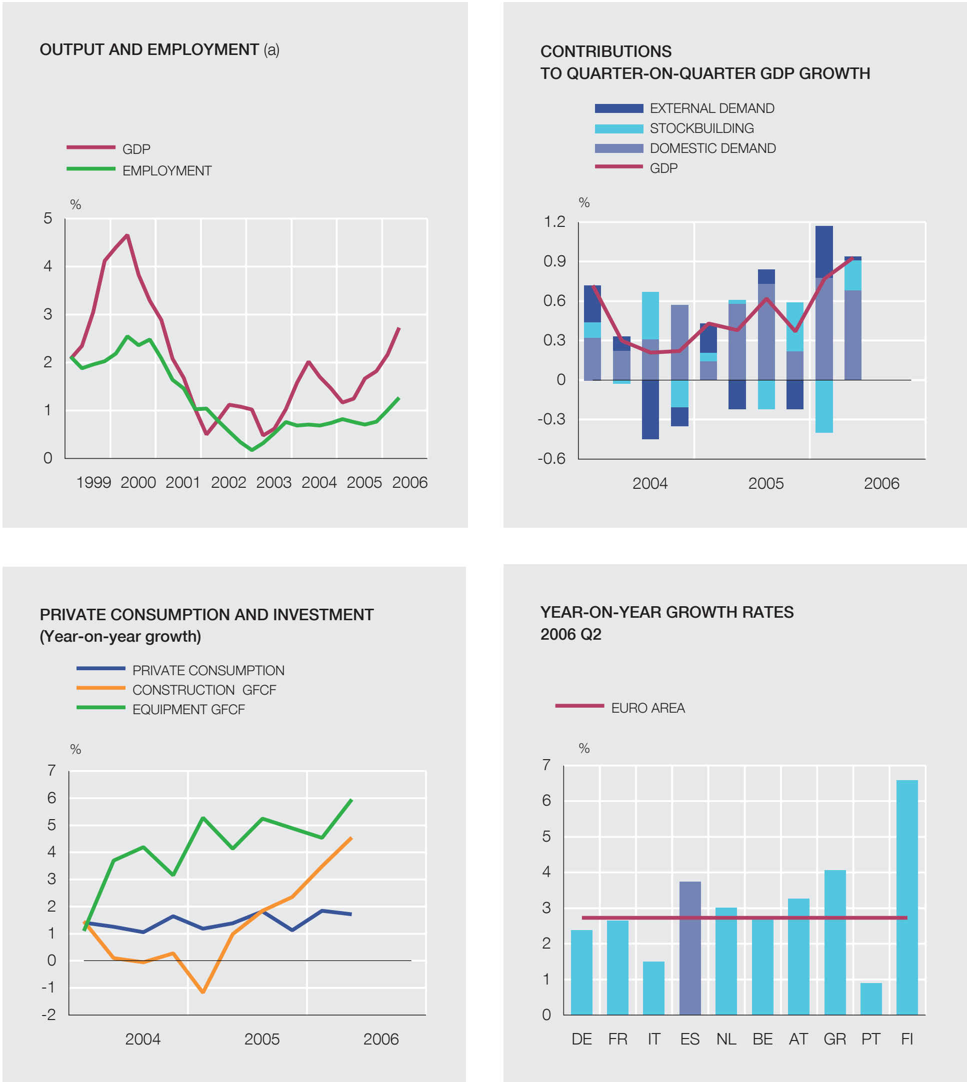
On the economic policy front, the emergence of risks to price stability in the medium term, against a background of increasingly buoyant activity, led the ECB Governing Council gradually to increase its official interest rate, which currently stands at 3.25%. That said, interest rates remain at relatively low levels. Fiscal policy has retained a neutral stance in the euro area as a whole and the favourable course of tax receipts will probably result in higher budgetary balances for 2006 than those contained in the stability programmes and in the European Commission's spring forecasts. In this respect, the context of greater economic dynamism offers an opportunity that should be harnessed so that certain euro area countries may make further progress in terms of fiscal consolidation.

3.1 Economic developments

National Accounts data for the euro area confirmed the strength of economic activity in the first half of 2006. GDP growth in Q1 was 0.8% in quarter-on-quarter terms, a figure revised upwards from the initial estimate of 0.6%, due mainly to the revision of the German figures. The second National Accounts estimate substantiated the robustness of GDP during the April-June period, with growth of 0.9% in relation to the previous quarter. As a result, year-on-year growth of output in the euro area stood at 2.7% in Q2, compared with 2.2% in Q1.

The increase in GDP in Q2 was largely underpinned by the sound behaviour of domestic demand (excluding inventories), whose contribution to quarter-on-quarter growth in output

EURO AREA NATIONAL ACCOUNTS CHART 8



SOURCES: Eurostat and national statistics.

a. Year-on-year rates of change.

was 0.7 pp (see Chart 8). In particular, the main impulse to activity was from gross fixed capital formation (both in capital goods and in construction), which grew at a quarter-on-quarter rate of 2.1%. Nonetheless, behind this acceleration are some exceptional factors relating to the behaviour of investment in construction in Germany. Conversely, both government and private consumption were somewhat sluggish, with their respective quarter-on-quarter growth rates declining by 0.4 pp to 0.5% and 0.3%. The contribution to the quarterly change in GDP of net external demand was virtually nil, compared with 0.4 pp in Q1. This behaviour was in response to the sharper slowdown in exports than in imports. Finally, the contribution of stockbuilding to GDP growth was 0.2 pp, above the negative contribution of -0.4 pp in Q1.

Output accelerated in all branches of activity, although the biggest increase in gross value added at constant prices was in agriculture, construction and the distributive trade. National Accounts country-by-country analysis also suggests that the greater economic dynamism in Q2 was generalised. Most countries posted high quarter-on-quarter GDP growth, between 0.8% and 1.2%. The exception was Italy, where GDP increased by 0.5% (1.5% in year-on-year

EURO AREA. WAGE AND EMPLOYMENT INDICATORS
Year-on-year percentage changes

CHART 9

SOURCES: Eurostat and ECB.

a. Expectations based on European Commission sentiment indicators. Normalised data.

terms), which entailed a slight slowdown on Q1 attributable to the weakness of domestic demand. By contrast, the increase in French and German GDP growth was very high (0.9% and 1.2% quarter-on-quarter, respectively). However, much of the economic acceleration in these two countries is due to the high contribution of stockbuilding, which respectively contributed 0.5 pp and 0.7 pp to the quarterly growth of output. In Germany's case, moreover, the improvement was also due to the exceptional buoyancy of investment in construction, which came about as a result of the unfavourable weather in Q1 and the effect of the elimination of subsidies for owner-occupied housing construction in January 2006, and which countered the deterioration in private consumption.

As regards the labour market, signs of - albeit mild - improvement continued to be seen during Q2. First, employment grew by 0.4% in quarter-on-quarter terms, placing the year-on-year increase at 1.3%, 0.3 pp up on Q1. Nonetheless, the growing weight of part-time hiring means that the rate of increase in employment in equivalent full-time terms is more modest. Further, the euro area unemployment rate continued to decline, though at a lesser pace in recent months, standing at 7.9% in August, a similar level to Q1 and 0.7 pp less than a year earlier. The strong momentum of activity steepened the accelerating profile of productivity, which posted growth of 1.4% in Q2, 0.3 pp up on Q1.

Turning to wages, the related indicators rose slightly during Q2 against the backdrop of the prolonged phase of wage moderation whose determinants are explored in Box 1. In the April-June period, compensation per employee increased by 2.1% in year-on-year terms, 0.2 pp more than in Q1 (see Chart 9). Nonetheless, significant divergences can be seen across the different countries. Whereas there was a marked acceleration in Italy, Spain and Finland, where the year-on-year increase stood at around 3%-4%, the related rate held at virtually zero in Germany. In Q2 the growth of the GDP deflator increased by almost 0 .2 pp to 1.9%, which, combined with the further slowdown in unit labour costs to a year-on-year rate of 0.6%, resulted once again in a widening of business margins.

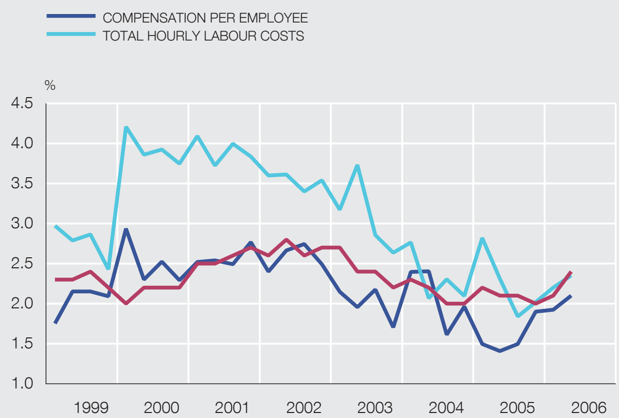
The latest economic indicators for Q3 point to continuing economic dynamism, but perhaps at a somewhat slower growth rate than in the first half of the year (see Chart 10). On the supply

The recent trend of the set of labour costs indicators available in the euro area has moved on a decelerating path in recent years (see panel 1). The year-on-year growth rate of compensation per employee stood at 2% in the first half of 2006, below the average recorded since 1999, although inflation in the euro area has held persistently above 2% virtually throughout the period analysed. Despite undergoing some short-term volatility (and, in particular, a certain rise in the past two quarters), the wage-containment scenario is reflected in other indicators such as negotiated wages or hourly labour costs. Moreover, the moderate growth of compensation per employee has meant that, despite the scant rise in productivity, unit labour costs have slowed, as have real wages (see panel 2).

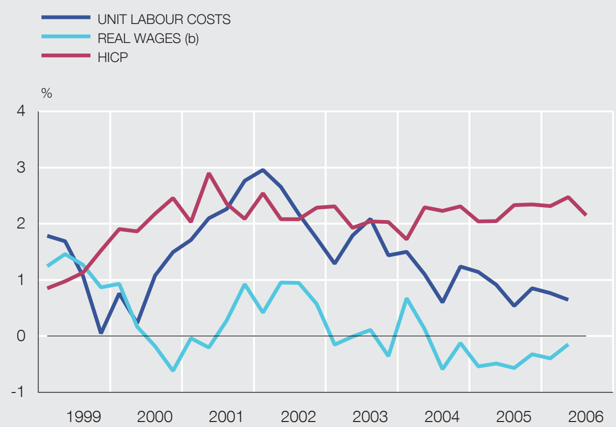
A simple model for determining wage developments in the euro area suggests that a significant portion of wage growth can be explained by labour productivity and inflation developments, and the positive contributions both variables have made to wage growth in recent years confirm this (see panel 3). The situation of greater or lesser dynamism in the labour market -proxied in this equation by the difference between the actual unemployment rate and an estimate of the NAIRU - has also contributed appreciably to the behaviour of wages, meaning that since mid-2003 the slack in the labour market has helped push wages downwards and may account for some of the recent wage moderation.

Nonetheless, panel 3 also shows that, in the most recent period, wages have grown less than would be warranted by the performance of the determinants described in the foregoing paragraph, which points to the existence of other factors potentially behind the wage moderation observed. Firstly, it is possible that the degree of slack in the labour market is not very well reflected by the indicator used in the equation shown. In this respect, it is worth observing the changes in

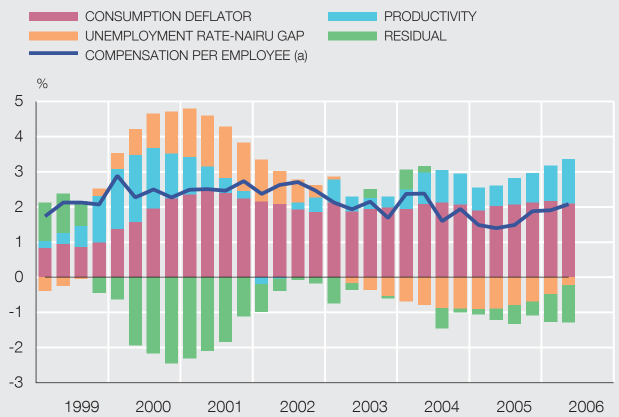
1 RECENT WAGE DEVELOPMENTS IN THE EURO AREA (a)



2 LABOUR COSTS, REAL WAGES AND INFLATION (a)



3 CONTRIBUTIONS TO WAGE GROWTH



4 BREAKDOWN OF EXCESS LABOUR SUPPLY (d)

SOURCES: EUROSTAT, ECB and Banco de España.

a. Year-on-year rates of change.
b. Compensation per employee deflated by the private consumption deflator.
c. Contributions to the year-on-year growth rate of compesation per employee obtained from an equation estimated for this variable using the consumption deflator, labour productivity and the gap between the unemployment rate and the NAIRU as explanatory variables.
d. The aggregate for the euro area has been obtained with figures from the European Labour Force Survey, excluding Belgium, Ireland and Luxembourg, for Q2 each year. The magnitudes are shown as a percentage of an adjusted labour force which, in addition to total employed and unemployed, includes discouraged inactive persons.

excess labour supply when, in addition to the unemployed, other resources available in the labour market, such as the so-called discouraged inactive workers[1] and also part-time workers who state that they would prefer a full-time job, are taken into account (see panel 4). Thus, while the Eurostat official unemployment rate has fallen by more than 1 pp in the past two years, to 7.9% in August 2006, this alternative indicator suggests that the real slackness of the labour market continued and even trended upwards at least until mid-2005, which may have contributed to restraining wage growth. The European Commission's quarterly industrial survey confirms this picture, since the percentage of firms reporting a constraint to production due to labour shortages held at low and stable levels between 2003 and 2005, although this figure has begun to rise appreciably since early 2006.

Secondly, the slowdown in wage growth has taken place despite the fact that the annual average inflation rate has held persistently above 2% in recent years. Actually, behind this persistence has been a series of temporary shocks which have not significantly affected inflation expectations or wage demands insofar as they do not appear to have been interpreted by workers as lasting. Between 1999 and 2002, the influence of high oil prices was intensified by the depreciation of the euro and by other adverse shocks relating to livestock diseases and to the euro cash changeover. Since 2003, fresh shocks - such as the rise in excise duties on tobacco and in administered prices (e.g. relating to health care), and the recent increases in oil prices - have pushed the euro area inflation rate upwards. The credibility achieved by the European Central Bank in ensuring compliance with its price stability target may have contributed favourably to anchoring these inflation expectations. Further, the absence in most euro area countries of wage indexation systems, combined with the weakness of domestic demand in the recent period, has prompted less wage pressure.

Finally, other factors that might have influenced wage behaviour in recent years should be mentioned. These include most notably some of the reforms recently introduced in European labour markets aimed at making them more flexible, which may have moderated wage growth. Likewise, it cannot be ruled out that the effects of heightening global competition, e.g. the threat of delocalisation, may have increased workers' sense of vulnerability, contributing to keeping their wage demands contained, against the background of the gradual weakening of European trade unions' bargaining power.

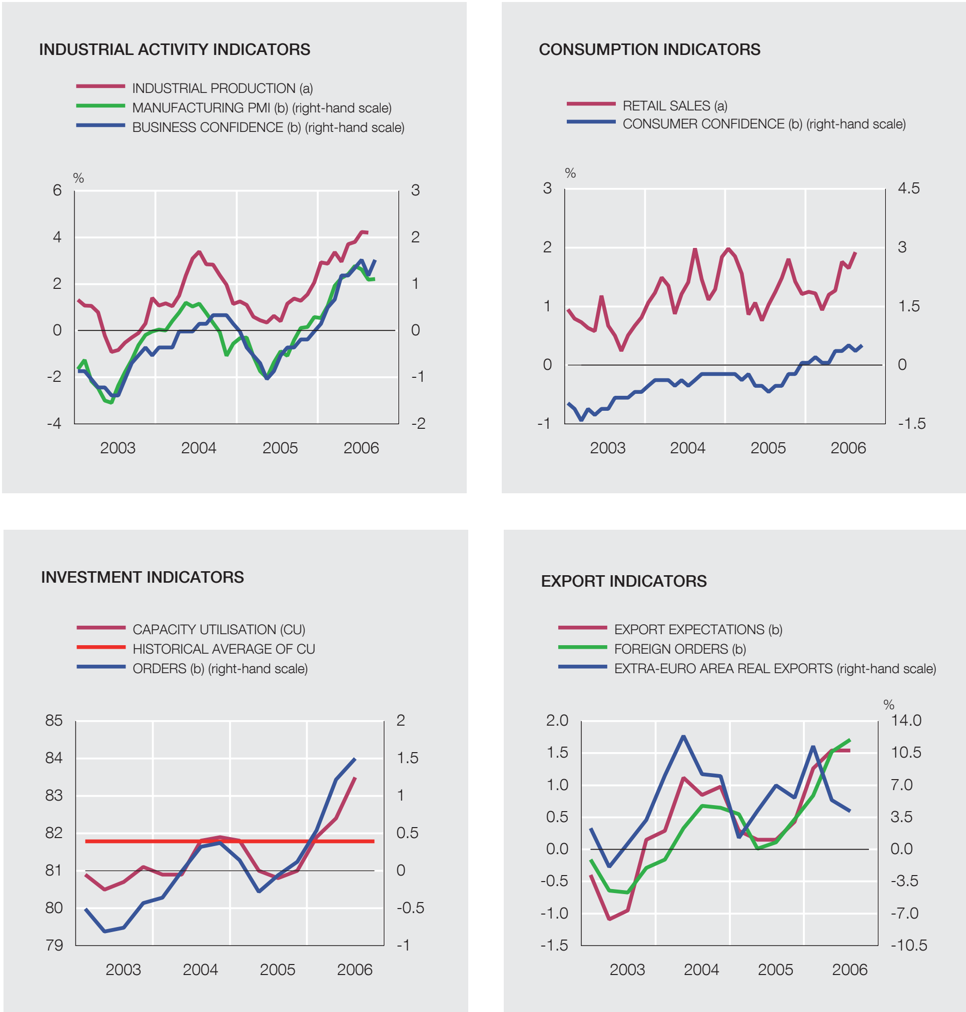
On the basis of the information currently available on collective bargaining agreements already signed in the euro area for 2006 and 2007, and bearing in mind the amount of resources still available in the labour market, in the short run slow growth in wage pressures may be expected. However, in the medium and long term, and set against a brighter outlook for the labour market and economic growth, the risks of an increase in wage pressures are on the upside.

1. Discouraged workers are inactive people who state that they would like to have a job but do not actively look for one because they think they will have no chance of finding one.

side, the industrial production index quickened in August and its year-on-year growth stood at 5.4%, up from 4.5% at the end of Q2. The trend of the qualitative indicators, however, was uneven. On average in Q3, the European Commission's confidence surveys were up on Q2, with bigger increases in industry and construction. However, the Purchasing Managers Indices (PMI) for the manufacturing sector and services fell off in Q3, though they are holding at high levels consistent with robustly expanding activity. The improvement to date in 2006 in job creation expectations in industry and construction continued, while in services there was a slight fall from the maximum levels attained at the start of Q2.

On the demand side, the indicators are also consistent with the expansionary course of activity. The average value of the retail sales index in July and August was 0.8% above the average figure for Q2. New car registrations, by contrast, declined significantly in July, though this was offset partly in August and September. Further, the rise in this indicator in September in Germany might be reflecting the bringing forward of expenditure in the face of the increase in VAT envisaged for January 2007. As regards the Commission's qualitative indicators, intentions to purchase vehicles and housing in the coming 12 months increased. Moreover, consumer and retail trade confidence indicators generally improved in Q3. As to investment in capital goods, the outlook for Q3 is also relatively favourable, as may be deduced from the indicators of industrial orders and their main determinants. The degree of capacity utilisation continued growing to a peak not recorded since 2001, corporate earnings improved and the cost of financing is holding at a low level. However, the European Commission's quarterly business survey for

EURO AREA. REAL INDICATORS CHART 10



SOURCES: Eurostat and European Commission.

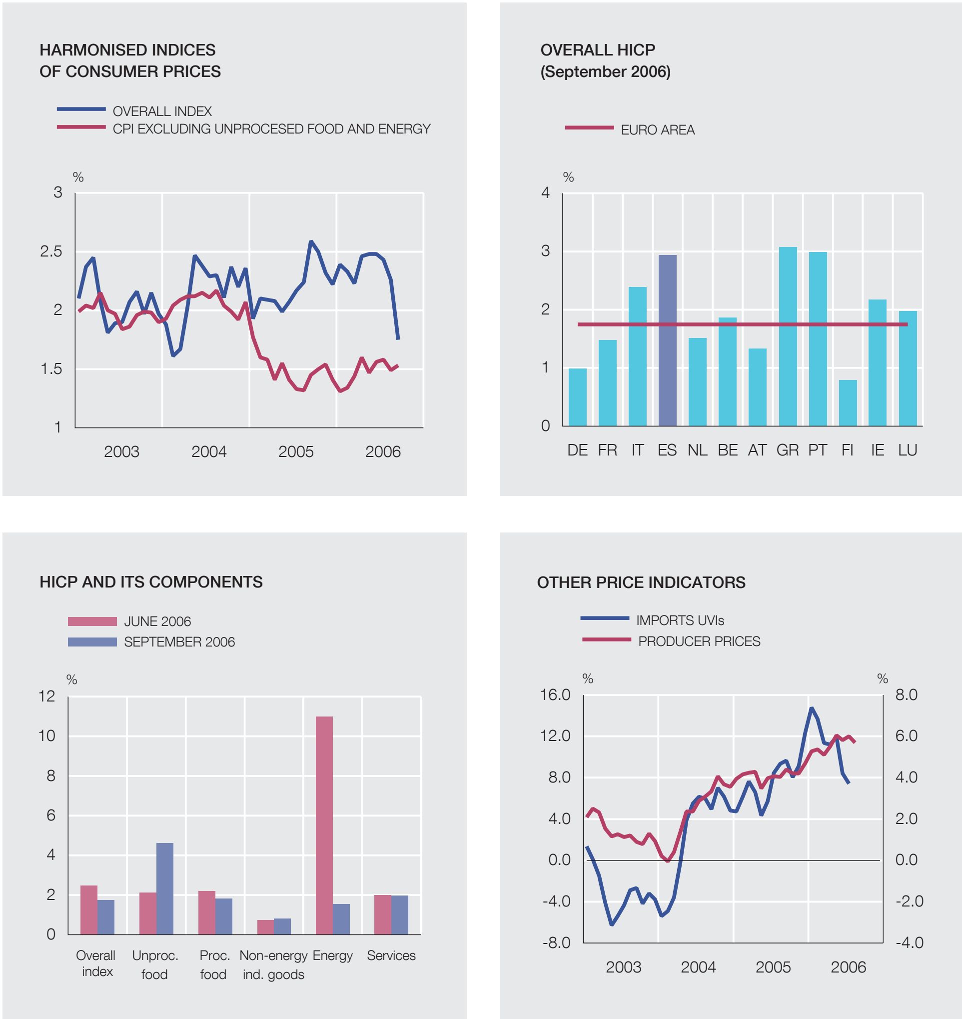
a. Non-centred annual percentage changes, based on the quarterly moving average of the seasonally adjusted series.
b. Normalised data.

the July-September period points to a slight fall in the level of new orders, down from the peak recorded in Q2. On the external demand front, expectations concerning both exports and foreign industrial orders remained in Q3 at the high level attained in Q2, while real extra-euro area exports slowed in July and August.

In view of the foregoing, it seems likely that GDP growth in the area in Q3 and Q4 will be in the upper half of the forecasting interval published by the European Commission, the bounds of which entail a quarter-on-quarter rate of change in GDP of between 0.4%-0.8% in Q3 and 0.2%-0.7% in Q4. Some exceptional developments in the first half of the year and the recent trend of certain variables justify this less sharp GDP growth compared with that observed to June. This would be compatible with annual average growth of over 2.5%, in line with the estimates of most international agencies. In any event, the growth pattern in the short run is subject to sizeable uncertainties relating to the potential anticipatory effects on consumption and investment plans owing to the increase in VAT in Germany in January 2007. In the medium term, economic dynamism in the euro area may be expected to continue, despite the fact that factors such as the foreseeable slowdown in global activity and the restrictiveness of fiscal policy in some euro area countries may dampen it. Nevertheless, this macroeconomic sce-

EURO AREA. PRICE INDICATORS
Year-on-year percentage changes

CHART 11



SOURCES: Eurostat and ECB.

nario is exposed to other downside risks to the economic outlook. There is uncertainty over the future course of energy product prices and, above all, over the importance of the slowdown in the US economy. Finally, the foreseeable course of economic activity in the longer term is affected by the risk of a disorderly correction of global imbalances.

In respect of prices, inflation in the euro area in 2006 Q3 eased - particularly sharply so in September - as a result of the slowdown in the energy component and, to a lesser extent, of the lower growth in processed food prices. The 12-month growth rate of the HICP stood at 1.7% in September, 0.8 pp down on the June figure (see Chart 11). This reduction was seen in all the member states, except in Portugal and Italy, where the effect of the easing in oil prices might be perceived with a delay. The year-on-year growth rate of underlying inflation, proxied by the CPI excluding unprocessed food and energy, held at a moderate figure of 1.5%. The absence so far of underlying inflationary pressures is also apparent in the moderate trend of labour costs and of the indicators of inflationary expectations.

As illustrated in Box 2, growing globalisation and heightened international competition have contributed to containing the inflationary pressures derived from dearer energy products. Nonetheless, the latest information points to some pass-through of the energy bill to certain

EURO AREA ECONOMIC INDICATORS TABLE 1

	2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP								
Year-on-year growth	1.2	1.3	1.7	1.8	2.2	2.7		
Quarter-on-quarter growth	0.4	0.4	0.6	0.4	0.8	0.9		
European Commission forecasts (c)							(0.4 ; 0.8)	(0.2 ; 0.7)
IPI (d)	0.8	0.7	1.4	2.1	3.4	3.8	*4.2*	
Economic sentiment	98.9	96.1	97.9	100.6	103.1	107.2	108.7	
Industrial confidence	-6.7	-10.0	-7.3	-5.7	-2.3	2.3	3.3	
Manufacturing PMI	51.4	49.3	51.0	53.0	54.7	57.1	56.9	
Services confidence	10.7	8.7	10.7	14.0	14.7	19.0	19.7	
Services PMI	53.1	53.1	53.8	55.6	57.8	59.2	57.3	
Unemployment rate	8.8	8.7	8.5	8.4	8.1	7.9	*7.8*	
Consumer confidence	-13.3	-14.3	-15.3	-12.3	-10.7	-9.7	-8.3	
HICP (d) (e)	2.1	2.1	2.6	2.2	2.2	2.5	1.7	
PPI (d) (e)	4.2	4.0	4.4	4.7	5.1	5.8	*5.7*	
Oil price in USD (e)	53.3	54.0	62.6	56.5	61.6	68.1	61.2	*57.4*
Loans to the private sector (d) (e)	7.6	8.1	8.8	9.2	10.9	11.0	*11.3*	
Euro area ten-year bond yield	3.7	3.4	3.3	3.4	3.6	4.0	4.0	*3.9*
US-euro area ten-year bond spread	0.67	0.80	0.98	1.12	1.06	1.08	1.00	*0.90*
Dollar/euro exchange rate (e)	1.296	1.209	1.204	1.180	1.210	1.271	1.266	*1.262*
Appreciation/ depreciation of the euro (e)	-4.8	-11.2	-11.6	-13.4	2.6	7.8	7.3	*7.0*
Dow Jones EURO STOXX Broad Index (e)	4.3	8.9	17.7	23.0	10.3	4.2	11.9	*15.0*

SOURCES: Eurostat, ECB and Banco de España.

a. The information in italics does not cover a full quarter.
b. Information available up to 20 October 2006.
c. Quarter-on-quarter growth forecasts.
d. Year-on-year growth.
e. End-period data. Figures for exchange rates and the stock market are percentage changes over the year.

underlying components of inflation, and in particular to non-energy industrial prices, which remain on a rising trend. Second-round effects appear relatively insignificant, given the moderate current increase in wage costs. In any event, risks to inflation in the medium term remain on the upside, since the more dynamic economic setting might be conducive to increasing the intensity of the indirect effects of past rises in oil prices and increased wage demands on the non-energy components of the HICP.

On ECB estimates, the balance of payments deficit on current account was €22 billion in the period from January to August, €13 billion up on the same period in 2005. This increase was the outcome of a smaller surplus on the merchandise balance, as a consequence of the bigger increase in imports than in exports. By contrast, the same period saw net capital inflows in the form of portfolio investment for an amount of €107 billion, which exceeded net outflows under the direct investment heading (€56 billion). Accordingly, in the period of 2006 under study, the basic balance posted a surplus of €29.4 billion, compared with the somewhat higher balance of €34.2 billion in the same period in 2005.

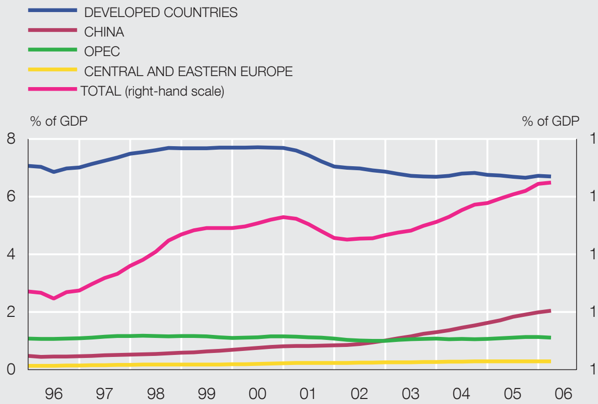
Turning to fiscal policy, the information available on the budget outturn indicates that the buoyancy of the main tax bases is providing for greater-than-forecast tax takings. This will probably lead in most countries to somewhat more favourable budget balances for 2006 than those contained in the stability programmes and in the European Commission's spring forecasts, which point respectively to aggregate deficits for the area as a whole of 2.3% and 2.4% of GDP (see Table 2).

The past decade has seen an intensification of the process known as "globalisation", a term encompassing a set of diverse developments behind a large-scale and sustained increase in trade, capital and migratory flows, which affect not only the industrialised countries but also some less developed nations. The effect of globalisation on euro area prices may be through various channels, which are illustrated below.

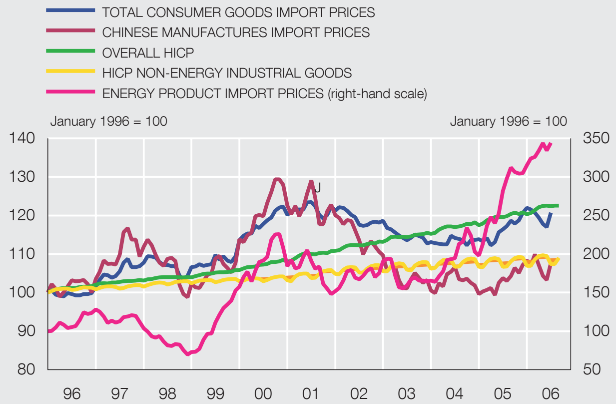
Firstly, globalisation has entailed a notable increase in the relative significance of purchases from less advanced economies, including most notably those from China, whose exports to the euro area have quadrupled in terms of their weight in the area's GDP (see panel 1). The prices of imported goods exert a direct effect on the HICP, inasmuch as they affect its industrial goods (both energy and non-energy goods alike) component. As can be seen in panel 2, total import prices of manufactured consumer goods have - mainly as a result of changes in the exchange rate of the euro - fluctuated strongly in recent years, which has successively pushed consumer prices in the euro area up and down. If the analysis is confined to the prices of consumer goods imported from the emerging economies (proxied by the prices of manufactures from China), a declining trend is appreciable in the opening years of the century that stabilises subsequently, which may have contributed to containing inflation in the euro area. In any event, the final impact on euro area inflation would have been quantitatively low, given the weight of consumer goods imports in the private consumption of non-energy industrial goods (around 20%), and the weight of these in the overall HICP (30.7%). The import prices of energy products increased notably, driven by the strong demand for energy from the emerging economies, associated with their high growth rate and with the low energy efficiency of their productive processes. And that exerted a significant upward effect on the euro area HICP (see panel 2).

Secondly, a series of indirect effects of globalisation on euro area inflation may be expected. On one hand, greater import penetration means heightened competitive pressure on euro area-located producers of goods similar to those imported, which might translate into narrower margins, insofar as national producers seek to maintain their market share. This competitive pressure may also have boosted productivity as a result of less efficient companies (or production centres) closing. As panel 3 shows, the increase in margins has been greater in the industrial branches, contrary to what might have been expected. That might be related to euro area companies harnessing the advantages of globalisation, shifting some of their production to

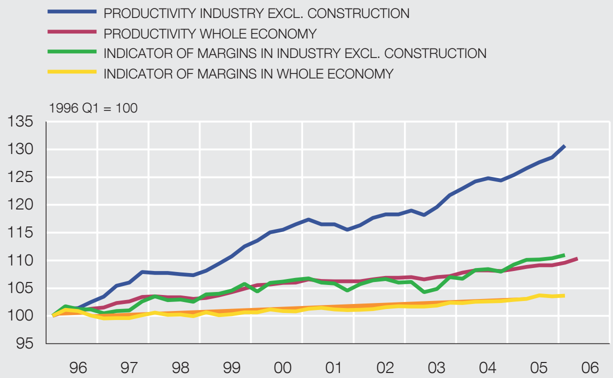
1 EURO AREA. GOODS IMPORTS
Constant prices



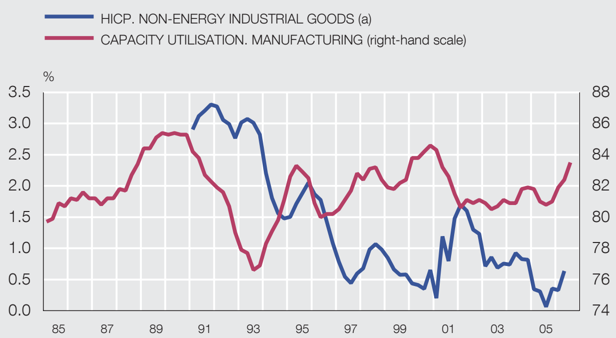
2 HICP AND IMPORT PRICES



3 PRODUCTIVITY AND INDICATORS OF MARGINS



4 HICP AND CAPACITY UTILISATION



SOURCES: European Commission and ECB

a. Year-on-year rate of change.

countries with lower costs, which has enabled them to widen their margins, despite the containment of their product selling prices. While productivity in the branches most exposed to foreign competition has increased by a far superior proportion than that of the rest of the economy, this is a secular trend which, therefore, is not necessarily linked to the process of globalisation. Nonetheless, studies conducted with disaggregated data appeared to indicate that the increase in productivity is actually greater in those industrial sectors in which import penetration has increased at a higher rate[1].

One additional indirect effect of globalisation on inflation would arise as a result of the increase in labour supply (owing to the influx of immigrant labour), which may help contain wages, especially in the least skilled jobs. Moreover, relocating (or the possibility of relocating) production activities to other countries may, in some cases, be an incentive for accepting lower wage increases (or reductions) in exchange for maintaining the level of employment. In this respect, the role of globalisation would, as discussed in Box 1, help account for the unexplained part of recent wage developments in the euro area.

1. See, for example, chapter 3 ("How has Globalisation Affected Inflation?") of the *World Economic Outlook,* International Monetary Fund, April 2006.

Lastly, globalisation may have lessened the influence of internal economic conditions in the euro area on the inflation rate, insofar as demand pressures, for many products, should not be measured by comparing demand with domestic supply but with the global supply of such goods. Accordingly, it is possible that persistent positive values in respect of the output gap will not be accompanied by inflationary pressures if this excess demand is covered by foreign production. Conversely, low capacity utilisation at the local level may be accompanied by an increase in inflation if, at the global level, the output gap is positive. In this respect, this effect does not appear to be perceptible in the case of the euro area, since a relatively close link is maintained between excess demand in the area and inflation, as reflected in panel 4.

In conclusion, the effects of globalisation on euro area inflation have broadly been favourable, but difficult to quantify. However, there is no guarantee this influence will continue to be benign in the future. In particular, at the current juncture, the maintenance of a prolonged period of high growth in the world economy may ultimately exert pressure on the productive capacity of both the developed countries and, in particular, the emerging economies, which may translate into inflationary pressures arising.

GENERAL GOVERNMENT BUDGET BALANCES OF EURO AREA COUNTRIES (a) TABLE 2

% of GDP

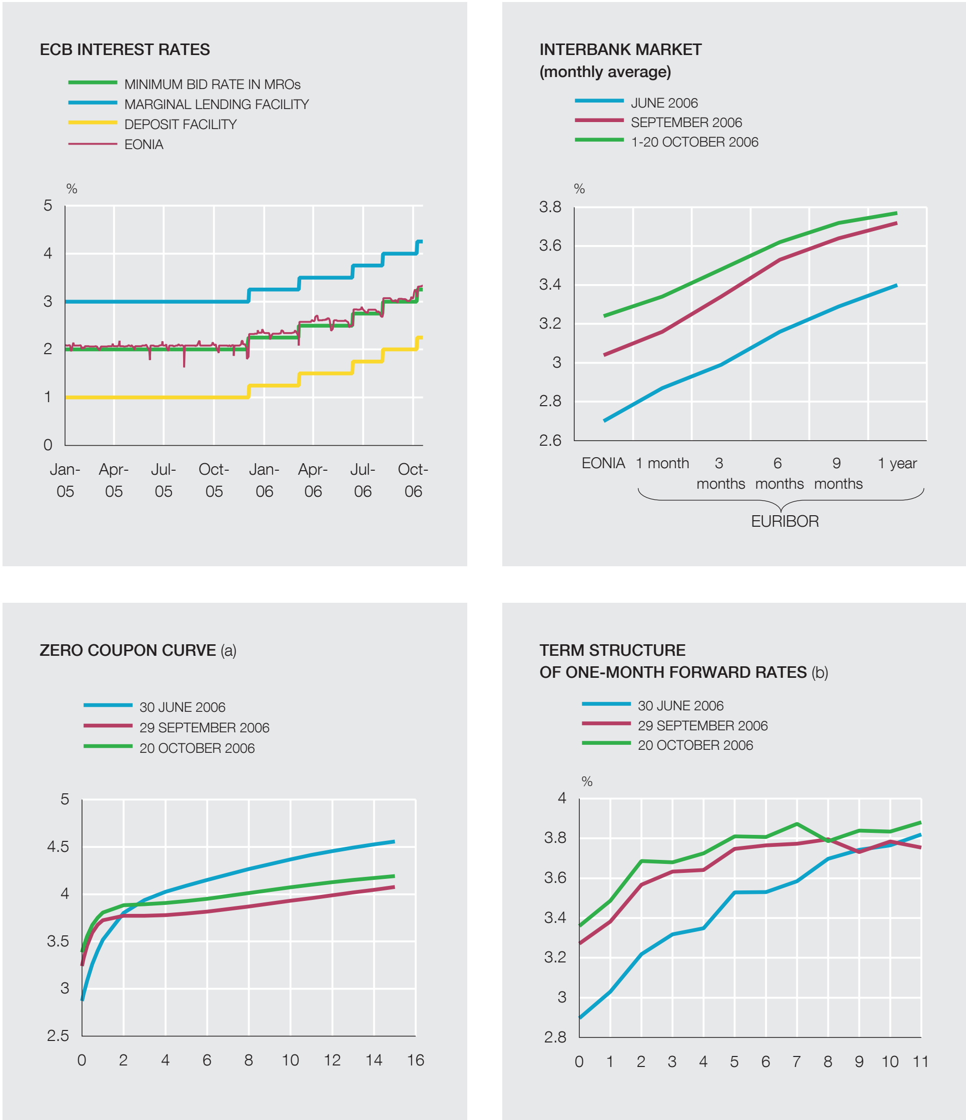
	2003	2004	2005	2006 (b)	2006 (c)
Belgium	0.0	-0.1	-2.3	0.0	-0.5
Germany	-4.0	-3.7	-3.2	-3.3	-3.1
Greece	-5.8	-6.8	-5.2	-2.6	-2.9
Spain	-0.1	-0.2	1.1	0.9	0.9
France	-4.2	-3.7	-2.9	-2.9	-3.0
Ireland	0.2	1.6	1.1	-0.6	0.1
Italy	-3.5	-3.5	-4.1	-3.5	-4.1
Luxembourg	0.2	-1.1	-1.0	-1.8	-1.8
Netherlands	-3.2	-2.1	-0.3	-1.5	-1.2
Austria	-1.7	-1.2	-1.5	-1.7	-2.0
Portugal	-3.0	-3.2	-6.0	-4.6	-5.0
Finland	2.4	2.1	2.7	1.6	2.6
MEMORANDUM ITEM: Euro area					
Primary balance	0.3	0.3	0.6	0.7	0.6
Total balance	-3.1	-2.8	-2.4	-2.3	-2.4
Public debt	69.3	69.8	70.8	70.8	70.5

SOURCES: European Commission and National Stability Programmes.

a. As a percentage of GDP. Deficit (–) / surplus (+). The deficits that exceed 3% of GDP have been shaded.
b. Stability Programme targets.
c. European Commission forecasts (spring 2006).

EURO AREA INTEREST RATES

CHART 12

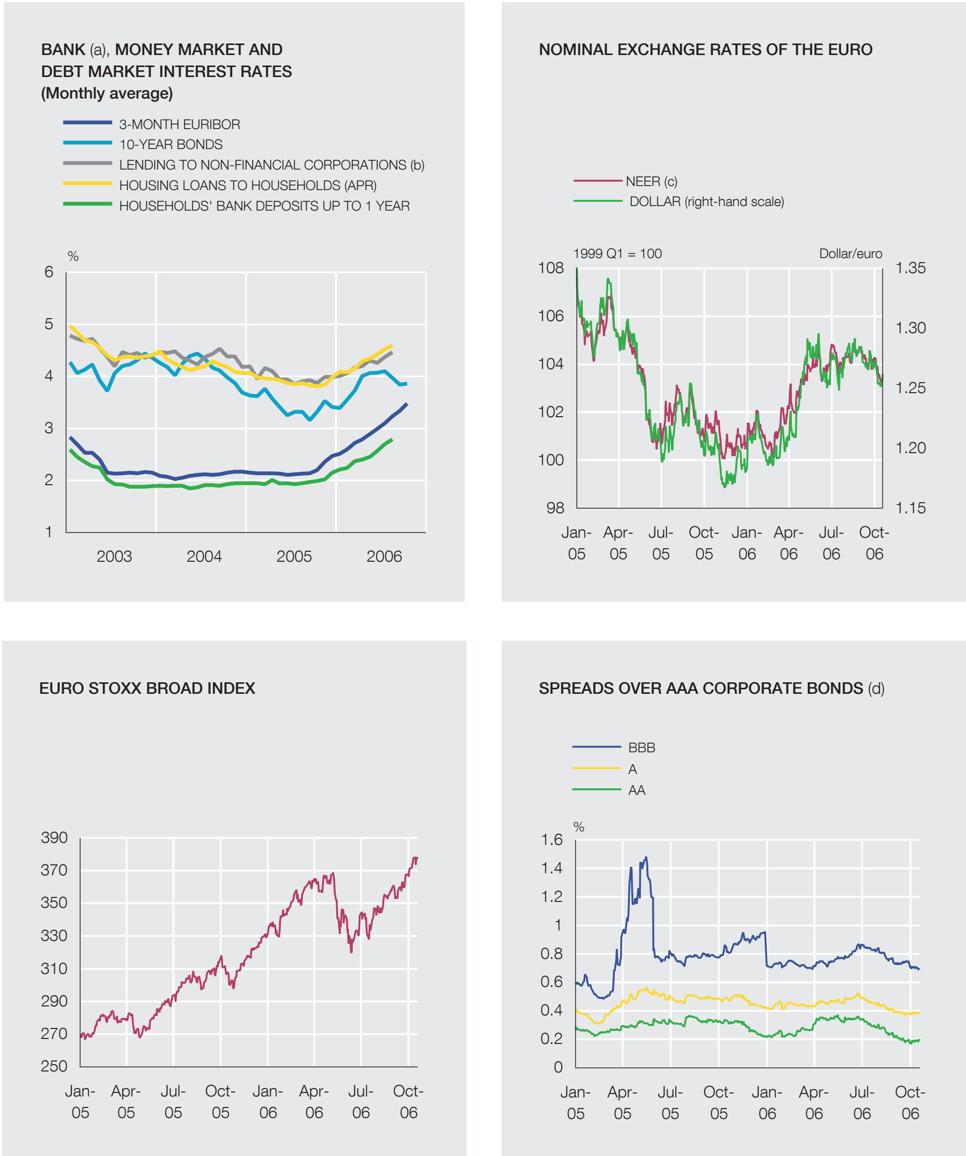


SOURCES: ECB and Banco de España.

a. Estimated using swap market data.
b. Estimated using Euribor data.

In the five countries with an excessive deficit procedure open, significant progress is generally expected owing to the combination of the favourable effect of the economic situation and greater fiscal discipline. In the case of Germany, the Ecofin Council concluded at its meeting on 9 September that the measures proposed by this country to correct the excessive deficit were acceptable. Further, the German government has announced that higher-than-forecast tax receipts will mean that the budget deficit may stand below 3% in 2006, bringing forward by one year the term set in the Council's recommendation. In France, the draft budget for 2007 has been unveiled. It includes a tax reform with a reduction in revenue and a containment of expenditure that resides, above all, on lower public-sector employment. Finally, Italy presented in September a draft budget for 2007 that envisages a reduction in the budget deficit to below 3%, with measures residing essentially on the revenue side and which also give priority to redistributive goals. In any event, there is much uncertainty over the final text, which requires consensus on the part of the governing coalition. Following the publication of the draft budget, two credit rating agencies decided to downgrade Italy's government debt.

EURO AREA INTEREST RATES, EXCHANGE RATE AND STOCK MARKET INDEX CHART 13



SOURCES: Banco de España and ECB.

a. Data drawn from new statistics on interest rates compiled by the ECB for new business.
b. Interest rates over five years.
c. Nominal effective exchange rate index (EER-23). Narrow group of currencies defined by the ECB.
d. Euro-denominated bonds issued by non-financial corporations.

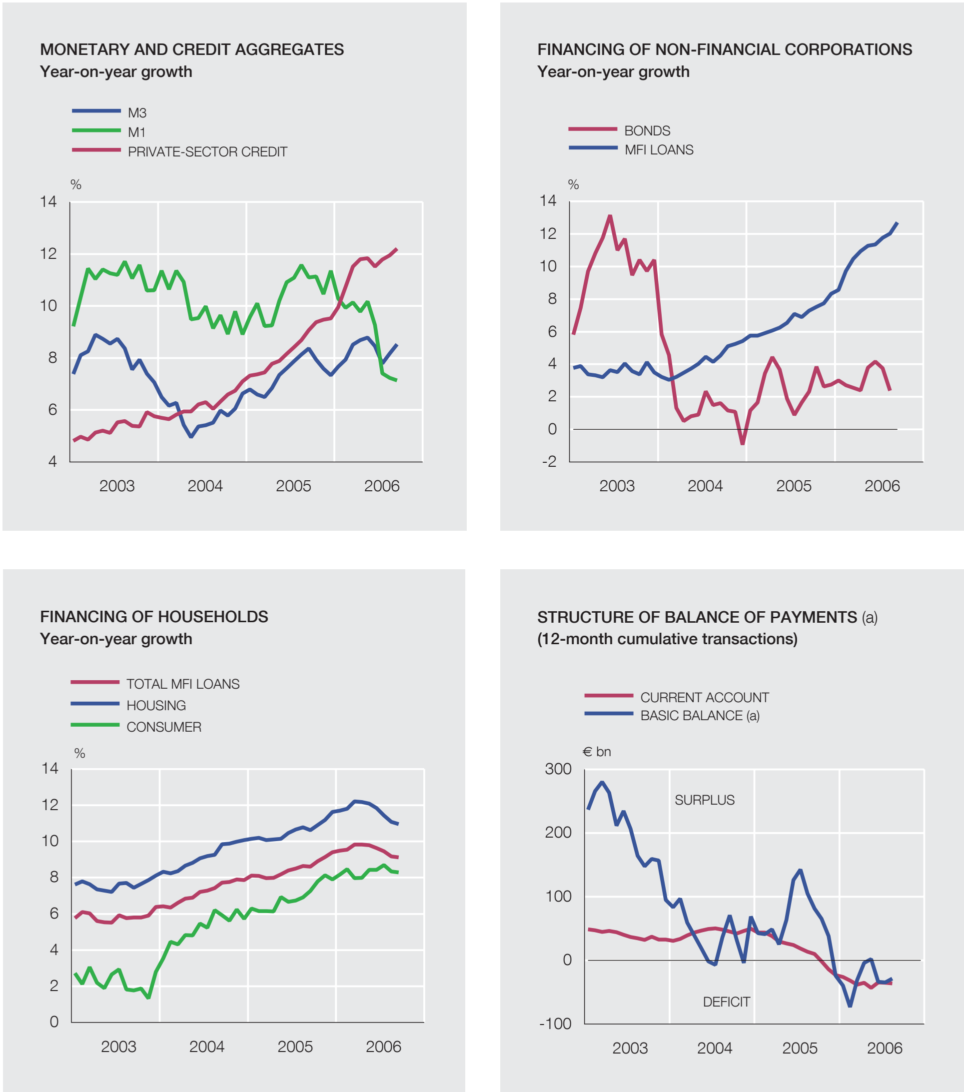
As regards the long-term sustainability of public finances, the European Commission's first report dedicated exclusively to this matter, which was released in October, has once again highlighted the scale of the pressure posed by population ageing. According to the report's predictions, the risks to sustaining public finances in the long run are medium to high for all euro area countries except Austria, Finland and the Netherlands. Consequently, the current greater economic dynamism in the euro area should be harnessed by the member states to make more resolute headway in the process of fiscal consolidation.

3.2 Monetary and financial developments

The continuing high risks to price stability in the medium term, against a background of growing economic strength, led the ECB Governing Council to continue gradually withdrawing the monetary stimulus. At its meetings on 3 August and 5 October, it thus decided to raise the minimum interest rate on its main refinancing operations by 25 bp on each oc-

MONETARY AND CREDIT AGGREGATES AND BALANCE OF PAYMENTS

CHART 14



SOURCES: Banco de España and ECB.

a. The basic balance is approximated by the sum of the balance on current account and direct and portfolio investment.

casion, taking the rate to its current level of 3.25%. Interest rates on the marginal lending facility and the deposit facility increased by the same amount to 2.25% and 4.25%, respectively (see Chart 12). Despite these rises, the monetary policy stance remains accommodative, whereby these decisions do not pose an obstacle to the continuation of the current upturn.

On the interbank market, the expectations of increases to benchmark interest rates during Q3 gave rise to a gradual upward shift in the curve. Conversely, longer-dated government debt market yields declined significantly in August and September, this being offset partly in October to date, giving rise to a most significant flattening of the curve. These developments were similar - but more marked - in the United States, resulting in a narrowing of the 10-year debt spread to around 0.9 pp. Lastly, the interest rates applied by credit institutions in their lending and deposit transactions in July and August extended the upward trend in such rates seen since end-2005, in step with the successive rises in official rates (see Chart 13).

With regard to the exchange rate of the euro, fluctuations against the dollar and in terms of the nominal effective exchange rate (NEER) were limited. Over the quarter as a whole there was a slight depreciation in the euro, meaning that its rise since the start of the year in relation to the dollar and the NEER is around 7% and 3%, respectively. Indices in the euro area equity markets moved on a marked rising trend, supported by the abatement of uncertainty and the soundness of current and expected corporate earnings. The EURO STOXX index duly offset the strong declines in May and June, and shows a rise of close to 15% in the year to date.

The M3 monetary aggregate remained expansionary during Q3, with a year-on-year growth rate of 8.5% in September, a similar level to June (see Chart 14). Moreover, past rate rises and expectations of fresh ones appear to have introduced some changes into the composition of M3, with a notable slowdown in the most liquid components and greater strength in other deposits (other than overnight deposits) and in negotiable instruments. Monetary financial institutions' loans to the private sector continued to quicken, in particular those to non-financial corporations, which increased by 12.7% year-on-year in September, compared with 11.4% at the end of Q1. Bank lending surveys conducted during Q2 lend support to the ongoing expansion of credit to companies. In addition to low interest rates, investment in fixed capital and stocks, mergers and acquisitions and corporate restructuring were also significant drivers. Loans to households remained very buoyant, with year-on-year growth of 9.1% in September, as part of a mild slowing trend which is due to the moderation in the growth of credit for house purchases. According to the bank lending survey for the euro area, the acceleration in consumer credit during Q2 was in response to the greater demand for durable goods, against the background of a slight easing in credit approval criteria. Finally, as regards country-by-country developments in credit to the private sector, this variable seems to be becoming more dynamic in Spain, France, Italy and, more modestly, in Germany, where the year-on-year rate of increase stands at around 4.5%, far below the euro area average.

4 The Spanish economy

On QNA estimates, GDP growth in 2006 Q2 was 3.7%, 0.1 pp up on the previous quarter. In quarter-on-quarter terms, the increase was 0.9%, unchanged on Q1. During this period national demand continued to post lower rates of increase, while net external demand contributed 0.3 pp to the acceleration in output. The information available for Q3 suggests that the year-on-year growth rate of GDP has continued rising up to 3.8%, likewise entailing quarter-on-quarter growth of 0.9%. Behind this performance was the continuing buoyancy of national demand – since household consumption and gross fixed capital formation were broadly estimated to have held stable – and the fresh positive contribution of the external sector to the change in GDP growth (see Chart 15). This improved contribution of external trade transactions was, in turn, the outcome of a rate of increase in exports similar to that of the previous quarter and of the lesser momentum of goods and services imports, although these continued to grow at higher rates than sales abroad.

Activity across the various branches shows that the greater dynamism of the Spanish economy is generalised, with notable momentum in manufacturing industry value added. The main employment indicators for Q3 also show a continuing sharp rate of increase. Against this background, apparent labour productivity is estimated to have expanded at a moderate rate (0.4%), although the lesser pace of compensation per employee in the market economy meant that unit labour costs eased back slightly. Conversely, the operating surplus per unit of output has sustained a relatively high growth rate, whereby price increases have continued at a comparatively high rate. Consumer prices moderated substantially in August and, especially, in September, due above all to cheaper oil. As a result, the 12-month growth rate of the CPI stood in September at 2.9%, 1 pp below the rate in June, returning to levels not seen since the opening months of 2004. The CPI excluding unprocessed food and energy likewise posted growth of 2.9% in September, although in this case the decline in relation to June was only 0.1 pp.

4.1 Demand

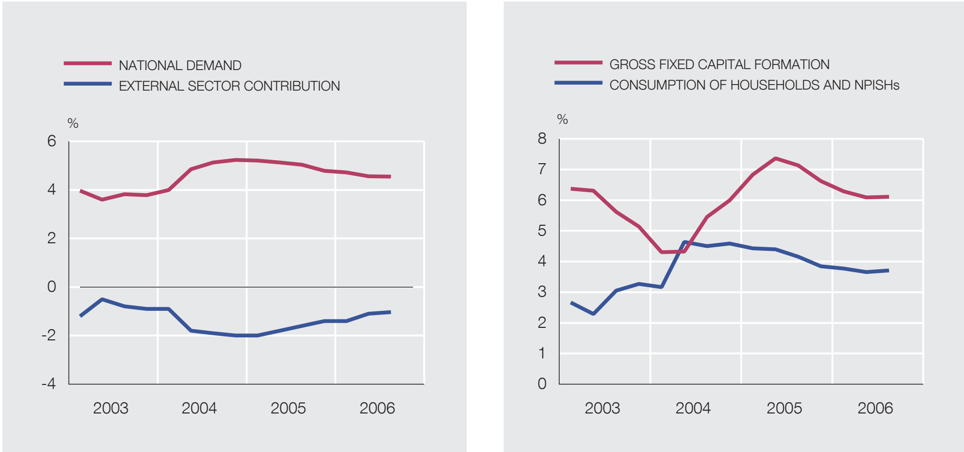
In 2006 Q2, private consumption grew at a year-on-year rate of 3.7%, 0.1 pp down on the previous quarter. It thus continued on the mildly slowing path on which it embarked at the start of the previous year. The latest conjunctural information, though incomplete as far as the data for Q3 are concerned, does not show any significant changes in the pattern of behaviour of Spanish households' final consumption (see Chart 16).

The synthetic indicator of private consumption of goods and services showed very similar growth to that of the previous quarter. The retail sales index improved notably, especially in its non-food component, which is in step with the surveyed business opinions in the sector. Car sales fell once more in Q3, albeit at a lesser rate than in the spring months. Finally, consumer confidence worsened slightly in relation to the first half of the year.

In 2006 to date, household consumption has been against a background marked by the diminished buoyancy of their disposable income in real terms, due among other reasons to the fall in net interest received (in a context of rising interest rates and greater household debt), to the increase in tax payments and to the deterioration in purchasing power caused by the rise in the inflation rate. However, household wealth has continued to increase at a high rate, reflecting the appreciable rise in stock market prices, which have grown by more than 20% in the first nine months of the year, and the notable increase in property wealth, despite the smaller rise in house prices. In view of these determinants, and as highlighted by the non-financial accounts of the institutional sectors to Q2, whose results are analysed in Box 3, house-

MAIN DEMAND AGGREGATES (a)

CHART 15

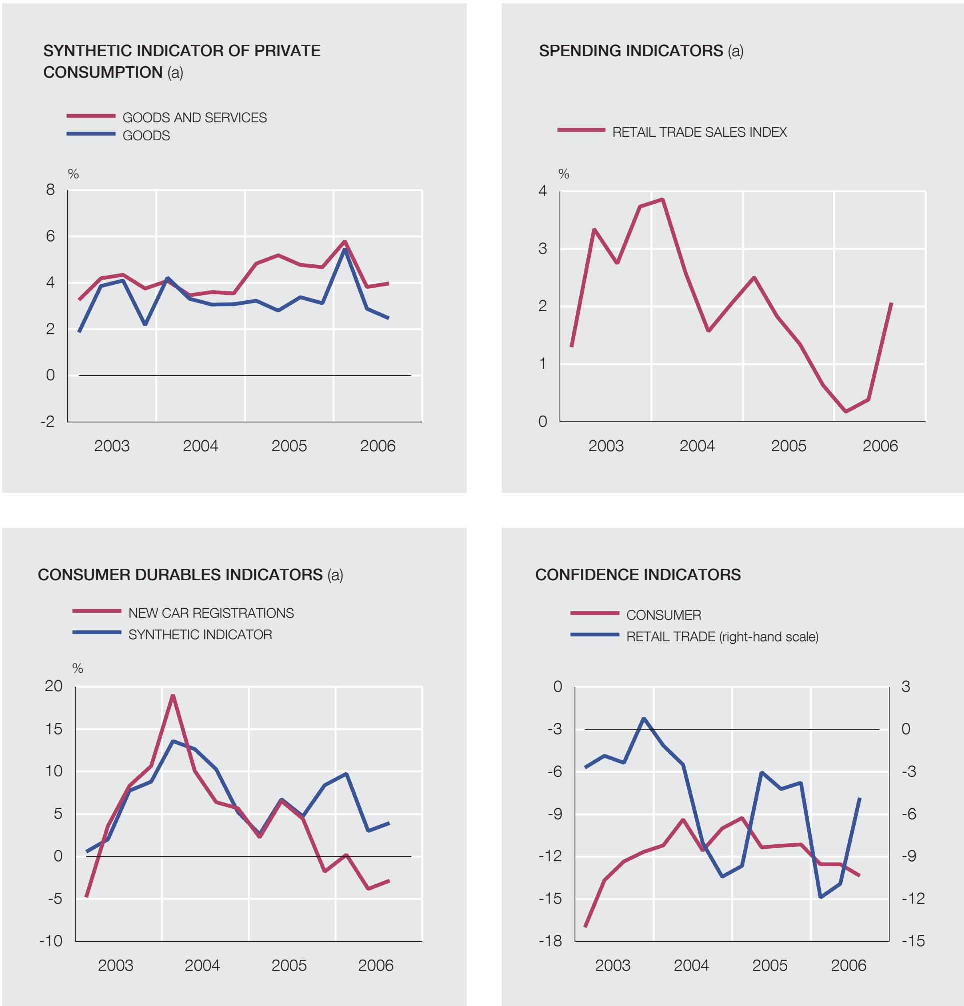


SOURCES: INE and Banco de España.

a. Year-on-year percentage change based on seasonally adjusted series.

PRIVATE CONSUMPTION INDICATORS

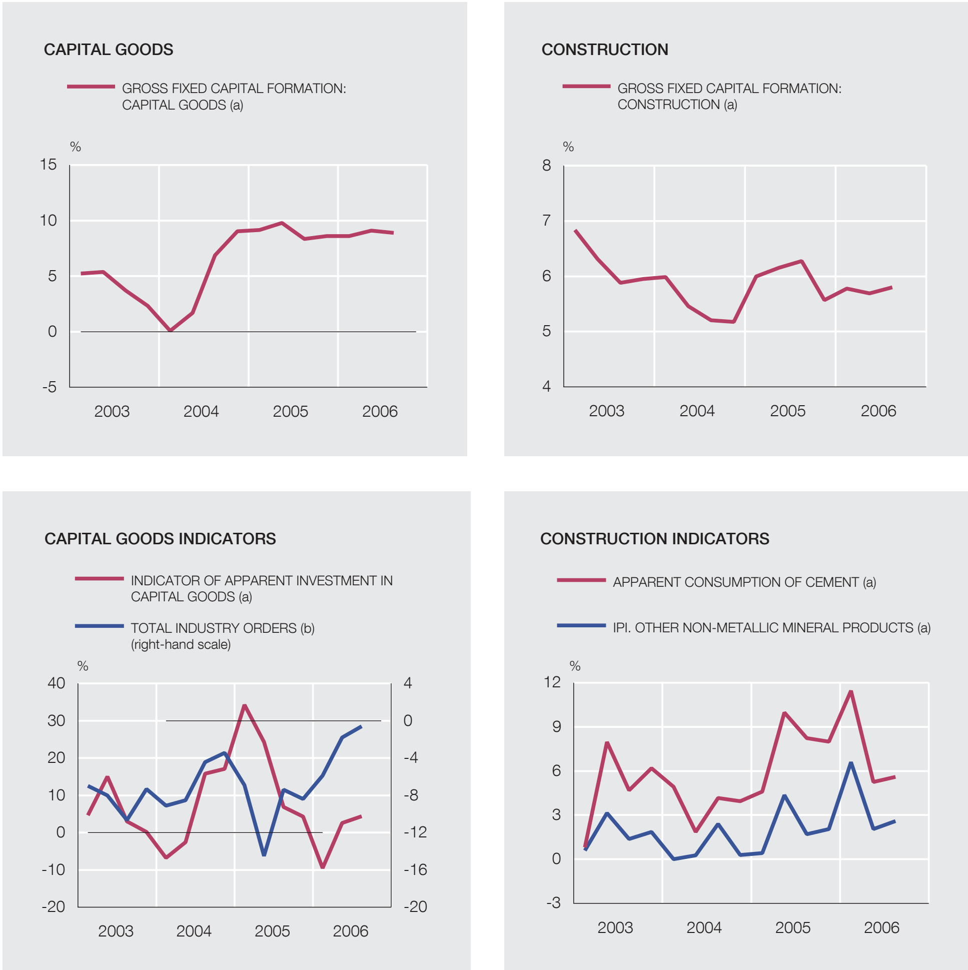
CHART 16



SOURCES: INE, European Commission, ANFAC and Banco de España.

a. Year-on-year percentage change based on the seasonally adjusted series.

GROSS FIXED CAPITAL FORMATION CHART 17



SOURCES: INE, European Commission, Ministerio de Fomento, OFICEMEN, Instituto Nacional de Empleo and Banco de España.

a. Year-on-year percentage change based on the seasonally adjusted series.
b. Level of original series.

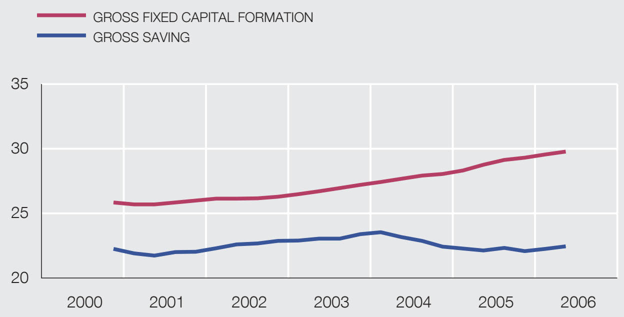
hold consumption is estimated to have continued growing at a higher rate than household disposable income, meaning that the saving ratio has continued to decline. In any event, the substantial reduction in inflation in recent months should improve the purchasing power of household income and draw the growth of household spending closer to the rate of expansion of their disposable income.

In 2006 Q2, final general government consumption posted an increase of 4.4%, unchanged on Q1. The information available points to some acceleration in this spending component in Q3 that is related to its trend in territorial government.

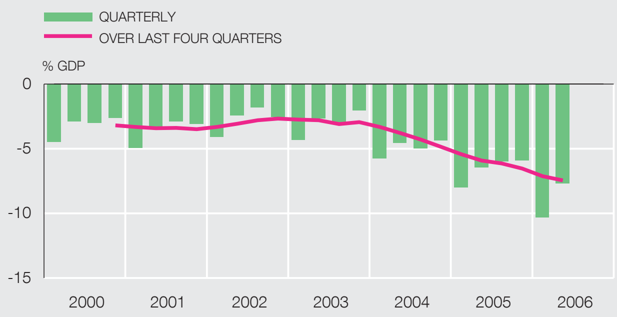
The forceful pace of gross fixed capital formation eased once again in Q2 to 6.1%, 0.2 pp down on Q1. This slowdown was the result, above all, of the lesser increase in investment in other products (a component linked to property promotion and intermediation and to software acquisition), whose year-on-year rate dipped by 1.5 pp to 3.3%, while investment in construction slowed slightly, posting growth of 5.7%. Investment in capital goods rose to 9.1%, 0.5 pp up on the previous quarter (see Chart 17). The information provided by the indicators for Q3 suggests that gross fixed capital formation continued to expand at a similar rate to that in Q2, as a

TOTAL ECONOMY

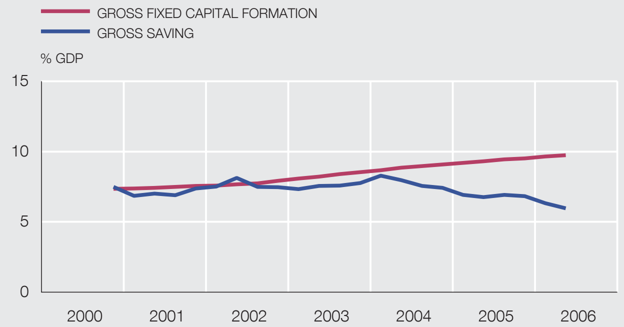
1. GROSS SAVING AND GROSS FIXED CAPITAL FORMATION (a)

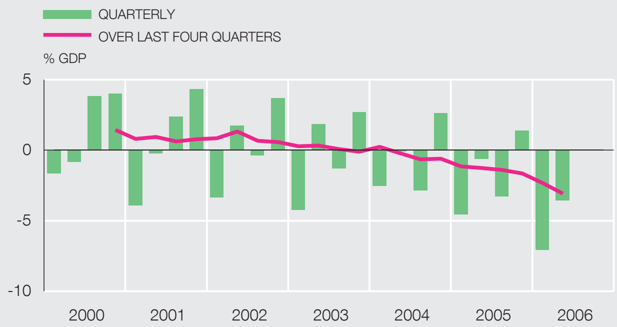


2. NET LENDING / NET BORROWING

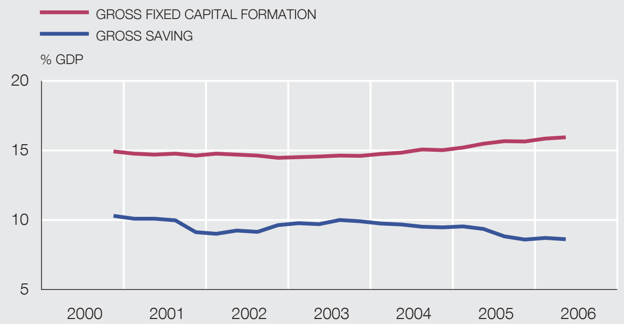


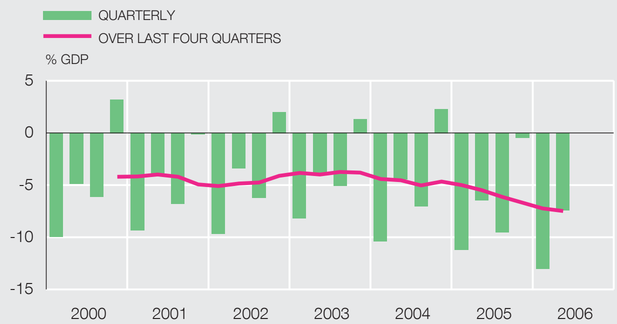
HOUSEHOLDS AND NPISHs



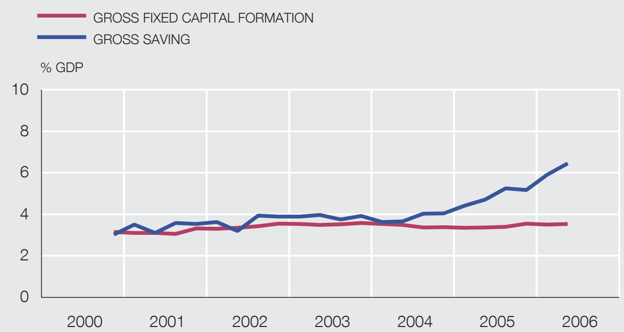


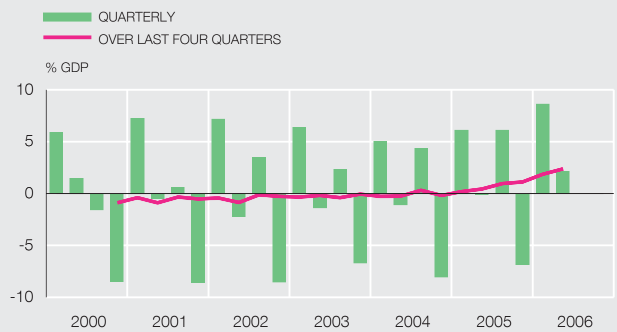
NON-FINANCIAL CORPORATIONS





GENERAL GOVERNMENT





SOURCE: INE.

a. Over last four quarters.

QUARTERLY NON-FINANCIAL ACCOUNTS OF THE INSTITUTIONAL SECTORS

BOX 3

In January 2006, INE began to publish quarterly non-financial accounts of the institutional sectors of the Spanish economy, as part of a wider objective to set in place a system of European Union and euro area annual and quarterly accounts[1]. This system covers in a consistent and integrated fashion the main macroeconomic aggregates from the standpoint of demand, supply and income, along with the transactions of the institutional sectors, whether financial (compiled in the quarterly financial accounts published by the Banco de España) or non-financial (those that the INE began to disseminate in January). Currently, these non-financial accounts are published with a lag of approximately one quarter, whereby the latest figure available is for 2006 Q2. This means that, for the first time, comprehensive information is available on the non-financial balances of all sectors of the Spanish economy for the current year.

The series published consist of raw data that have not been seasonally adjusted, meaning that comparisons between two quarters are not very informative, owing to the marked seasonal profile of most of these series (e.g. general government gross fixed capital formation surges in the last quarter of each year and falls, likewise sharply, in the following quarter, owing to public works expenditure recognition procedures). One possible approach to circumvent this problem is to examine the cumulative figures over the last four quarters.

According to the quarterly data of the sectoral accounts, the deterioration in the Spanish economy's net borrowing continued in 2006, accounting for 7.4% of GDP on cumulative data to Q2, 0.9 pp above the 2005 figure (see accompanying panel). The recovery in national saving in the first half of 2006 proved insufficient to finance the increase in gross fixed capital formation. This shortfall was exacerbated by the reduction in capital transfers from abroad during the first half of the year.

The increase in the nation's net borrowing during the first half of 2006 was due to the widening of the gap between the saving and investment of the non-financial private sector (households and NPISHs, and non-financial corporations), since their borrowing requirements increased by 2.2 pp of GDP in relation to the end of 2005, which has been partly offset by an increase in general government lending capacity. Financial institutions' lending capacity has remained similar to that in 2005.

Net borrowing of households and NPISHs increased in the first two quarters of 2006 to 3.1% of GDP, on cumulative data to Q2. This figure, which entails an increase of 1.4 pp of GDP compared with the 2005 figure, was the outcome of a decline in household gross saving in the first half of the year (the saving ratio, which was 9.4% drawing on cumulative data, fell by 1.2 pp in relation to 2005) and of the ongoing uptrend in gross capital formation. The slowdown in income in recent quarters (with a rate of increase of 6.1%, against 6.9% in 2005), which has fed through only in part to consumption, accounts for the reduction in household saving.

Non-financial corporations maintained a level of saving in relation to GDP similar to that at the end of 2005. However, investment by the sector expressed as a share in GDP has continued to increase in recent quarters, whereby the related borrowing requirements have remained on the up, rising to 7.5% of GDP in 2006 Q2, compared with 6.7% in 2005.

Finally, general government net lending has increased in the opening quarters of 2006 to 2.4% of GDP, 1.3 pp above the figure for 2005. The increase in public saving in this period (1.3 pp of GDP) was the factor behind this development.

1. The quarterly non-financial accounts of the institutional sectors can be found at www.ine.es and also, with the source indicated, in the first chapter of the financial accounts of the Spanish economy, at www.bde.es.

result of the resilience of spending on capital goods, which remains the most buoyant component of domestic demand, and of investment in construction, the dynamism of which might even increase.

The indicators relating to expenditure on capital goods in Q3 generally paint a positive picture. The indicator of apparent investment in capital goods, calculated with incomplete data for this period, showed more momentum than in the first half of the year. This was thanks to the strength of the domestic production of capital goods (growth to August in 2006 of close to 10%), which has replaced imports of capital goods as the basic means of incorporating new productive capital. Orders for industry as a whole improved somewhat in this period, as did the indices of turnover and incoming orders for capital goods, while the number of companies that consider their plant capacity excessive fell. Conversely, survey-based indicators for this branch of industry, such as the business climate and orders surveys, worsened somewhat in Q3. The level of capacity utilisation declined during this quarter, which would denote a less positive assessment about the need to increase investment in capital to raise output.

Investment in construction increased by 5.7% in 2006 Q2, in line with the high growth rate observed in the preceding quarters. Judging by the latest conjunctural information, this dynamism may continue in the coming quarters. The favourable trend of the confidence and employment indicators in September confirms the intensity of construction activity in Q3 as a whole. The indicators of building materials used, with information to August, also point to a more favourable trend than in the previous quarter.

By type of work, investment in housing increased by 6.5% in Q2, meaning its average growth in the first six months of 2006 exceeded that of the preceding years. According to the leading information provided by the Ministerio de Fomento's work approvals statistic, allocated in time according to a project execution schedule, residential construction might quicken somewhat in the second half of 2006. Conversely, investment in other construction segments – non-residential building and civil engineering works – grew by 4.8% in Q2, notably down on 2005. The conjunctural information is scanter and more uncertain for this type of work. Non-residential building appears to be exhibiting a degree of stability which is based on the strong growth of works executed by general government. Civil engineering works, in the absence of full information on private sector-promoted works, is also proving more robust in the second half of 2006, in keeping with the period-adjusted data on government procurement.

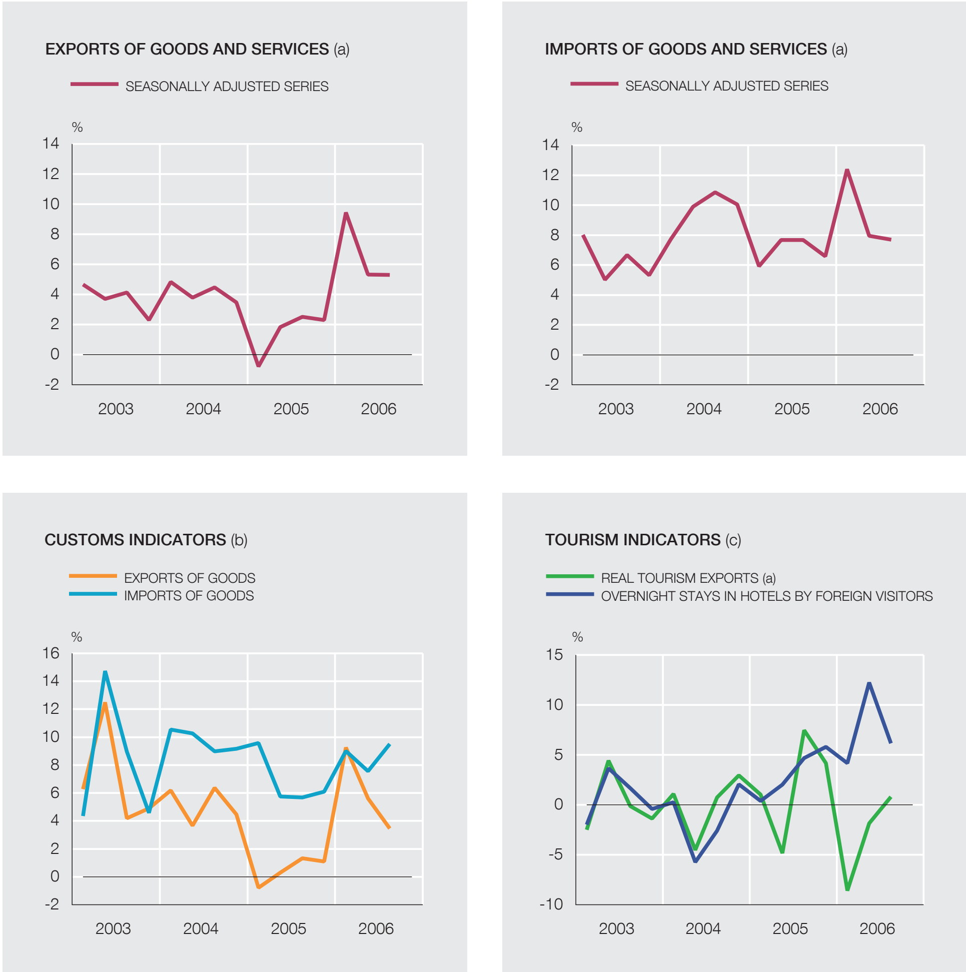
Regarding the financial position of companies, figures from the Banco de España Central Balance Sheet Data Office's quarterly survey (CBQ) for the first two quarters of 2006 show an acceleration in activity and employment at the companies reporting to this survey, to which all sectors have contributed, particularly the distributive sector and industry. The momentum of business activity has been accompanied by a slight increase in the return on investment and by the maintenance of the cost of borrowed funds, which increases the attractiveness of making new investments. The financial pressure indicators, calculated with CBQ data, are holding at favourable levels, having improved slightly in the recent period. Nonetheless, these results largely reflect the position of major corporations (which are predominant in the CBQ survey), and the financial position of smaller corporations may be subject to greater pressures arising from dearer borrowed funds. The changes in the borrowing requirements of non-financial corporations, which increased once again in 2006 Q2, are along these lines.

In 2006 Q2, net external demand contributed 0.3 pp to the acceleration in GDP, although its contribution to GDP growth was still negative (–1.1 pp). External trade flows eased back during this period in relation to the unusually high rates recorded in Q1. Real exports of goods and services continued to trend favourably, posting a year-on-year growth rate of 5.3%, although their rate of increase fell in relation to the figure of 9.5% in Q1. Real imports of goods and services moderated to a year-on-year rate of 7.9%, against 12.4% the previous quarter, but this was nevertheless above the average growth for 2005. The as yet incomplete information for 2006 Q3 suggests net external demand may have continued contributing slightly to the acceleration in GDP, thanks to the firmness of exports, in line with the trend observed in the spring months, and to a slight loss of momentum in imports (see Chart 18).

Real goods exports grew by 4.7% in 2006 Q2 compared with the same period a year earlier, following their notable increase the previous quarter (13%). The latest Customs foreign trade figures for July and August show somewhat less dynamism than in Q2 owing to the slackness of real exports in July, since sales abroad in August resumed high rates of increase. By geographical area, sales to the EU quickened in the summer months, with a notable increase in exports to some of our main markets, such as Italy and France. That said, exports have grown

FOREIGN TRADE
Percentage change on year ago

CHART 18



SOURCES: INE, Ministerio de Economía, Ministerio de Hacienda and Banco de España.

a. QNA data at constant prices.
b. Deflated seasonally adjusted series.
c. Seasonally adjusted series.

at substantially higher rates in non-Community markets, in particular in the United States, Latin America and Russia.

In 2006 Q2, the year-on-year rate of decline of real exports of tourist services fell to –1.8%, from –8.6% the previous quarter. During the summer months, when tourist inflows are at their highest, the main tourism indicators in real terms were favourable. In Q3, overnight stays by foreign visitors in hotels grew by 5.6%, while the number of tourists rose by 3.7%; that said, these figures are somewhat down on Q2. According to EGATUR, total tourism expenditure in nominal terms in July and August increased by 4.6%, with a slight rise in average spending per tourist, albeit at a low rate (1.4%). This downtrend in average spending per tourist is affected by shorter stays, but also by the greater use of lodging off the habitual tourist circuit or stays in own property. That said, the possibility that there is some downward bias in the survey data during 2006, particularly in the opening months, should not be ruled out. Regarding Spain’s main markets of origin for tourists, the British and German markets performed moderately in Q3, while French tourism fell off. As a result, tourists from Italy and from outside the euro area were those that most increased in the summer months.

Real exports of non-tourist services grew by 14.8% in 2006 Q2, prolonging the uptrend of the previous quarters. In this period both foreign sales of transport services and exports of business services, which are the main items, maintained high rates of increase.

In 2006 Q2, the year-on-year growth rate of real goods imports eased to 7.5%, down from 11.3% the previous quarter. The Customs data available for Q3 suggests that purchases abroad will retain the momentum of the previous months. By product group, purchases abroad of intermediate goods (energy and non-energy alike) and of capital goods, particularly machinery, were highly dynamic in July and August, while imports of consumer goods grew at a more modest rate, down on the first half of the year.

Finally, the pace of real imports of services slackened in 2006 Q2 to 9.5%, down from 16.8% in Q1, thereby interrupting the notably accelerating profile they had shown since the previous year. This was due to the more moderate trend of both tourist services and other services.

4.2 Output and employment

The market economy showed fresh momentum in 2006 Q2, and its gross value added increased by 3.4%, 0.1 pp up on Q1. Behind this greater robustness were the increases in the industrial and energy branches and, to a lesser extent, in agriculture, in contrast to the diminished dynamism of construction and market services (see Chart 19). According to the information available, value added would have continued accelerating in Q3 thanks to the recovery in the agricultural branches and to the continuing vigour of industry.

Less unfavourable weather than in 2005 allowed for the pick-up in the agriculture and fisheries branches. Specifically, these branches posted year-on-year growth of –0.4% in Q2, 3.3 pp more than in Q1. This trend is expected to continue in Q3 in view of the improvements envisaged in most crop yields.

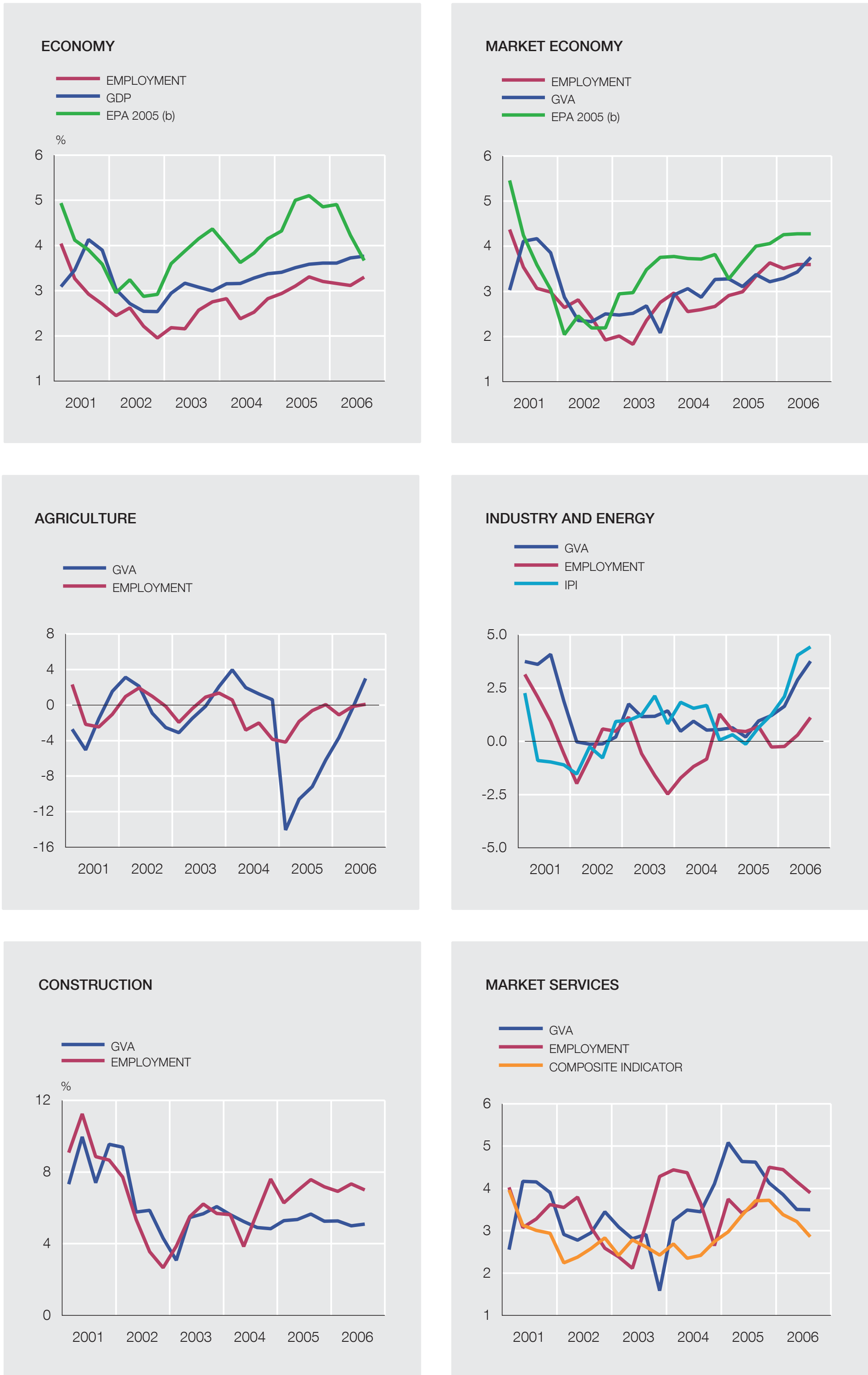
The recovery dating back to mid-2005 in the industrial and energy branches also continued in Q2. Here, the related year-on-year growth rate stood at 2.9%, 1.3 pp up on the previous quarter. The increase was centred on the industrial branches, since the growth rate in the energy branches held stable at 3.2%. The expansion of output was across the board, though it was particularly sharp in capital goods, which benefited both from high domestic demand and from the recovery in sales abroad. The conjunctural information available indicates that the dynamism of industrial activity has continued into Q3. The industrial production index increased by 4.6% in the July-August period, in year-on-year and calendar-adjusted terms, a higher rate than in Q2. The employment indicators, such as numbers registered with the Social Security system, showed a similar performance in Q3 to that in the previous quarter, while the European Commission's confidence index posted an increase of 1 pp and the manufacturing PMI scarcely varied.

The marked momentum of construction continued in Q2, though some moderation was observed. Gross value added in this branch increased by 5% over the period from April to June, 0.3 pp down on Q1. As discussed in the previous section, this loss of steam in Q2 reflected the lesser momentum of building, particularly in the non-residential segment. As regards Q3, the greater vigour of residential building in the summer will be underpinning higher growth in value added in this branch. Both Social Security registrations, which grew at a slightly higher rate in Q3 than in Q2 (once adjusted for the distortions caused by the immigrant regularisation process), and the information on certain imports, such as apparent consumption of cement, are along these lines.

The gradual easing of activity in the services branches continued during Q2. Growth in this quarter was 3.5%, 0.3 pp less than in the first three months of the year. This slowdown was

GROSS VALUE ADDED AND EMPLOYMENT BY BRANCH OF ACTIVITY (a)

CHART 19



SOURCES: Instituto Nacional de Estadística, Ministerio de Trabajo y Asuntos Sociales and Banco de España.

a. Year-on-year percentage rates based on seasonally adjusted series except in the case of the EPA, when they are based on gross series. EPA figures refer to numbers of persons . Employment in terms of full-time equivalent jobs. For incomplete quarters, the year-on-year rate for the period available within the quarter is taken.
b. Series linked by the DG Economics, Statistics and Research on the basis of the control survey counducted using the methodology applied until 2004 Q4.

seen both in market and other services. There are perceptible signs of stability in market services for Q3. According to figures drawn from the tax authorities, sales by large services companies, once deflated and adjusted for calendar effects, showed similar growth over the months of July and August to that in Q2, while the number of Social Security registrations in this branch quickened slightly in Q3. As to the survey-based indicators, the European Commission's services confidence indicator improved slightly and the PMI index held stable in Q3. Among the tertiary branches, the greater dynamism in the distributive trade and the stability in the transport and communications branches were notable, while the hotel and restaurant trade, and real estate and business services moderated somewhat.

In the economy as a whole, job creation remained robust in 2006 Q2, increasing at a year-on-year rate of 3.1%, 0.1 pp less than in Q1. In combination with the greater vigour of GDP, this led to an increase in the total economy's apparent labour productivity, which stood at 0.6% in Q2 compared with 0.4% in Q1. In the market economy, the year-on-year growth rate of employment was 3.6%, 0.1 pp up on the previous quarter; in this case, the performance of value added led to a 0.2 pp slide in apparent labour productivity. Into Q3, the conjunctural indicators available indicate that employment has once again risen, with an improvement in productivity in the market economy.

In this respect, Social Security registrations, calculated with month-end data and with the effect of immigrant regularisation stripped out, showed greater vigour in Q3, with a year-on-year rate of 3.3%, 0.5 pp higher than the previous quarter. According to the Labour Force Survey (EPA) figures for Q3, employment growth in relation to the same period a year earlier was 3.7%, 0.5 pp down on Q2. Nonetheless, this slowdown in employment was concentrated in the non-market services branches, while employment in the overall market economy increased once more, as in the two previous quarters, by 4.3%.

By branch of activity, and on QNA estimates for Q2, there was a notable loss of steam in job creation in the services branch and, especially, in non-market activities, which was partially offset by greater momentum in the other branches. Specifically, the year-on-year rate of increase in employment in non-market services declined by 0.6 pp to 1%. Conversely, in other services, the moderation in job creation was not as acute, and the year-on-year rate stood at 4.2%, 0.2 pp down on the previous quarter. In agriculture, meanwhile, the pace of job destruction slackened, while in industry employment underwent modest growth, following two quarters of decline. Employment in construction continued to be particularly dynamic, with a year-on-year rate of 7.3%. According to the EPA, employment was fairly robust in construction and in the services branches in Q3, while negative rates of change were observed in agriculture and in industry. Employment in agriculture fell by 8% year-on-year, stepping up the rate of decline experienced in the first half of the year. In industry, employment fell once again in year-on-year terms (–0.7%), after the mild recovery witnessed in the first half of the year. In the case of construction, the year-on-year growth rate of employment rose to 8.1%. Finally, employment increased by 4.9% in the services branches, 0.1 pp down on the previous quarter, the result of the marked slowdown in the non-market branches, where employment grew by 1.9%, compared with 4.1% the previous quarter. Conversely, employment in market services quickened, posting year-on-year growth of 6.9%, 1.2 pp more than the previous quarter.

The QNA figures for Q2 continued to show greater vigour for dependent employment than for self-employment, although there was a strong recovery in the latter group. The year-on-year growth rate for dependent employees was 3.1% economy-wide, and 3.7% in the market-economy branches, entailing a slowdown of 0.4 pp in relation to the previous quarter. The self-employment segment showed growth of 3%, far above the figure of 0.9% in Q1. The latest

EPA figures for Q3 continue to show higher growth for the group of dependent employees (3.9%) than among the self-employed (2.8%). These developments entail a fresh increase to 82.3% in dependent employees as a proportion of total numbers employed in the economy, 0.6 pp higher than the figure recorded a year earlier. In the figures for Social Security registrations, there was also a smaller increase in the self-employment category than among dependent employees.

According to the EPA figures, there was considerable dynamism in the numbers of foreign employees, with year-on-year growth of 17.4%; however, this variable held on the mildly moderating profile seen in previous quarters. Numbers of Spanish employees, meanwhile, grew by 2%, 0.5 pp less than in the previous quarter. In terms of contract length, the number of part-time employees grew at a higher rate than that of permanent employees in this quarter, despite the entry into force of the labour reform on 1 July. Nonetheless, the rate of expansion of workers with a part-time contract eased off to 4.5%, against 7.9% the previous quarter, while permanent employment quickened to a year-on-year growth rate of 3.6%. Overall, these developments prompted a fresh increase in the ratio of temporary to total employees, as is habitual during the summer months, taking the proportion up to 34.6% compared with 34.4% the previous quarter, although this rise was less than that recorded in the same quarter in the past two years. Information drawn from the INEM statistics on contracts shows a rise in permanent hiring in the July-September period, due above all to the conversion of temporary contracts (with an increase of over 80% in this period). The marked pace of these conversions will foreseeably be maintained until the end of the year, which marks the deadline for employers to avail themselves of the related rebates.

Growth was 1.1% among part-time workers in Q3, following the high rates recorded in 2005, while growth among full-time workers was more dynamic at 4%. As a result, the proportion of part-time employees fell by 0.9 pp on the preceding quarter to 11.3%.

The labour force grew by 3.4% in 2006 Q3, in line with its recent course (3.3% on Q2). Behind this trend in labour supply is the progressive increase in the participation rate, which stood at 58.4%, 1 pp up on the same period a year earlier, and the sustained dynamism of the population, which grew once more by 1.6%, as in the previous quarter. By sex, the increase in the labour force was higher among women (4.7%, against 2.4% for men), and the female participation rate rose by 1.5 pp on the same quarter in 2005 to 47.8%. The male participation rate stood at 69.5%, 0.4 pp up on a year ago.

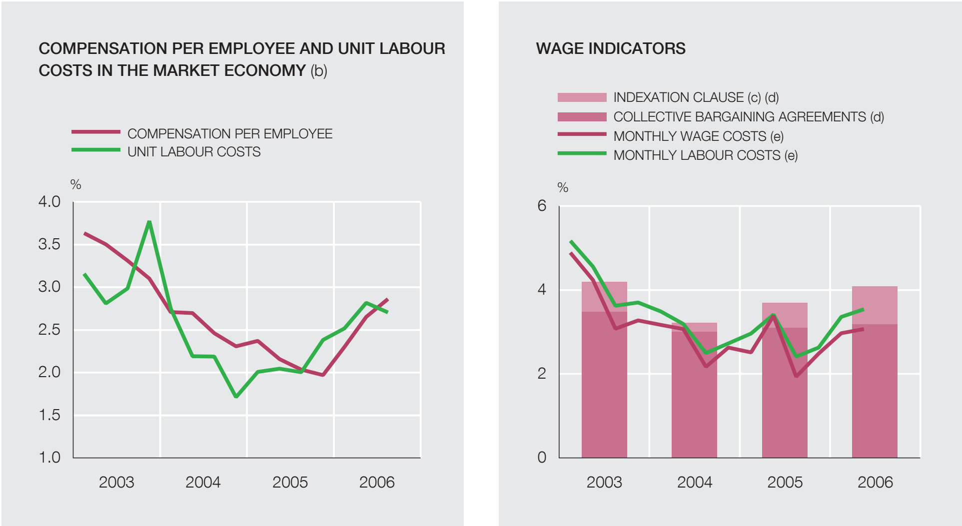
Finally, the EPA figures indicate a fresh decline in unemployment in Q3, with 72,000 fewer unemployed than three months ago. In year-on-year terms, however, the number of unemployed stabilised following several quarters of marked falls. The unemployment rate dipped to 8.1%, 0.4 pp less than in Q2. The registered unemployment statistics indicate a fall of 1.9% in the number of unemployed in Q3 compared with the same period a year earlier.

4.3 Costs and prices

In 2006 Q2, compensation per employee continued on the rising path embarked on in the second half of the previous year (see Chart 20). Specifically, in the economy as a whole, compensation per employee rose by 0.3 pp to 3.2%. In the market economy, the acceleration was more marked (0.4 pp), placing the rate of increase at 2.7%. By branch of activity, there was a generalised increase in the growth of average compensation, with the exception of construction, where the year-on-year rate of increase fell to 3.5%. The biggest rise – 0.6 pp – was in market services, with much more moderate increases in the other branches. The Quarterly Labour Costs Survey showed an increase in monthly labour costs per employee of 3.5% year-on-year, 0.1 pp up on the previous period. The wage component also quickened moderately, edging up from 3% to 3.1%, while non-wage costs once again increased substantially, to 4.9%.

WAGES AND LABOUR COSTS (a)

CHART 20



SOURCES: Instituto Nacional de Estadística, Ministerio de Trabajo y Asuntos Sociales and Banco de España.

a. Percentage change on same quarter a year earlier.
b. Rates based on QNA seasonally adjusted series.
c. Information on collective bargaining agreements to September 2006.
d. Previous year's indexation clause.
e. ETCL.

The information on wage settlements under collective bargaining agreements showed an increase in wage rates of 3.2% for the current year, a figure somewhat higher than the previous year before including the impact of the indexation clauses (3.1%). In revised agreements, the increase recorded to August is 3.16%, up on the same period a year ago, while in newly signed agreements a slightly higher rise has been agreed (3.27%). In the current year, workers have received back-pay relating to 2005 further to the activation of indexation clauses, the impact of which will, it is estimated, have an effect on compensation per employee of the order of 0.9 pp. Indexation clauses are present in most of the revised agreements to August, affecting 81% of workers.

The bigger increase in compensation per employee in 2006 Q2 was only partly offset by a bigger increase in value added per employee, meaning that the year-on-year growth rate of labour costs per unit of value added increased by 0.2 pp to 2.6% for the economy as a whole. The growth of the value added deflator, by contrast, fell by 0.2 pp to 3.4% year-on-year, reflecting the less expansionary behaviour of the surplus.

In the market economy, the diminished pace of the value added deflator in Q2 was the outcome of a slowdown in the deflator in all branches, with the exception of construction, where the rate of increase was stable (see Chart 21). The reduction in price growth was particularly sharp in agriculture, although this continued to be the activity showing the most moderate increases. The acceleration in unit labour costs was due to the strong rise in market services and, to a lesser extent, in construction, with the rate of increase falling in the other branches. As a result of these differences, surpluses declined in market services and in agriculture. The indicators available for Q3 suggest some slowing in unit labour costs, except in industry, owing to the acceleration in compensation per employee in this sector, since its productivity has continued to rise at a sharp rate. Unlike the previous quarter, the growth of the deflators in all branches was above that of unit labour costs, whereby the improvement in the surplus was across the board, which may be interpreted as a sign of the vigour of demand in this period.

PRICES AND COSTS BY BRANCH OF ACTIVITY (a) CHART 21

SOURCES: INE and Banco de España.

a. Non-centred percentage change on a year ago based on QNA seasonally adjusted series.

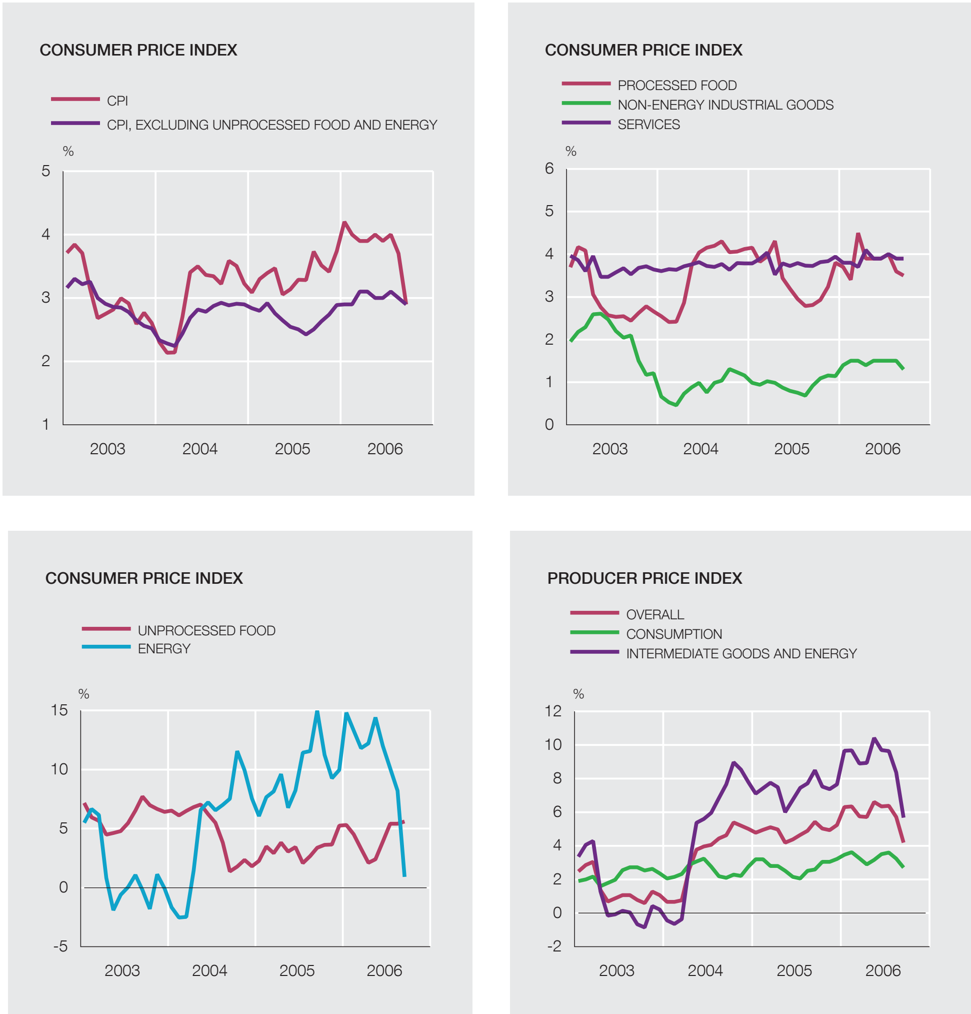
In 2006 Q2, the year-on-year rate of the final demand deflator fell by 0.1 pp to 4.1%. The imports deflator also eased to 4.4%, compared with 4.5% the previous quarter. The GDP deflator was likewise less expansionary, since it slowed by 0.1 pp to a year-on-year rate of 4.3%. On the expenditure side, the increase in the private consumption deflator moderated, in line with the CPI, and its rate of change fell by 0.1 pp in relation to the same period a year earlier to 3.9%. The gross fixed capital formation and exports deflators maintained their year-on-year rates of change at 5% and 3.9% respectively.

The 12-month growth rate of the consumer price index eased slightly in Q2 to 3.9%, against 4% in the opening months of the year. The slowing path of consumer prices intensified in Q3, with their rate of increase being trimmed by a further 0.4 pp to 3.5%, owing essentially to the less expansionary course of oil prices but also, to a lesser extent, to the other components. Since August oil prices have declined notably, which has fed through to fuel prices, meaning that the CPI in September posted a 12-month rate of 2.9%, a figure not seen since the opening months of 2004. The growth of the CPI excluding unprocessed food and energy held stable in Q2 and Q3 at 3%, although it dipped in September to 2.9% (see Chart 22).

The 12-month growth rate of processed food prices dipped by 0.2 pp in Q3 to 3.7%. The slowdown initiated in the April-June period in olive and other oil prices intensified in August and

PRICE INDICATORS (a)
Spain

CHART 22



SOURCE: INE.

a. Twelve-month percentage change based on the original series.

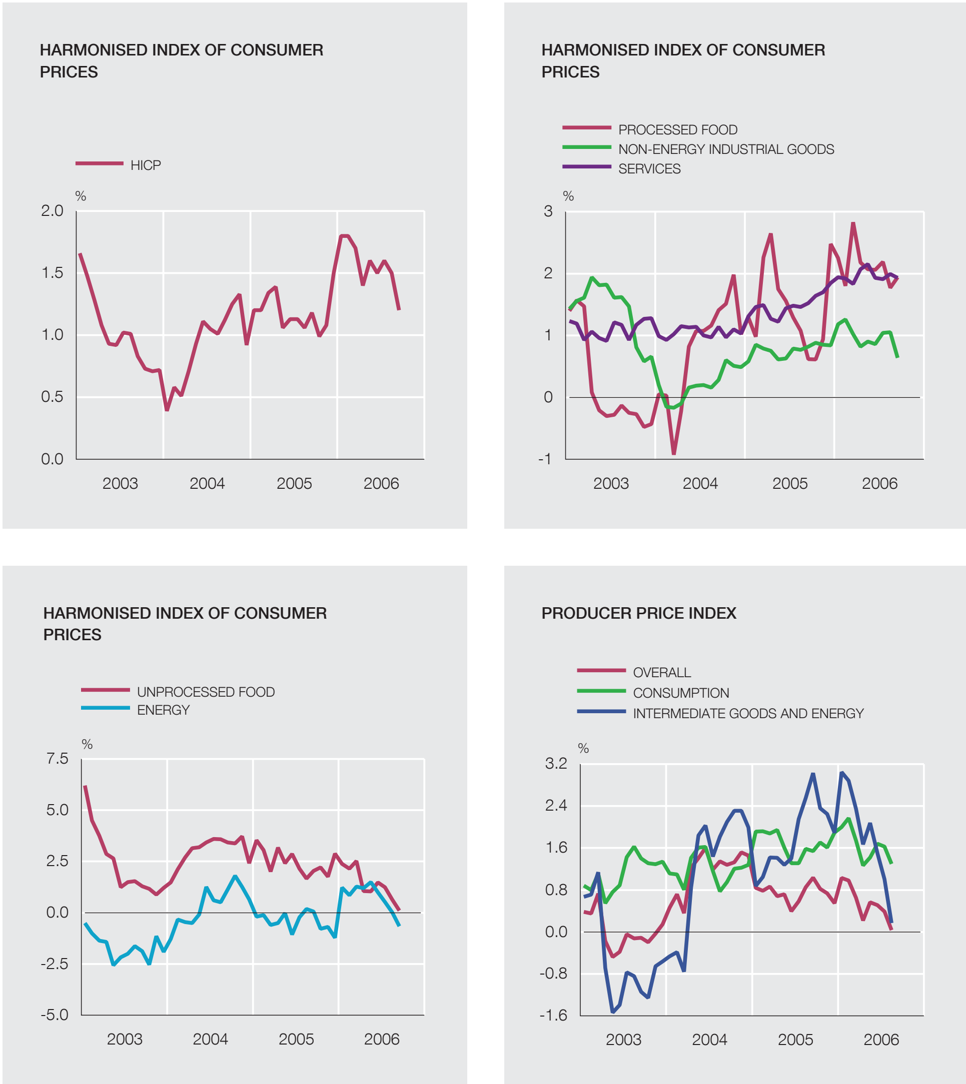
September, though the 12-month growth of this component still exceeds 23%. The prices of non-energy industrial goods posted growth of 1.4% on average in Q3, a similar figure to the previous quarter. The lesser increase in car prices was offset by the buoyancy of furniture prices, with the rate of change of clothing and footwear prices holding stable. Finally, services prices were unchanged in Q3 at an average year-on-year rate of 4%, with transport services prices having lost steam (the result of the favourable behaviour of fuel prices) but with the ongoing fall in telecommunications prices having slowed.

As to the more volatile CPI components, unprocessed food prices rose notably in Q3 to an average rate of 5.5%, owing particularly to higher meat and fruit prices. In the July-September period, the year-on-year rate of the energy component eased to 6.4%, 6.5 pp below the related Q2 rate, although the 12-month increase in September fell to 0.9%.

Inflation in Spain, measured by the HICP, underwent a 0.4 pp cut in Q3, taking the average year-on-year rate in this period to 3.6%. The decline was particularly sharp in September, when a 12-month rate of 2.9% was recorded. In the euro area as a whole, inflation in Q3 also fell by 0.4 pp

PRICE INDICATORS
Differentials vis-à-vis the euro area (a)

CHART 23



SOURCES: Eurostat and Banco de España.

a. Twelve-month percentage change based on the original series.

to 2.1%, and the differential for the quarter on average therefore held at around 1.5 pp. However, the greater slowdown in prices in Spain in September translated into a narrowing of the differential to 1.2 pp that month (see Chart 23). Component by component, the biggest differentials were recorded in services and processed food, where they stand at around 2 pp. In the recent period, a considerable decline in the differentials for the most volatile components has been observed, standing in September at 0.1 pp for unprocessed food and at –0.7 pp for energy. Lastly, the differential for non-energy industrial goods narrowed appreciably in September to 0.6 pp.

The rising path on which the producer price index had been moving for slightly more than two years was interrupted in 2006 Q3. The year-on-year growth rate of this index thus stood at 4.2% in September, 2.1 pp below the June figure. This lesser dynamism largely reflects the lower rate of increase of energy production prices, which posted a decline of 10.5 pp in relation to June to 4.1%. Among the other components of the producer price index, consumer goods prices also slowed; their rate of change in September was 2.7%, 0.8 pp down on June. The manufacturing

STATE BUDGET OUTTURN TABLE 3

EUR m and %

	Outturn 2005	Percentage change 2005/2004	Outturn projection 2006	Percentage change 2006/2005	Outturn JAN-JUN Percentage change 2006/2005	Outturn 2005 JAN-SEP	Outturn 2006 JAN-SEP	Outturn Percentage change
	1	2	3	4 = 3/1	5	6	7	8 = 7/6
1 REVENUE	128,777	12.2	138,167	7.3	9.9	92,093	99,683	8.2
Direct taxes	70,665	20.4	78,482	11.1	15.0	47,896	54,929	14.7
Personal income tax	*35,953*	*18.2*	*38,445*	*6.9*	*12.2*	*27,372*	*30,780*	*12.5*
Corporate income tax	*32,496*	*24.9*	*37,478*	*15.3*	*21.3*	*18,888*	*22,280*	*18.0*
Other (a)	*2,215*	*-1.3*	*2,559*	*15.5*	*23.3*	*1,636*	*1,869*	*14.2*
Indirect taxes	44,618	7.9	47,427	6.3	12.3	34,672	36,520	5.3
VAT	*32,009*	*10.0*	*34,452*	*7.6*	*15.6*	*25,116*	*27,006*	*7.5*
Excise duties	*9,795*	*0.5*	*9,932*	*1.4*	*-0.5*	*7,456*	*7,251*	*-2.8*
Other (b)	*2,813*	*12.9*	*3,043*	*8.2*	*9.7*	*2,100*	*2,264*	*7.8*
Other net revenue	13,494	-8.7	12,258	-9.2	-16.6	9,526	8,234	-13.6
2 EXPENDITURE	122,755	7.0	130,951	6.7	1.5	88,494	92,771	4.8
Wages and salaries	20,677	6.1	22,439	8.5	7.7	14,861	15,912	7.1
Goods and services	3,388	-3.5	3,834	13.2	3.7	2,223	2,386	7.3
Interest payments	17,831	6.4	15,520	-13.0	-19.2	15,421	13,139	-14.8
Current transfers	64,541	5.8	71,661	11.0	5.9	46,002	51,490	11.9
Contingency fund	…	…	…	…	…	…	…	…
Investment	8,978	26.4	9,258	3.1	4.8	5,446	5,466	0.4
Capital transfers	7,341	6.8	8,238	12.2	-7.1	4,541	4,377	-3.6
3 CASH-BASIS BALANCE (3 = 1 – 2)	6,022	…	7,216	…	…	3,599	6,913	…
MEMORANDUM ITEMS: NATIONAL ACCOUNTS								
Resources	126,811	11.9	143,587	13.2	13.7	91,978	102,543	11.5
Uses	123,550	0.7	140,933	14.1	6.7	83,739	90,735	8.4
NET LENDING (+) OR BORROWING (–)	3,261	…	2,654	…	…	8,239	11,808	…
(as a percentage of GDP)	0.4		0.3			0.9	1.2	

SOURCE: Ministerio de Economía y Hacienda.

a. Includes revenue from the tax on the income of non-residents.
b. Includes taxes on insurance premiums and tariffs.

prices of intermediate goods held stable, while the rate of increase of those of capital goods edged up to 2.5%. On information to August, the moderation of producer prices was somewhat less intense in the euro area than in Spain, whereby the related differential was zero that month. The pace of prices received by farmers stepped up, standing at 3.8% in July. Finally, hotel prices held at a very moderate year-on-year growth rate, increasing by 2.2% in August.

4.4 The State budget

On 22 September the Spanish government's Council of Ministers approved the draft State Budget for 2007. The budget targets an overall general government surplus of 0.7% for 2007, in line with the Pluriannual Budgetary Stability Programme for the 2007-2009 period. Drawing on figures from the September Excessive Deficit Protocol Notification, the balance in National Accounts terms for the General Government sector is envisaged to close the present year with a surplus of 1.1% of GDP, the same as in 2005. As regards the sub-sectors, Central Government will post a surplus of 0.3% of GDP in 2006, while Regional Governments will close the year with a deficit of 0.1% of GDP and Local Governments will remain in balance. As to the Social Security system, it is expected to post a surplus of 0.9% of GDP.

SOCIAL SECURITY BUDGET OUTTURN

BOX 4

The Social Security system posted a surplus of €8,994 million in the seven months to end-July 2006, €1,561 million up (21%) on the same period a year earlier, making for a more favourable outturn than to end-April. Revenue quickened slightly in the latter months of the period, with growth standing at 9.5%, while the growth rate of expenditure held at 7.7%.

Revenue from Social Security contributions increased by 9% to July, up on the figure of 8.6% to April. The growth of the number of Social Security registrations has slowed in recent months, insofar as it is no longer affected by the immigrant regularisation timetable; the rate to September 2006 was 4.6%. However, this is a slightly higher rate than for the whole of 2005, which reflects the dynamism observed in the labour market.

Turning to expenditure, that earmarked for contributory pensions accelerated marginally and rose by 7.8% to July, up on the figure of 7.2% budgeted for the year as a whole. The number of contributory pensions is sustaining a high growth rate, standing at 2.6% to July April, far above that posted in 2005 as a whole (1.3%). This is partly due to the effect of the former Elderly and Disability Insurance pensions (SOVI) being recognised as compatible with widowhood pensions[1]. Expenditure on sickness benefits quickened to a rate of 10.2% in July, which is still below the budgeted figure.

As regards the SPEE (State Employment Public Service), the information on which is shown in the accompanying table, contributions received rose by 9.7% to May, above budget. Rebates on contributions in respect of employment-promoting contracts, meanwhile, increased by 15.6% to May, also above the initial budget projection.

SPEE expenditure on unemployment benefits rose by 6.9% to July (a growth rate higher than the 6.7% increase recorded in 2005 as a whole), and the number of beneficiaries grew by 3.1% (3.3% in 2005). This was due to the increase in the eligibility rate, which stood at 62.5% to July 2006, above the end-2005 level (60.7%), and despite the decline in registered unemployment, which fell by 1.2% in July 2006 compared with the 1.1% fall over 2005 as a whole.

1. Law 9/2005 of 6 June 2005.

SOCIAL SECURITY SYSTEM (a)
Transfers to regional governments allocated (b)
Current and capital transactions, in terms of recognised entitlements and obligations

EUR m and %

	Budget			JAN-APR	Outturn JAN-JUL		
	2005	2006	% change	% change	2005	2006	% change
	1	2	3=2/1	4	5	6	7=6/5
1 REVENUE	90,040	97,547	8.3	9.1	54,461	59,652	9.5
1.1 Social security contributions (c)	83,915	90,625	8.0	8.6	50,973	55,556	9.0
1.2 Current transfers	4,874	5,295	8.6	9.0	2,906	3,177	9.3
Other (d)	1,251	1,628	30.1	45.7	582	920	58.1
2 EXPENDITURE	84,100	90,562	7.7	8.0	47,028	50,658	7.7
2.1 Wages and salaries	1,998	2,165	8.4	4.4	1,186	1,242	4.7
2.2 Goods and services	1,566	1,733	10.7	16.6	857	986	15.1
2.3 Current transfers	80,060	86,133	7.6	8.0	44,883	48,277	7.6
Benefits	80,059	80,059	7.6	8.0	44,883	48,276	7.6
Contributory pensions	*68,905*	*73,832*	*7.2*	*7.7*	*38,569*	*41,592*	*7.8*
Sickness	*5,925*	*6,656*	*12.3*	*6.2*	*3,271*	*3,604*	*10.2*
Other	*5,229*	*5,644*	*7.9*	*13.9*	*3,042*	*3,080*	*1.2*
2.4 Other (e)	476	530	11.4	-18.7	102	152	49.2
3 BALANCE	5,940	6,986	17.6	12.6	7,433	8,994	21.0

SOURCES: Ministerio de Hacienda, Ministerio de Trabajo y Asuntos Sociales and Banco de España.

a. Only data relating to the system, not to the entire Social Security Funds sector are given. This is because the figures for other Social Security funds are not available to July 2006.
b. Transfers from the ISM to the regional governments to finance transferred health-care and social services have been distributed among the various expenditure captions on the basis of the percentages obtained from the general government accounts for 1997.
c. Including surcharges and fines.
d. Excluding surcharges and fines.
e. Reduced by the disposal of investments.

According to National Accounts methodology, the State accounts recorded a surplus in the nine months to end-September of €11,800 million (1.2% of GDP), up on the figure of €8,239 million (0.9% of GDP) for the same period in 2005 (see Table 3). The cumulative growth of resources in the January-September period amounted to 11.5%, while uses increased by 8.4%; in both cases, the figures were lower than the forecast for the year as a whole offered in the outturn projection in the draft budget, though it is in uses where the containment experienced to date is most marked. The outturn projection is for a State surplus of €2,654 million (0.3% of GDP). Box 4 addresses the Social Security budget outturn.

In cash-basis terms, the State will run a surplus of €7,216 million according to the outturn projection, in marked contrast to the deficit forecast in the initial budgetary document, estimated at €5,360 million. This difference arises as a result of higher revenue from tax takings (especially in indirect taxes and VAT) and from other revenue, and of lower-than-budgeted expenditure, mainly due to the effect of lower interest and, probably, of the only partial use of the Contingency Fund.

The State budget outturn to September resulted in a surplus of €6,913 million, notably up on the surplus of 3,599 million recorded in the same period the previous year. In Q3 there was a slowdown in revenue, which increased by 8.2% in the nine months to end-September, compared with 9.9% to June, while expenditure quickened, rising to growth of 4.8% compared with 1.5% in the first half of the year.

For the analysis of revenue, information is available on takings relating to the main taxes, both the portion assigned to the State, the only portion shown in Table 3, and that corresponding to the regional governments. This aggregate information is more illustrative for evaluating tax revenue. The figures for total takings indicate that tax revenue slowed slightly in Q3 as a result of the lesser momentum of indirect tax, while direct taxes accelerated. The declines seen in other revenue during the first half of the year eased. Both personal income tax and corporate income tax sustained rates of over 13%: in the first case these were underpinned by withholdings on income from work (with growth exceeding 10%), by withholdings on movable capital (which grew by 27.7%) and by withholdings on gains on mutual funds (with growth of over 35% to September); in the second case they were sustained by corporate earnings. In both taxes, takings should increase at a substantially lower rate in Q4, if the projection outturn is to be met, which points to growth for 2006 as a whole of 9.4% in personal income tax and 15.3% in corporate income tax. As regards indirect taxes, VAT slowed notably to 8.2% owing to the application of requests for refunds. The growth rate of VAT takings is expected to hold stable in the final months, drawing close to 7.7% according to the outturn projection. Excise duties posted a modest increase in relation to the same period in 2005. This was largely due to the moderation of tobacco consumption and to the trend of prices in the case of the special tax on hydrocarbons. By contrast, the outturn projection foresees greater vigour in the growth of takings of excise duties, of up to 3.5% for the year as a whole. Finally, the rate of decline of the items grouped under the heading Other revenue eased, with a reduction of 13.6% to September due to the fact that the increase in current transfers, interest received and the disposal of real investments offset the declines in charges and capital transfers. The outturn projection estimates an additional improvement in the second half of the year, due above all to the captions encompassing charges and capital transfers.

With regard to expenditure, the acceleration in Q3 was marked mainly by that in current expenditure. Whereas the growth rate of wages and salaries eased back, the rates of decline in interest payments recorded in the first half of the year fell, and current transfers and goods and services quickened notably in these months, with their growth rates almost doubling. In all

BALANCE OF PAYMENTS: MAIN COMPONENTS (a) TABLE 4

EUR m

		JANUARY-JULY	
		2005	2006
CREDITS	Current account	155,206	173,563
	Goods	*90,686*	*100,973*
	Services	*41,177*	*43,945*
	— Tourism	20,204	19,959
	— Other services	20,973	23,985
	Income	*15,868*	*20,490*
	Current transfers	*7,476*	*8,155*
	Capital account	4,767	3,322
	Current + capital accounts	159,973	176,885
DEBITS	Current account	194,889	226,068
	Goods	*128,035*	*146,015*
	Services	*29,424*	*35,531*
	— Tourism	6,495	7,270
	— Other services	22,929	28,261
	Income	*26,451*	*32,497*
	Current transfers	*10,978*	*12,025*
	Capital account	491	950
	Current + capital accounts	195,380	227,018
BALANCES	Current account	-39,683	-52,505
	Goods	*-37,350*	*-45,042*
	Services	*11,752*	*8,414*
	— Tourism	13,709	12,689
	— Other services	-1,956	-4,275
	Income	*-10,583*	*-12,007*
	Current transfers	*-3,502*	*-3,870*
	Capital account	4,276	2,372
	Current + capital accounts	-35,407	-50,132

SOURCE: Banco de España.

a. Provisional data.

instances, except for the case of wages and salaries, which had also shown less momentum in the final months, these same trends may continue in the second half of 2006, according to the figures provided by the outturn projection for the close of the year. Finally, the decline in capital transfers steepened in this quarter, owing to the strong slowdown in real investment, which remained virtually flat. As with current transfers, the outturn projection foresees acceleration in this expenditure item in the second half of the year.

4.5 The balance of payments and the capital account of the economy

In the first seven months of 2006, the overall balance on current and capital account was a deficit of €50,132 million, 42% up on the same period in 2005 (see Table 4). During this seven-month period the current account deficit widened by 32%, rising to €52,505 million, while the surplus on capital transactions declined (–45%) to €2,372 million. Under current transactions, there was a generalised deterioration in the balances of the main items, proving especially acute in the case of the trade deficit, the surplus on services, the income deficit and, to a lesser extent, net current transfers.

The trade balance deficit increased by €7,692 million in the January-July period compared with the same period a year earlier, up to a figure of €45,042 million. In year-on-year terms, the deficit increased by 21%, prolonging the deterioration of the two previous years. Despite the significant pick-up in real export flows in this period, the rise in real imports and the strong deterioration in the terms of trade – owing to dearer oil – prompted the unfavourable course of the deficit in nominal terms. Nonetheless, the rate of increase in the trade deficit has slackened since 2006 Q2 thanks to the more moderate growth of the deficit on the non-energy trade balance.

The services balance posted a surplus of €8,414 million euro in the first seven months of 2006, €3,338 million down on the figure recorded in the same period a year earlier. This deterioration was due to the €1,019 million decline in the tourist surplus and, to a greater extent, to the increase in the deficit on the non-tourist services balance, which increased by €2,319 million. Tourist revenue fell by 1.2% in the January-July period, in nominal terms, although the latest figures have shown some improvement, with positive rates of 4.5% in June and 1% in July. Tourist expenditure rose by 11.9% to July, although the strong rate of increase that had marked them in the two previous years has slowed from Q2. As a result of these revenue and expenditure developments, the tourist surplus declined by 7.4%.

The deficit on the income balance widened by 14% over the course of the first seven months of 2006 to a negative figure of €12,007 million, €1,424 million more than the same period a year earlier. Revenue grew at a very high rate in this period (29%), with a notable rise in that relating to the financial sector, while expenditure also posted a very strong increase (23%), reflecting the dynamism of expenditure by monetary financial institutions and, to a greater extent, by the non-financial private sector, which offset the decline in general government expenditure.

In the seven months to July, the current transfers deficit totalled €3,870 million, €367 million up on the deficit recorded in the same period in 2005. Revenue increased by 9.1%, owing to the favourable course of flows from the EU under EAGGF-Guarantee (one of the main items), while Community transfers from the European Social Fund fell off. Expenditure, meanwhile, grew at a similar rate (9.5%), driven once again by the strong increase in emigrants' remittances (36.1%) and by the rise in expenditure earmarked for Community coffers under the VAT resource and Traditional own resources, which was offset by the decline in expenditure under the GNP Resource.

Finally, the capital account surplus amounted to €2,372 million over the course of the first seven months of 2006, a decline of €1,904 million on the same period a year earlier. This deterioration was partly due to the decline in various structural funds, especially from the ERDF, although transfers from the EAGGF-Guarantee and from the Cohesion Fund also fell. Furthermore, expenditure increased most notably, especially in connection with disposals of intangible assets and capital transfers by the private sector.

5.1 Overview

in 2006 Q3, the pattern of progressive rises in money market interest rates continued. Thus, in September, the average level of twelve-month EURIBOR stood at 3.7%, up 31 bp from the end of the first half of the year. In line with these developments, the cost of bank loans for households and firms increased during July and August. By contrast, the downward path in the price of long-term Spanish debt came to an end and the yield on the 10-year bond reached 3.8%, down 22 bp from June. This, combined with the stability of Spanish firms' credit default swap premia, led to a reduction in firms' average cost of financing through the issuance of long-term fixed income securities.

On domestic and international stock markets, the expansionary behaviour of company results and the oil price falls in the second half of Q3 prompted share prices to rise and their volatility to fall. Spanish market indices were also benefited by certain company operations. Thus, at end-September, the Madrid Stock Exchange General Index was 21.9% higher than at the beginning of the year, a much more favourable performance than that of the EURO STOXX Broad Index of euro area stock exchanges, which increased by 11.9% over the same period, and that of the S&P 500 of American companies, which rose by 7% (see Chart 24).

According to the latest data published by the Housing Ministry, the trend in prices on the property market observed since the beginning of last year, continued during Q3. Thus, the year-on-year growth rate of unsubsidised housing stood at 9.8% in September, down one percentage point from March, confirming the trend slowdown, and raising the likelihood of an orderly and gradual adjustment in this market.

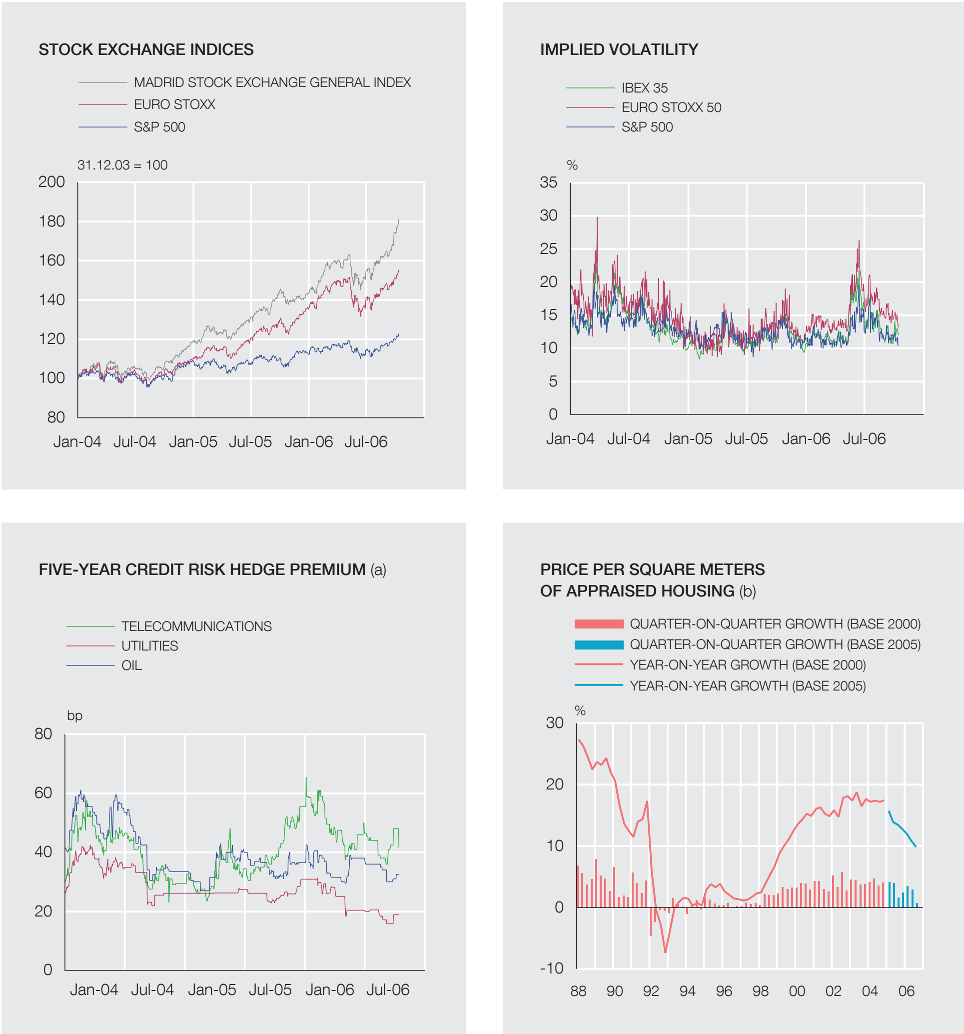
Despite the rise in interest rates, the liabilities of the private sector continued to increase at a high rate between April and June. In the case of households, the year-on-year increase was similar to that in Q1 (close to 21%). Component by component, the smooth slowdown since the beginning of the year in debt for house purchase continued, although it still grew by 23%. By contrast, financing to households for consumption and other purposes was again highly buoyant, and expanded by around 16% relative to the same period of 2005. Company debt, meanwhile, grew by around 24%, basically as a result of the behaviour of loans granted by resident institutions, although the renewed boom in fixed-income securities issuance was also significant. The breakdown of bank lending by productive activity shows that loans to construction and, in particular, to property services companies again recorded high rates of growth. The provisional information available suggests that between July and September the same trends were maintained as in the previous quarter as regards financing, although a certain acceleration in business debt was discerned.

The buoyancy of funds received by households, which greatly exceeded that of their income, and the increase in the cost of financing meant that the degree of financial pressure on households increased once again in Q2. This trend, according to the provisional information available, continued between July and September. Thus the debt and debt burden ratios, relative to gross disposable income (GDI), continued to rise, while net saving after debt service fell again and household net borrowing increased again (see Table 5). Even so, the net wealth of these agents rose further, owing to the rise in house prices, which helped bolster their financial position.

The debt and debt burden ratios of non-financial corporations also continued to rise in Q2, while the return on equity remained at similar levels to March. The provisional information for

PRICE INDICATORS FOR VARIOUS ASSETS

CHART 24



SOURCES: Bloomberg, Credit Trade, Ministerio de la Vivienda and Banco de España.

a. Average asset-weighted premia.
b. New statistic from 2005.

Q3 shows these same trends continuing. Meanwhile, according to the Financial Accounts, company net borrowing increased again in Q2. The data, for the same period, of firms reporting to the quarterly survey of the Central Balance Sheet Data Office (CBQ), in which large companies have a high weight, showed similar behaviour to that observed for the sector as a whole in terms of the volume of financing and interest payments relative to profits. However, the effect of these variables on synthetic indicators of financial pressure was more than offset by the improvement in the return on capital.

The additional contraction in the financial saving of firms and households was not fully offset by the increase in the financial resources of general government, so the nation's net borrowing, in cumulative twelve-month terms, rose to 7.5% of GDP, as against 7.1% in March. These funds continued to be channelled basically through borrowing by financial institutions from the rest of the world.

In short, the financial situation of households and firms remains solid, although it is increasingly exposed to adverse changes in certain variables such as income, asset prices and the cost of

NET FINANCIAL TRANSACTIONS
Four-quarter data

TABLE 5

% GDP (a)

	2001	2002	2003	2004	2005			2006	
					Q2	Q3	Q4	Q1	Q2
National economy	-3.5	-2.7	-2.9	-4.8	-5.9	-6.1	-6.5	-7.1	-7.5
Non-financial corporations and households and NPISHs	-4.2	-3.5	-3.9	-5.3	-6.7	-7.4	-8.4	-9.5	-10.5
Non-financial corporations	*-5.2*	*-4.2*	*-4.1*	*-4.6*	*-5.5*	*-6.3*	*-7.0*	*-8.0*	*-8.8*
Households and NPISHs	*1.1*	*0.7*	*0.1*	*-0.6*	*-1.1*	*-1.1*	*-1.3*	*-1.5*	*-1.7*
Financial institutions	1.2	1.2	1.0	0.6	0.4	0.4	0.7	0.6	0.7
General government	-0.5	-0.3	0.0	-0.2	0.3	0.8	1.1	1.8	2.3
MEMORANDUM ITEM:									
Financing gap (b)	-10.0	-8.6	-8.4	-8.9	-10.5	-11.0	-11.2	-14.4	-15.1

SOURCE: Banco de España.

a. CNE base 2000.
b. Financial resources that cover the gap between expanded gross capital formation (real investment and permanent foreign financial investment) and gross saving.

financing, which is especially significant in scenarios characterised by decelerating house values and rising interest rates. Accordingly, the medium-term macroeconomic outlook remains subject to the risk factors of a financial nature discussed in previous reports.

5.2 Households

In 2006 Q3, the gradual rise in the cost of household debt continued. During July and August, the interest rates charged by banks on new loans for house purchase and for consumption and other purposes increased by 22 bp and 63 bp respectively, making the rise in the cost of such funds since end-2005 around one percentage point. As regards credit standards, according to the bank lending survey (BLS), institutions did not expect significant changes in the same period. Also, the recent developments in the ratio between the funds received and the value of the property in mortgage loans imply that credit supply conditions remained unchanged (see Box 5).

The tightening of financing conditions since the end of 2005 has not prevented household debt remaining highly buoyant. In June it grew by 21%, relative to the same period of 2005, a similar rate to previous months. Credit for house purchase continued to be the most expansionary element of this aggregate since, despite a mild slowdown, its year-on-year growth rate is still high (23%). Meanwhile funds for consumption and other purposes accelerated further to a growth rate of around 16%. The information available does not enable the final use of these funds to be identified more precisely, but their growth appears to be consistent with the increase in the demand for loans perceived in Q2 by institutions participating in the BLS, linked to spending on durable goods.

Investment in financial assets increased slightly between April and June, to 10.7% of GDP, in cumulative twelve-month terms, up 0.1 bp from March (see Table 6). By instrument, these purchases continued to be concentrated in the lowest risk assets (cash and deposits). Among the latter, time deposits, which are included under the heading other deposits and fixed-income securities, were notably buoyant, while cash and cash equivalents decelerated. As in the previous quarter, net equity purchases were equal to zero and the relative importance of net subscriptions for mutual fund shares and flows in the form of insurance technical reserves fell again.

The relationship between the amount of a mortgage loan and the value of the property securing the loan, known as the "loan-to-value ratio" (LTV), is a useful indicator for analysing changes in the credit standards applied by lending institutions. An increase in the ratio will normally reflect a relaxation of the supply conditions, although demand elements (for instance, whether borrowers have other resources accumulated previously) also play a part in determining its level. The LTV is also relevant to know the risk borne by borrowers in this type of transaction.

The mortgage-loan database prepared by the Association of Property and Mercantile Registrars (CRPME) enables the trend and level of the LTV to be analysed in considerable detail, since it includes both the amount of the loan and the appraisal value of the property for all transactions entered into from 2004[1].

The left-hand panel of the adjoining chart contains an LTV histogram for all mortgage loans granted to individuals in respect of unsubsidised housing in the first half of 2006. The mean and median values of the ratio in this period were 63% and 65%, respectively. Most of the data are around these values, but there is a wide dispersion. Thus, for example, more than 24% of transactions had an LTV of less than 50%. Also, there was a notable concentration of transactions with LTVs of around 80% and 100%. The concentration at the 80% level is explained by regulatory factors. Above this level, institutions are required to increase their provisions (Circular 4/2004) and to have more capital (Circular 5/1993)[2]. Also, under the Mortgage Market Law (Law 2/1981), loans with an LTV above this level generally cannot be used to secure issues of mortgage covered bonds. The 100% limit is obviously for reasons of prudence in the internal management of risk by the institutions. In fact the latter usually require supplementary security for granting such loans and even insure them as well.

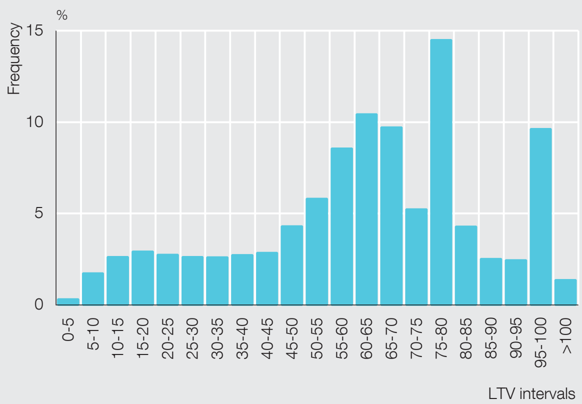
The right-hand panel of the adjoining chart shows the values of certain percentiles of the LTV distribution over the period January 2004 to June 2006. The most notable characteristic of these statistics is their stability during the sample period. For example, the percentage of loans with an LTV of more than 80% fluctuated within a narrow range around the 19% level. The low variability of the distribution suggests that there were no major changes during this period in either the demand conditions or institutions' credit standards.

The CRPME statistic does not, however, contain information on characteristics that might be expected to affect the LTV, such as the type of housing subject to the mortgage. In this respect, surveys carried out by the Spanish Mortgage Association (AHE) among its members, with data for the period 2004 2005, reveal that the mean LTV is somewhat higher in the case of principal residences (72%, as against 65% in the case of second residences). The ratio is also higher in the case of a first-time purchase of a principal residence (80%, as against 55% in the case of second and subsequent transactions). It is also interesting to note the consistency between these data and those of the CRPME, since they give an average LTV that was relatively stable during 2004 and 2005, of around 65%.

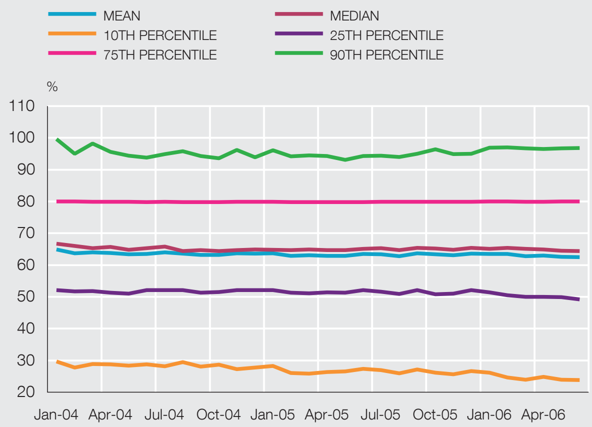
The difference between the LTV for principal and second residences is probably a result, essentially, of supply-side factors, given that mortgages for the latter normally involve greater risk. However, the discrepancy between the ratio for first and subsequent purchases may be explained to a greater extent by demand factors, since people who change their principal residence are likely to have a larger volume of accumulated funds.

1. Specifically, the appraisal value is included after deducting the expenses associated with a possible auction of the property. 2. The whole amount of any loan exceeding this threshold will be subject to this less favourable treatment, not just the amount by which it exceeds such limit.

1 DISTRIBUTION OF MORTGAGE LTVs (a) (b)



2 MORTGAGE LTVs OVER TIME (a)



SOURCES: Colegio de Registradores de la Propiedad y Mercantiles de España and Banco de España.

a. Mortgage loans granted to individuals in respect of unsubsidised housing.
b. Data based on loans granted between January and June 2006.

TRANSACTIONS OF HOUSEHOLDS, NPISHs AND NON-FINANCIAL CORPORATIONS
Four-quarter data

TABLE 6

% GDP

	2002	2003	2004	2005	2006	
				Q4	Q1	Q2
HOUSEHOLDS AND NPISHs						
Financial transactions (assets)	8.6	8.9	9.7	10.6	10.6	10.7
Cash and cash equivalents	3.5	4.1	4.0	4.4	3.8	3.6
Other deposits and fixed-income securities (a)	2.0	-0.3	1.3	2.0	3.2	3.5
Shares and other equity (b)	0.6	0.6	0.5	0.2	0.0	0.0
Mutual funds	0.2	2.3	1.5	1.9	1.8	1.6
Insurance technical reserves	2.5	1.8	1.8	1.8	1.7	1.5
Of which:						
Life assurance	*1.4*	*0.7*	*0.7*	*0.8*	*0.7*	*0.6*
Retirement	*0.9*	*0.9*	*0.8*	*0.8*	*0.8*	*0.7*
Other	-0.3	0.5	0.7	0.4	0.1	0.4
Financial transactions (liabilities)	8.0	8.8	10.3	11.9	12.1	12.4
Credit from resident financial institutions (c)	7.2	9.2	10.8	12.3	12.9	13.2
House purchase credit (c)	*5.1*	*7.0*	*8.7*	*10.3*	*10.5*	*10.5*
Consumer and other credit (c)	*2.1*	*2.2*	*2.1*	*2.2*	*2.4*	*2.8*
Other	0.7	-0.4	-0.5	-0.4	-0.8	-0.8
NON-FINANCIAL CORPORATIONS						
Financial transactions (assets)	14.6	15.9	15.6	18.5	19.7	19.3
Cash and cash equivalents	1.6	0.9	1.0	2.1	2.1	2.0
Other deposits and fixed-income securities (a)	1.6	1.2	0.3	1.3	1.6	1.1
Shares and other equity	6.6	7.4	6.4	6.6	8.6	8.8
Of which:						
Vis-à-vis the rest of the world	*4.6*	*4.5*	*3.8*	*3.8*	*6.2*	*5.7*
Other	4.7	6.4	7.9	8.5	7.5	7.4
Financial transactions (liabilities)	18.8	20.0	20.3	25.6	27.8	28.1
Credit from resident financial institutions (c)	5.4	6.1	8.3	13.0	13.5	14.4
Foreign loans	2.7	2.7	0.7	2.0	3.7	3.0
Fixed-income securities (d)	-0.4	-0.2	0.0	0.3	0.9	1.2
Shares and other equity	5.9	5.1	4.6	3.2	3.2	3.2
Other	5.1	6.2	6.6	7.2	6.5	6.3
MEMORANDUM ITEM: YEAR-ON-YEAR GROWTH RATES (%):						
Financing (e)	14.0	15.9	16.3	21.0	23.0	22.7
Households and NPISHs	16.3	19.1	20.2	20.9	21.3	21.0
Non-financial corporations	12.4	13.5	13.2	21.1	24.4	24.0

SOURCE: Banco de España.

a. Not including unpaid accrued interest, which is included under "other".
b. Excluding mutual funds.
c. Including derecognised securitised loans.
d. Includes the issues of resident finanacial subsidiaries.
e. Defined as the sum of bank credit extended by resident credit institutions, foreign loans, fixed-income securities and financing through securitisation special purpose entities.

The rapid rate of expansion of financing meant that the household debt ratio continued rise to stand in June at 120% of GDI (see Chart 25). This, combined with the increase in the cost of funds, explains why the related debt burden increased again, to stand, as at the same date, at almost 15% of GDI. The increase in the repayments on the debt assumed relative to GDI, along with the stability in the gross saving ratio, led to a further reduction in saving after debt service. Also, according to the Financial Accounts, net borrowing increased again in this period to 1.7% of GDP, in cumulative twelve-month terms. However, the continuing high buoyancy of house prices meant that, despite the increase in liabilities, the sector's net wealth conti-

INDICATORS OF THE FINANCIAL POSITION OF HOUSEHOLDS AND NPISHs (a) CHART 25

SOURCE: Banco de España.

a. From 1999, the sectoral National Accounts data correspond to the CNE base 2000. For prior periods, an estimate consistent with this base is used.
b. Includes bank credit and securitisation.
c. Assets 1 = total financial assets – “other”.
d. Assets 2 = Assets 1 – shares (excluding mutual fund shares) – shares in FIM.
e. Estimated interest payments plus debt repayments.
f. Balance of households' use of disposable income account.
g. Gross saving less estimated debt repayments.
h. Calculated on the basis of the estimated changes in the stock of housing, in the average area per house and in the price per square metre. There is a new house price statistic for 2005.
i. CNE base 2000.

nued to rise, although at a lower rate than in recent years, thus alleviating the degree of financial pressure inferred from the above indicators.

5.3 Non-financial corporations

The cost of bank debt for corporations also continued to increase in Q3. The rate of interest on loans of up to €1 million rose during July and August by 27 bp, similar to the rise observed in the case of larger loans (21 bp). Meanwhile, according to the BLS, institutions were not expecting changes in credit standards during Q3. This rise in the cost of financing was not observed, however, in the case of either long-term fixed-income securities issuance, thanks to the decline in the yield on public debt and to the stability of credit default swap premia, or of funds obtained on equity markets, given the upward path of share prices and the decline in their volatility.

Despite the less favourable environment for debt financing, the volume of external funds received by firms continued to grow at a high rate (close to 24%, year-on-year, in June). By instrument, credit from resident institutions continued to be the main item although, as in the previous quarter, fixed-income securities issuance, which still has a low weight in corporate liabilities, grew notably. Flows in the form of foreign loans, by contrast, fell by 0.7 pp of GDP over the 12 months to June.

As regards the breakdown of credit by productive activity, between April and June behaviour across sectors was again mixed. The year-on-year growth rates of credit to property services and construction remained high (close to 47% and 30% respectively). In the case of industry, despite buoyant productive investment, the rate of growth of these liabilities fell again, to 10% year-on-year, while that for services (excluding property services) stood at close to 17%, a rise of almost 2 pp from the previous quarter. Meanwhile, CBQ information shows that the debt of large corporate groups accelerated, so that its level at end-June was more than 30% higher than a year earlier.

The financing raised over the twelve months to June through the issuance of shares and other equity remained at the same level, in terms of GDP, as in the previous two quarters (3.2%).

By contrast, the volume of company assets-side transactions moderated somewhat to 19.3% of GDP in June, in cumulative twelve-month terms. By instrument, the net acquisition of shares and other equity increased slightly, to 8.8% of GDP (as against 8.6% in March), while the flow in the form of liquid assets and fixed-income securities was somewhat smaller than in Q1.

As a result of the decline in asset flows and the increase in liability ones, the net borrowing of corporations and the financing gap, which approximates the funds needed to undertake real investment and permanent foreign financial investment, increased relative to GDP by around 0.8 pp, to 8.8% and 15.1%, respectively, in cumulative twelve-month terms (see Table 5).

The buoyancy of the external financing of corporations led to a further increase in the sector's debt-to-profit ratio (see Chart 26). This, along with the increase in the cost of funds, caused interest payments to rise again relative to GDP (to 20%). However, the favourable trend in the sector's income during this period meant that the return on capital remained at similar levels to March.

The data for the sample of firms reporting to the CBQ, among which large companies predominate, also show a rise in the debt and debt burden ratios in Q2. However, the ordinary return on equity of these companies continued to increase, thanks to the behaviour of the large groups, helping to reduce the synthetic indicators of financial pressure on investment and employment.

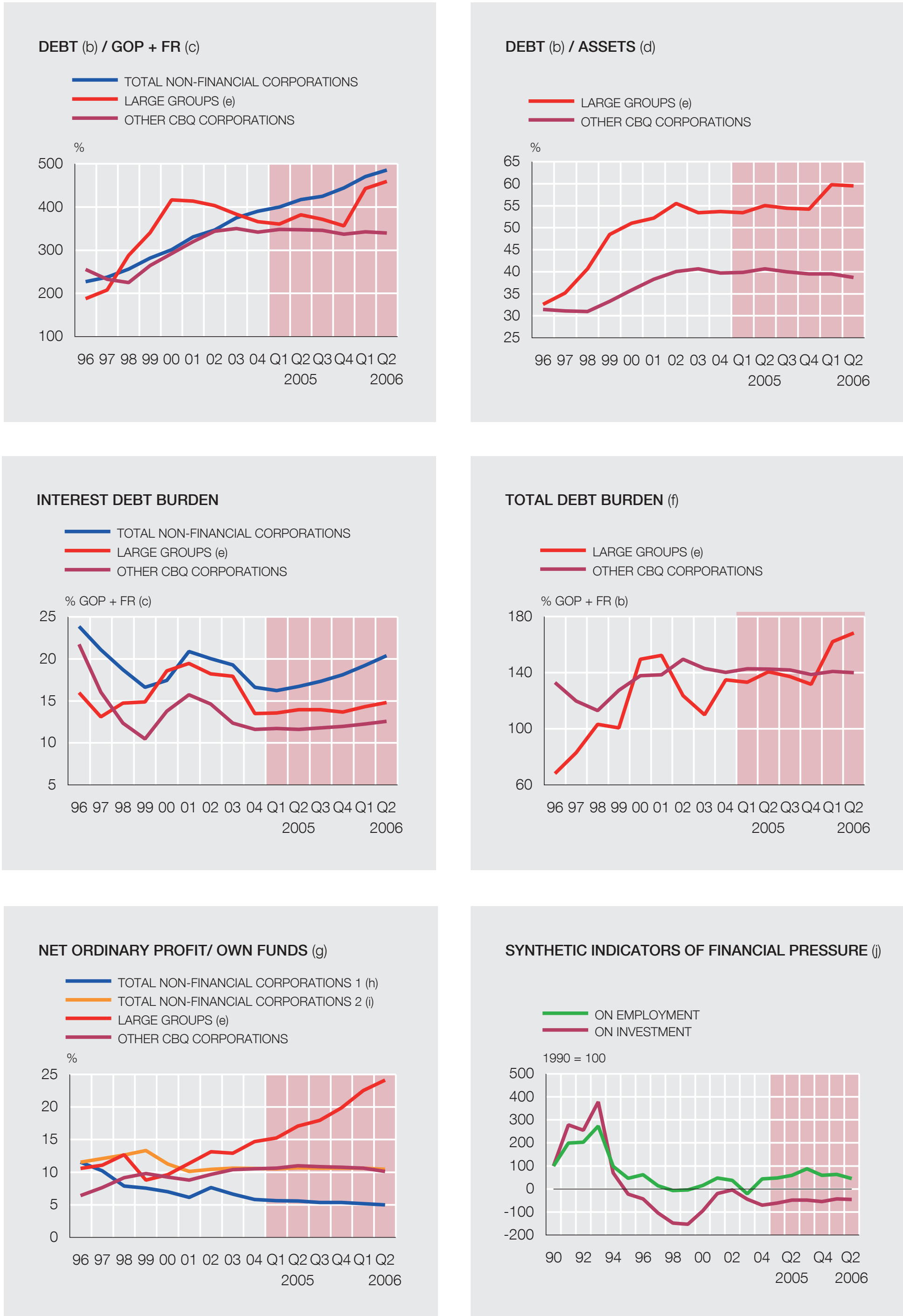
Finally, according to analysts' expectations, the favourable trend in the profits of listed non-financial corporations, amongst which large ones also predominate, will be sustained over the coming quarters. Thus the growth forecast for this variable over the next 12 months is around 18%. For longer time horizons the estimated growth is obviously lower, although the upward revision to these projections made in the summer was notable (see Chart 27).

5.4 General government

General government net lending increased again in Q2, to stand, in cumulative twelve-month terms, at 2.3% of GDP (see Chart 28). By instrument, general government continued to make a net redemption of short-term securities, while its net issuance of long-term securities was very small. Also, there was a rise in the sector's deposits and a fall in its loans, so that the heading that reflects the changes in the net balance of these two items was positive, although by a smaller amount than in the previous quarter. Interest payments continued to decline relative to GDP, thanks to the reduction in the debt ratio, to stand at less than 2%.

INDICATORS OF THE FINANCIAL POSITION OF NON-FINANCIAL CORPORATIONS (a)

CHART 26

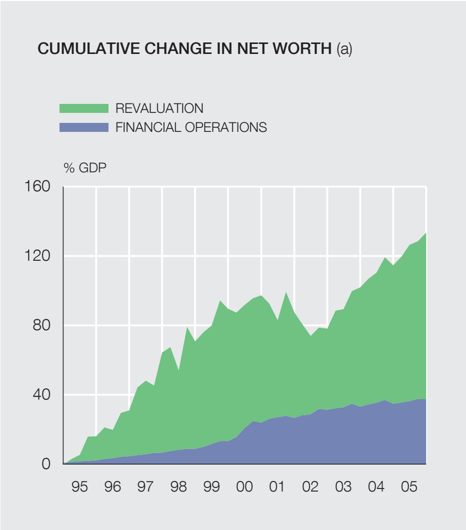


SOURCE: Banco de España.

a. Based on CBSO annual and quarterly survey data, except in the case of the “total non-financial corporations” series, which is based on the National Accounts (CNE and FASE). From 1999, the income of the sector corresponds to the CNE base 2000. For prior periods, an estimate consistent with this base is used.
b. Interest-bearing borrowed funds.
c. Gross operating profit plus financial revenue.
d. Defined as total inflation-adjusted assets less non-interest-bearing liabilities.
e. Aggregate of all corporations reporting to the CBSO that belong to the Endesa, Iberdrola, Repsol and Telefónica groups. Adjusted for intra-group financing to avoid double counting.
f. Includes interest plus interest-bearing short-term debt.
g. For total non-financial corporations, NOP = GOS + interest and dividends received – interest paid – fixed capital consumption.
h. Own funds valued at market prices.
i. Own funds calculated by accumulating flows from the 1996 stock onwards.
j. Indicators estimated drawing on the CBA and CBQ surveys. A value above (below) 100 denotes more (less) financial pressure than in the base year.

OTHER FINANCIAL INDICATORS OF NON-FINANCIAL CORPORATIONS

CHART 27

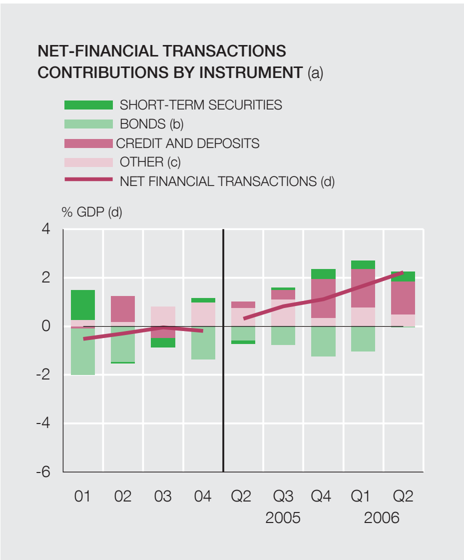


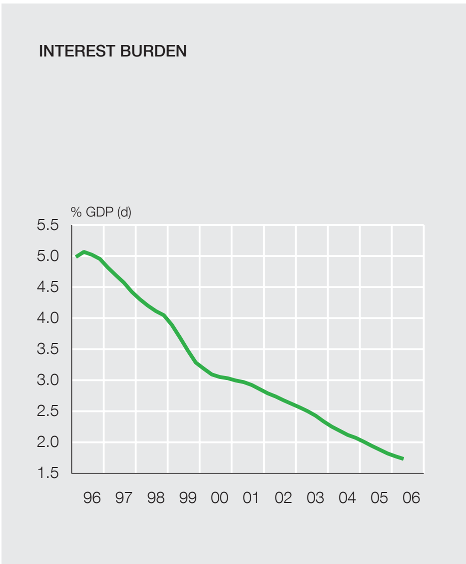
SOURCES: I/B/E/S and Banco de España.

a. Net worth proxied by the valuation at market price of shares and other equity issued by non-financial corporations.

GENERAL GOVERNMENT
Four-quarter data

CHART 28



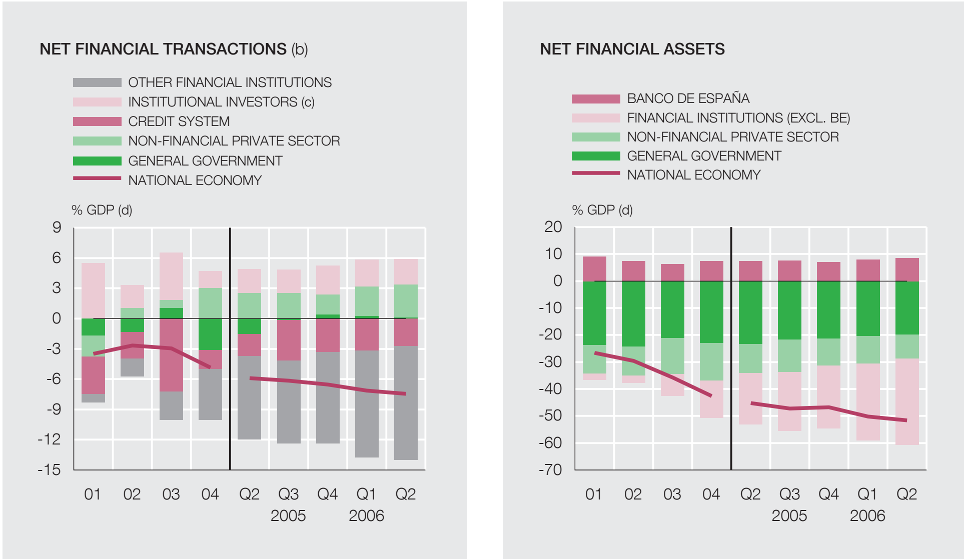


SOURCE: Banco de España.

a. A positive (negative) sign denotes an increase (decrease) in assets or a decrease (increase) in liabilities.
b. Includes only liabilities transactions.
c. Unpaid accrued interest on bonds and net investment of Social Security funds in assets issued by the rest of general government.
d. CNE base 2000.

NET FINANCIAL TRANSACTIONS AND NET FINANCIAL ASSETS VIS-À-VIS THE REST OF THE WORLD (a)

CHART 29



SOURCE: Banco de España.

a. Four-quarter data for transactions. End-period data for stocks. Unsectorised assets and liabilities not included.
b. A negative (positive) sign denotes that the rest of the world grants (receives) financing to (from) the counterpart sector.
c. Insurance companies and portfolio investment institutions.
d. CNE base 2000.

5.5 *The rest of the world*

In 2006 Q2, the net debit balance of the nation's financial transactions expanded again to represent, in cumulative twelve-month terms, 7.5% of GDP. This was a result of the additional increase in the net borrowing of households and firms, which was not offset by the higher net lending of general government.

Financial institutions continued to play a central role in the channelling of funds from the rest of the world. In particular the relative importance of non-monetary financial intermediaries in the financing of the external deficit continued to grow, so that in June the debit balance of their net transactions vis-à-vis non-residents amounted to 11.3% of GDP, as against 10.6% in Q1 (see Chart 29).

Investment in foreign assets by resident sectors was 19.4% of GDP in June, in cumulative twelve-month terms, down 3.5 pp from March 2006 (see Table 7). By instrument, the most notable development was the decline in the net purchases of fixed-income securities and, especially, of those made by credit institutions. The main destination of the flows was the acquisition of shares and other equity, primarily representing direct investment.

Net capital inflows also moderated, to 26.9% of GDP in Q2, in cumulative twelve-month terms, down 3.2 pp from March. Nonetheless, the funds raised through securities other than shares continued to grow, to reach around 20% of GDP. Thus, the importance of these instruments, and in particular of those issued by financial institutions, in the financing of the external deficit increased again. By contrast, the flows in the form of interbank deposits fell in net terms to only 0.2% of GDP, from 5.2% in March.

Between April and June the progressive decline in foreign direct investment in Spain came to a halt, its level of 1.9% of GDP, in cumulative twelve-month terms, being slightly higher than in Q1.

FINANCIAL TRANSACTIONS OF THE NATION
Four-quarter data

TABLE 7

% GDP

	2002	2003	2004	2005	2006	
				Q4	Q1	Q2
NET FINANCIAL TRANSACTIONS	-2.7	-2.9	-4.8	-6.5	-7.1	-7.5
FINANCIAL TRANSACTIONS (ASSETS)	12.8	13.5	13.7	18.2	22.9	19.4
Gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0
Cash and deposits	3.3	0.7	3.2	2.4	3.3	4.3
Of which:						
Interbank (a)	*2.3*	*0.5*	*0.7*	*3.2*	*2.3*	*2.6*
Securities other than shares	4.1	6.5	1.8	8.7	8.5	3.4
Of which:						
Credit institutions	*0.5*	*3.5*	*1.0*	*6.6*	*6.2*	*1.9*
Institutional investors (b)	*2.7*	*3.5*	*0.3*	*2.1*	*2.0*	*1.5*
Shares and other equity	5.0	4.7	6.8	4.9	8.1	8.6
Of which:						
Non-financial corporations	*4.6*	*4.5*	*3.8*	*3.8*	*6.2*	*5.7*
Institutional investors (b)	*-0.1*	*1.1*	*0.8*	*0.8*	*1.6*	*1.7*
Loans	0.1	0.3	0.8	1.1	1.8	2.0
FINANCIAL TRANSACTIONS (LIABILITIES)	15.5	16.4	18.5	24.7	30.1	26.9
Deposits	4.0	6.9	1.7	5.7	6.2	2.6
Of which:						
Interbank (a)	*3.1*	*5.3*	*5.0*	*7.2*	*7.5*	*2.8*
Securities other than shares	4.3	5.3	12.4	15.6	18.9	19.5
Of which:						
General government	*1.2*	*-1.0*	*2.7*	*0.1*	*1.0*	*0.8*
Credit institutions	*1.3*	*3.5*	*4.6*	*6.3*	*7.1*	*7.4*
Other non-monetary financial institutions	*1.8*	*2.8*	*5.1*	*9.3*	*10.8*	*11.3*
Shares and other equity	4.0	1.1	2.7	0.8	0.9	1.2
Of which:						
Non-financial corporations	*3.3*	*1.3*	*1.7*	*1.0*	*0.8*	*1.0*
Loans	3.0	2.8	1.3	2.0	3.6	3.1
Other, net (c)	0.0	-0.8	-0.6	-0.6	-0.7	-0.7
MEMORAMDUM ITEMS						
Spanish direct investment abroad	4.8	3.3	5.8	3.4	5.5	5.9
Foreign direct investment in Spain	5.7	2.9	2.4	2.0	1.8	1.9

SOURCE: Banco de España.

a. Correspond only to credit institutions and include repos.
b. Insurance corporations and portfolio investment institutions.
c. Includes, in addition to other items, the asset-side caption reflecting insurance technical reserves and the net flow of trade credit.

Meanwhile, Spanish foreign direct investment abroad continued to grow, to represent almost 6% of GDP in the same period.

As a result of the behaviour of the financial flows with the rest of the world and the changes in asset prices and the exchange rate, the debit position of the economy continued to expand, to stand at more than 51% of GDP (see Chart 29). By sector, this was the result of an increase in the debit balance of financial institutions, which was not offset by the changes in the other groupings.

27.10.2006

Introduction[1]

In the first half of 2006, confirming the trend in Q1, the gross value added (GVA) of the non-financial corporations reporting to the quarterly survey of the Central Balance Sheet Data Office grew at a nominal rate of 6.5%, as against 4.2% during the first half of 2005 (see Table 1 and Chart 1). All the sectors analysed contributed to this positive performance on the part of activity, but special mention should be made of the wholesale and retail trade, which continued to display solid growth in its operating surpluses, and industry, which in the first half of 2006 recorded the largest increase in its productive activity in the last six years, boosted by the buoyancy of equipment investment and by the more dynamic behaviour of exports.

In keeping with the rhythm of activity, employment developments were also positive in the first six months of 2006, with an increase of close to 2%, more than twice that recorded in the first half of the previous year and the highest rate since the first half of 2000. Average compensation increased by 3.1%, up slightly from 2005, when it increased by 2.9%, the trend remaining one of moderation, despite the small acceleration in Q1. These developments in employment and average compensation led to an increase in personnel costs of 5.1%, one and a half percentage points more than in the same period of the previous year. As this change was smaller than that in GVA, gross operating profit grew by more than the latter, at a rate of 7.6%, as against 4.7% in the first half of 2005. However, this growth did not feed through to ordinary net profit (ONP), which increased by 6.3%, as against 13% in the same period of 2005, because financial revenues grew at a significantly lower rate than in the same period of the previous year (9.4%, as against 26.4%) and, in particular, because financial costs increased by 25.3%.

As already indicated in the article published in the July 2006 *Economic Bulletin*, which discussed the results of 2006 Q1, the strong increase in financial costs was almost entirely due to firms' higher level of indebtedness, and not to the changes in interest rates, which continue to rise at moderate rates. The increase in indebtedness was affected by the debt incurred by a large telecommunications company in order to gain control of a European firm in the same sector, which accounted for approximately half of the growth in financial costs. However, in the rest of the reporting firms there was also a significant increase in debt, consistent with the greater momentum of investment in 2006. In any event, the growth of ONP plus financial costs (the numerator used to calculate the return on investment) was sufficient to ensure that profit levels remained high, and even exceeded those in 2005. Thus, in the first half of 2006, the return on investment was 8.6%, up 0.8 pp from the same period of 2005, while the ordinary return on equity stood at 13.7%, up two percentage points from the previous year. Meanwhile, as the ratio that approximates the cost of borrowing was 3.9% (0.1 pp higher than in 2005), the difference between ROI and the cost of debt remained positive (4.7%), for another quarter, and was larger than in the preceding periods, reflecting the favourable situation of Spanish firms

At the same time, the items that make up the extraordinary results show, on one hand, strong growth in extraordinary revenue, owing to the significant capital gains generated in transactions for the sale of fixed assets and a significant decline in extraordinary expenses, or capital losses, and on the other hand, a notable increase in net provisioning, included under the head-

1. This article is based on the data provided to 14 September 2006 by the 723 corporations that, on average, reported information to the quarterly survey of the Central Balance Sheet Data Office. These corporations account for approximately 13.2% of the total GVA of the sector non-financial corporations in the CNE.

PROFIT AND LOSS ACCOUNT. YEAR-ON-YEAR CHANGES AND PROFIT RATIOS TABLE 1
Growth rates of the same corporations on the same period a year earlier

	CBA STRUCTURE	CBA		CBQ (a)		
DATABASES	2004	2003	2004	05 Q1-Q4/ 04 Q1-Q4	05 Q1-Q2/ 04 Q1-Q2	06 Q1-Q2/ 05 Q1-Q2
Number of corporations		8,772	7,969	784	813	723
Total national coverage		30.0%	28.2%	13.9%	14.6%	13.2%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT	100.0	6.0	7.8	12.5	12.0	14.3
Of which:						
Net amount of turnover and other operating income	*134.3*	*5.9*	*8.6*	*16.0*	*15.4*	*14.9*
2. INPUTS (including taxes)	67.0	5.9	8.2	17.1	16.4	18.4
Of which:						
Net purchases	*39.5*	*4.2*	*12.3*	*19.4*	*20.8*	*20.1*
Other operating costs	*27.2*	*7.9*	*3.4*	*10.2*	*8.6*	*9.2*
S.1. GROSS VALUE ADDED AT FACTOR COST [1 – 2]	33.0	6.3	7.1	4.4	4.2	6.5
3. Personnel costs	16.8	4.6	4.5	3.9	3.6	5.1
S.2. GROSS OPERATING PROFIT [S.1 – 3]	16.2	8.3	10.0	4.7	4.7	7.6
4. Financial revenue	3.1	4.3	13.9	32.6	26.4	9.4
5. Financial costs	2.6	-2.0	-3.9	8.9	8.0	25.3
6. Depreciation and operating provisions	6.5	4.1	2.5	-0.1	-0.4	3.0
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	10.1	14.5	21.5	14.3	13.0	6.3
7. Capital gains and extraordinary revenue	3.5	8.3	-32.3	58.7	65.9	29.5
8. Capital losses and extraordinary expenses	3.1	-28.3	-5.4	68.0	85.0	-15.3
9. Other (net provisioning and income tax)	3.9	-35.9	-14.7	-31.7	-37.3	89.3
S.4. NET PROFIT [S.3 + 7 – 8 – 9]	6.6	(b)	17.1	35.3	31.5	3.3
		17.8	20.1	34.4	34.9	33.9
NET PROFIT/GVA (S.4/S.1)	Formulas (c)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	7.8	8.1	9.4	7.8	8.6
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	3.9	3.6	3.8	3.8	3.9
R.3 Ordinary return on equity (before taxes)	S.3/E	11.1	11.8	14.4	11.5	13.7
R.4 ROI - cost of debt (R.1 – R.2)	R.1–R.2	3.9	4.5	5.6	4.0	4.7

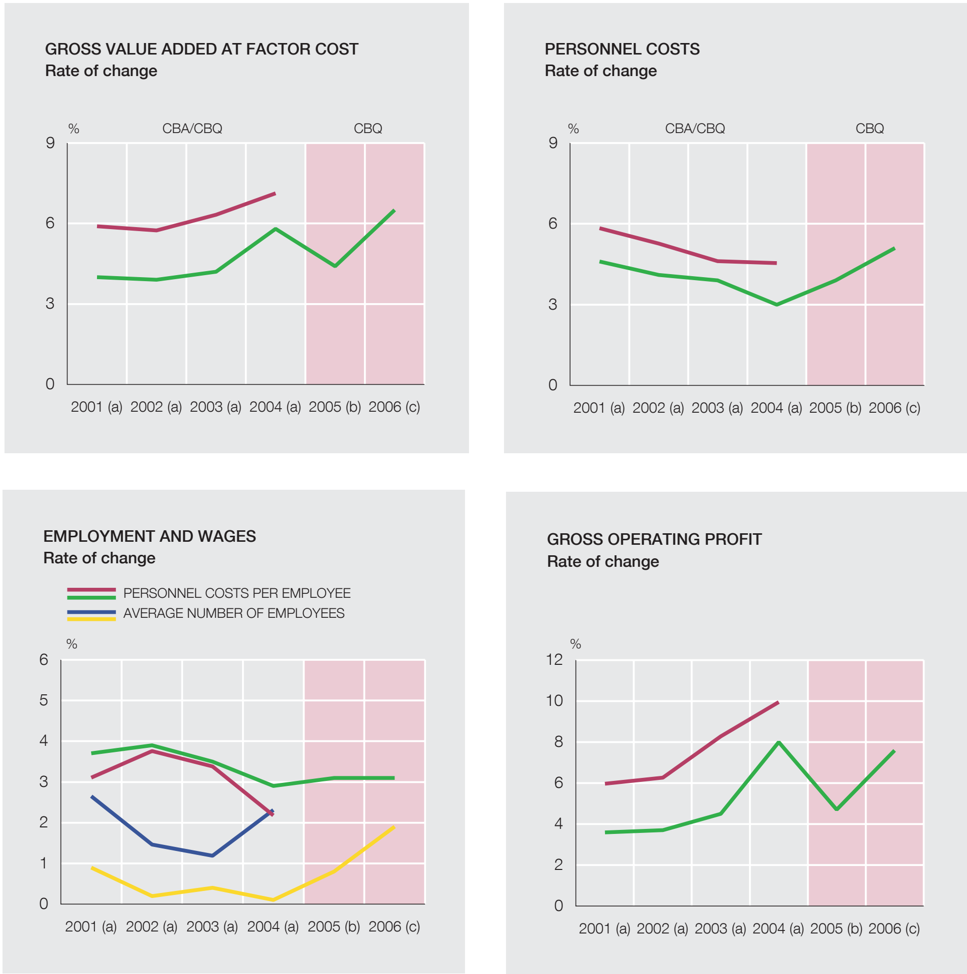
SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the quarterly data.
b. Rate not significant or not calculable because the relevant figures are of opposite sign.
c. The variables in the formulas are expressed as absolute values. NA = net assets (net of non-interest-bearing borrowing); E = equity; IBB = interest-bearing borrowing; NA = E + IBB. The financial costs in the numerators of ratios R.1 and R.2 only include that portion of financial costs which is interest on borrowed funds (5.1) and not commissions or cash discounts (5.2).
Note: In calculating rates, internal accounting movements have been edited out of items 4, 5 and 9.

ing "other" of the income statement. The increase in net provisioning (from high negative levels in the first half of 2005 to high positive ones in the first half of 2006, so that the rate of change cannot be calculated) is so large that it more than offsets the positive developments in capital gains and capital losses and has a negative bearing on final net profit, which grew by 3.3%. In any case, the trend in net provisioning is partly reflected in the trend in the aggregate "other", whose sharp increase (89.3%) reflects the combined effect of the large reversals of provisions made in previous years (i.e. revenue under this heading), recorded in the first half of 2005, along with the existence, in 2006 Q2 of extraordinary provisioning for the portfolio of shares in certain Spanish holding companies to reflect the market value of some of their subsidiaries abroad. All this has meant that, as mentioned above, the final net profit grew moderately (3.3%), although this does not call into question the high level of profits generated by the firms in the first half of the year, as demonstrated by the fact that the percentage of GVA that they represent stood, in the first six months of 2006, at 33.9%, very similar to the level in the first

NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE

CHART 1



REPORTING NON-FINANCIAL CORPORATIONS		2001	2002	2003	2004	2005	2006
Number of corporations	CBA	8,417	8,420	8,772	7,969	—	—
	CBQ	859	847	829	817	784	723
% of GDP of the sector non-financial corporations	CBA	29.6	29.5	30.0	28.2	—	—
	CBQ	15.7	15.4	14.9	14.9	13.9	13.2

SOURCE: Banco de España.

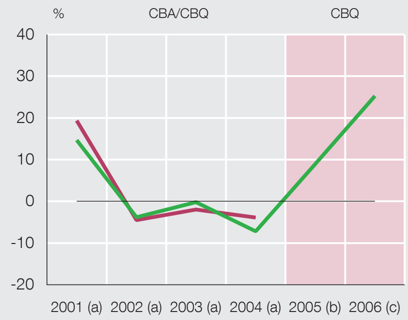
a. 2001, 2002, 2003 and 2004 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ)
b. Average of the four quarters of 2005 in relation to the same period in 2004.
c. Average of the first two quarters of 2006 in relation to the same period in 2005.

six months of 2005 (34.9%), and also very close to the historic highs of 2005. Finally, it should be noted that the contradiction between the moderate growth in the final net profit according to the CBQ and the more positive one reflected by alternative statistics on the performance of listed companies is only apparent, since the CBQ includes the activity of resident non-financial firms, while the statistics on the aggregate of listed firms include the performance of groups of firms (both financial and non-financial) whose parent is a resident company in which movements like those indicated above between parents and subsidiaries are consolidated and, therefore, do not affect final net profit.

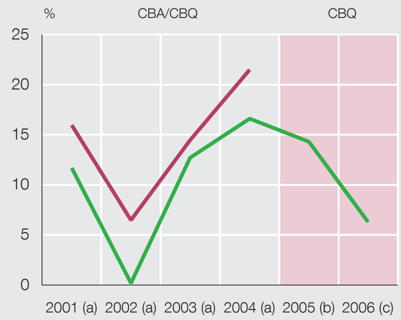
NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE (cont'd)

CHART 1

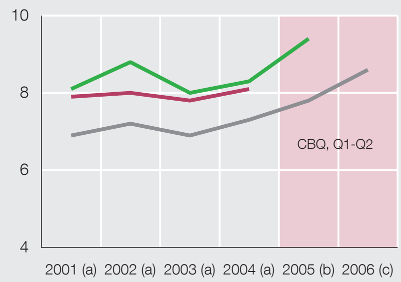
FINANCIAL COSTS
Rate of change



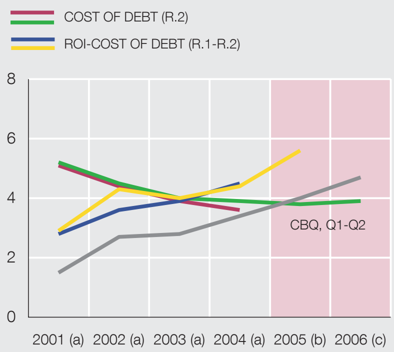
ORDINARY NET PROFIT
Rate of change



RETURN ON INVESTMENT (R.1)
Ratios



COST OF DEBT (R.2) AND
ROI - COST OF DEBT (R.1-R.2)
Ratios



REPORTING NON-FINANCIAL CORPORATIONS		2001	2002	2003	2004	2005	2006
Number of corporations	CBA	8,417	8,420	8,772	7,969	—	—
	CBQ	859	847	829	817	784	723
% of GDP of the sector non-financial corporations	CBA	29.6	29.5	30.0	28.2	—	—
	CBQ	15.7	15.4	14.9	14.9	13.9	13.2

SOURCE: Banco de España.

a. 2001, 2002, 2003 and 2004 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ)
b. Average of the four quarters of 2005 in relation to the same period in 2004.
c. Average of the first two quarters of 2006 in relation to the same period in 2005.

In short, the firms included in the CBQ database recorded positive productive activity and employment developments in the first half of 2006, consistent with the sustained strength of domestic demand and buoyant equipment investment and exports shown by other indicators. The increase in equipment investment and exports is reflected in the results obtained by industrial companies. These positive developments co-existed with lower financial revenues (dividends) and high growth in financial costs, owing to higher indebtedness, which reduced the rate of growth of ordinary surpluses, although this did not prevent the firms of the sample continuing to achieve high levels of profitability and investing significantly, against a background of moderate, albeit rising, interest rates. Meanwhile, the trend in net profit was affected by significant net provisioning by Spanish multinationals in relation to their foreign subsidiaries, but its level is still very high. The conjunction of these factors confirms a very sound business outlook warranting expectations of continued dynamism, especially if the oil price moderation is confirmed.

Activity

In the first six months of 2006, the productive activity of the CBQ firms grew notably, their GVA increasing by 6.5%, in nominal terms, compared with 4.2% in the same period of the previous year. This positive performance was underpinned by the sustained strong growth of purchases and sales in Spain, already evident in the Q1 results, and by the improvement in net external demand which. although remaining slightly negative overall, improved notably with respect to the same period a year earlier.

All sectors recorded positive activity developments. Notable, however, were wholesale and retail trade, which recorded high growth rates, on this occasion 8.8% relative to the previous period, as against 2.4% in 2005 (see Table 2), and transport and communications, which was boosted by telecommunications firms, permitting GVA to increase by 4.5% in the first half of 2006, one-and-a-half percentage points more than in the previous year. The performance of these two sectors is a result of the solidity and vigour of domestic demand during the period analysed, which continued to be one of the main engines of the current growth model. Industrial GVA increased by 4%, up one percentage point from the same period of 2005, demonstrating the positive influence of both equipment investment and more buoyant external activity. The latter has been referred to above and is apparent in Table 3, which shows that the net external demand for industry increased by 7.6%, more than double the growth recorded in the first half of 2005. The analysis of the performance of the industrial sub-sectors is included in Box 1, which discusses the mixed performance of some of these aggregates. Meanwhile, the energy sector also recorded very high GVA growth during the first half of 2006 (9.8%), which even exceeded the growth in 2005. This performance is a result of that of the electricity, gas and water firms which, in line with the rest of the sample, recorded GVA increases of close to 12%, clearly exceeding those obtained a year earlier, basically on account of the reduction in production costs, and also the good performance of natural gas companies[2]. For its part, refining recorded a more moderate trend, with an increase in GVA of 3.2% for the first half of 2006, as a consequence of the lower margins recorded this year, following the sharp rise in 2005 (when it grew by 63.1%). Chart 2 confirms the slowdown in the surplus of refining firms, against a background of continued growth in the oil price (the table reflects its trend to June 2006).

Finally, Chart 3 shows the distribution of firms according to the rate of change in their GVA, irrespective of their size and sector of activity. It can be seen how, in 2006 to date, the percentage of firms that have increased their GVA has risen significantly, from 56.8% in the first half of 2005 to 63.5% in the first half of 2006. Also, there has been a significant shift of firms towards the segment that includes the largest increases in activity.

Employment and personnel costs

Personnel costs increased by 5.1% during the first six months of 2006. This was a result of the growth of employment, of 1.9% in this period, and higher average compensation, which increased by 3.1%, up 0.2 pp from the same period of 2005.

2. The growth of the GVA of electric utilities in the first half of 2006 is a consequence of the generation of electricity by plants that use cheaper inputs. According to the July/August 2006 issue of the Revista de Electricidad published by UNESA, in recent months hydroelectric plants had contributed 4.2% more output than in 2005, nuclear 7.8% and combined cycle 44.3% (the latter usually use natural gas in more efficient processes than in conventional power plants). These increases were to the detriment of coal generated electricity (which fell by 12.6%) and conventional power plants (fuel and gas), whose contribution to the production of electrical energy fell by 44.3%.

VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND COMPENSATION PER EMPLOYEE BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS.
Growth rate of the same corporations on the same period a year earlier

TABLE 2.A

	GROSS VALUE ADDED AT FACTOR COST				EMPLOYEES (AVERAGE FOR PERIOD)				PERSONNEL COSTS				COMPENSATION PER EMPLOYEE			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2004	05 Q1-Q4	05 Q1-Q2	06 Q1-Q2	2004	05 Q1-Q4	05 Q1-Q2	06 Q1-Q2	2004	05 Q1-Q4	05 Q1-Q2	06 Q1-Q2	2004	05 Q1-Q4	05 Q1-Q2	06 Q1-Q2
Total	7.1	4.4	4.2	6.5	2.3	0.8	0.7	1.9	4.5	3.9	3.6	5.1	2.2	3.1	2.9	3.1
SIZE																
Small	8.1	—	—	—	0.6	—	—	—	4.0	—	—	—	3.3	—	—	—
Medium	7.2	2.8	1.1	7.6	2.4	0.6	0.3	1.4	5.2	4.6	4.5	6.0	2.7	4.0	4.2	4.5
Large	7.1	4.5	4.4	6.5	2.4	0.8	0.7	1.9	4.5	3.8	3.6	5.0	2.0	3.0	2.9	3.0
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	6.3	10.2	8.8	9.8	-1.2	-0.9	-0.8	-1.1	2.1	3.3	3.2	3.5	3.4	4.2	4.0	4.7
Industry	4.6	0.8	3.0	4.0	-0.2	-0.8	0.0	-1.0	2.9	2.9	3.6	2.3	3.0	3.7	3.6	3.3
Wholesale and retail trade	10.5	2.4	2.4	8.8	5.7	2.6	2.1	4.4	8.5	4.0	4.0	7.9	2.6	1.4	1.9	3.4
Transport and communication	5.8	2.6	2.9	4.5	-0.9	-0.2	-0.3	0.0	2.3	3.3	2.7	3.5	3.3	3.5	3.0	3.5

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the quarterly data.

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 2.B

		TOTAL CBQ CORPORATIONS 06 Q1 - Q2	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations		723	441	282
PERSONNEL COSTS				
Initial situation 05 Q1-Q2 (€m)		11,677.7	6,647.8	5,029.9
Rate 06 Q1-Q2/ 05 Q1-Q2		5.1	9.5	-0.7
AVERAGE COMPENSATION				
Initial situation 05 Q1-Q2 (€)		20,796.6	18,634.0	24,564.3
Rate 06 Q1-Q2/ 05 Q1-Q2		3.1	3.4	4.7
NUMBER OF EMPLOYEES				
Initial situation 05 Q1-Q2 (000s)		562	357	205
Rate 06 Q1-Q2/ 05 Q1-Q2		1.9	5.9	-5.2
Permanent	Initial situation 05 Q1-Q2 (000s)	474	289	185
	Rate 06 Q1-Q2/ 05 Q1-Q2	0.3	2.9	-3.7
Non-permanent	Initial situation 05 Q1-Q2 (000s)	88	68	20
	Rate 06 Q1-Q2/ 05 Q1-Q2	10.4	18.8	-18.9

SOURCE: Banco de España.

PURCHASES AND TURNOVER OF CORPORATIONS REPORTING DATA ON PURCHASING SOURCES AND SALES DESTINATIONS
Structure and rate of change

TABLE 3

		CBA	CBQ (a)	
		2004	05 Q1-Q2	06 Q2-Q1
Total corporations		7,969	723	723
Corporations reporting source/destination		7,969	698	698
Percentage of net purchases according to source	Spain	69.2	76.6	76.2
	Total abroad	30.8	23.4	23.8
	EU countries	*17.2*	*15.8*	*14.6*
	Third countries	*13.6*	*7.6*	*9.2*
Percentage of net turnover according to destination	Spain	84.4	87.9	87.1
	Total abroad	15.6	12.1	12.9
	EU countries	*11.3*	*9.2*	*9.0*
	Third countries	*4.3*	*2.9*	*3.9*
Change in net external demand (exports less imports), rate of change	Industry	-4.4	3.3	7.6
	Other corporations	-32.2	-18.1	-0.5

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the relevant quarterly data.

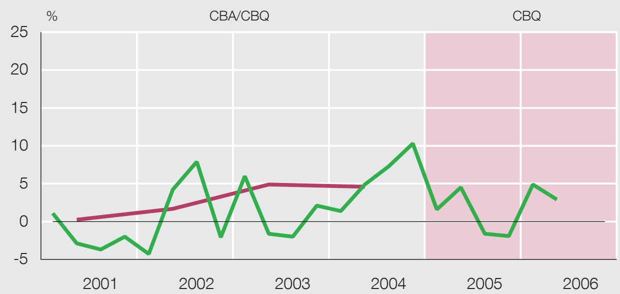
The increase in average employment in the first half of 2006 in the firms that make up the CBQ sample is significant, not only because it is the eighth consecutive period of net employment growth in the quarterly sample, but also because a progressive acceleration is apparent, so that the increases in the period subject to analysis are the largest since 2000 Q2. Although both permanent and fixed-term employment increased, it was the latter that underpinned the higher rate of growth, with an increase of over 10%. By sector of activity, wholesale and retail trade was again notable, being the sector that, in line with the positive performance of its activity, recorded the largest increase in employment in the first six months of 2006 (4.4%). There was no change in average employment in transport and communication, this being a slight improvement on the fall of 0.3% in 2005. This sector is still being affected by a major adjustment process at a large telecommunications firm, in the absence of which the growth rate of this aggregate would be positive and rising (1% in the first half of 2005 and 2.3% in the same period of 2006), more in keeping with developments in the sector's activity, and with the employment data for the sample as a whole. The energy sector was, once again, the sector to record the most negative growth rates, since its average level of employment fell by 1.1% in the first half of 2006. This merely reflects the progressive staffing-level adjustments carried out by the electric utilities, as part of their reorganisation and adaptation to the functioning of a liberalised market. Finally, the average employment of industrial firms fell by 1%, a rate that contrasts with the positive developments in the sector's productive activity. The reason for this is that the employment reductions in subsectors with falling activity (specifically, food products, beverages and tobacco and transport equipment) were not fully offset by the growth in workforces in those subsectors that recorded GVA increases (see Box 1). Finally, Table 4 shows that the growth of employment is affecting most of the firms in the sample, since 61.3% of them increased or kept their workforces unchanged in the first half of 2006, almost three percentage points more than a year earlier.

Average compensation increased by 3.1% in the first six months of 2006, up slightly from 2005, when it grew by 2.9%. This was the result an acceleration in these costs in Q1, to 3.5%, and a slight correction in 2006 Q2, when the rate stood at 2.8%. Table 2.B shows firms

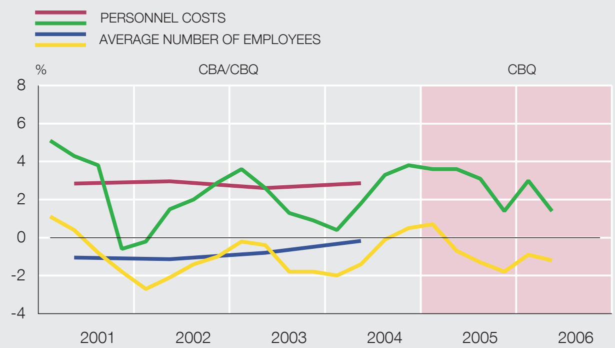
The industrial firms in the CBQ sample recorded nominal growth of 4% in the first half of 2006, as against 3% in the first half of 2005. This performance was underpinned by two factors: an improvement in external activity, which led to a substantial increase in exports, and the positive trend in equipment investment, which resulted in especially strong GVA growth in some sectors, such as "glass, ceramics and metals" (13.6%) and, in particular, "manufacture of electrical and optical equipment" (19.2%). However, there was a significant contraction of activity in other sectors, which affected the employment trend for the sample of industrial firms as a whole. Thus, the GVA of "food products, beverages and tobacco" fell by almost 9%, as a consequence, inter alia, of lower consumption arising from the entry into force of the anti-smoking law. There was also an 11.2% reduction in the GVA of "manufacture of transport equipment" owing to the sharp production cutbacks at certain car manufacturing firms, although the data on this sector are provisional, as information is still not available on certain large firms. Therefore, although the activity of the industrial firms as a whole performed positively, this growth did not extend to all the industrial sectors. The behaviour of the latter two sectors dominated the trend in industrial employment, which fell by 1% in the first half of 2006. Employment at the firms in the sectors "manufacture of transport equipment" and "food products, beverages and tobacco" fell by 7.2% and 1.3%, respectively, while in the other industrial firms, workforces either remained unchanged or grew notably ("chemicals" and "electrical and optical equipment"), but without offsetting the aforementioned falls. Average compensation in industry rose by 3.3%, a slightly higher rate than for the CBQ firms as a whole, but 0.3 pp down from the first half of 2005. These trends in compensation and employment resulted in an increase of 2.3% in personnel costs which, being lower than the rate of growth of GVA, enabled the gross operating profit to grow by 6.1% in the first half of 2006, almost four percentage points more than in the same period of 2005. This trend extended to the ordinary net profit, whose growth of 9.7% clearly exceeded the 5.4% by which it grew in 2005, enabling the sector to record high levels of profitability, above those obtained the previous

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

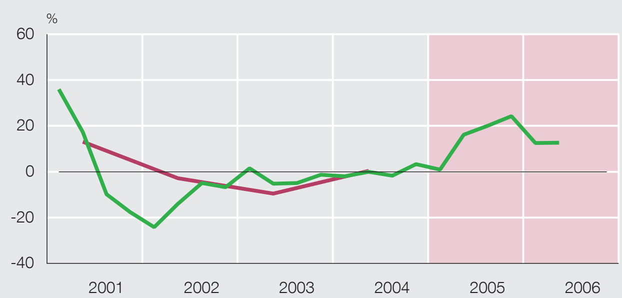
GROSS VALUE ADDED AT FACTOR COST
Rate of change



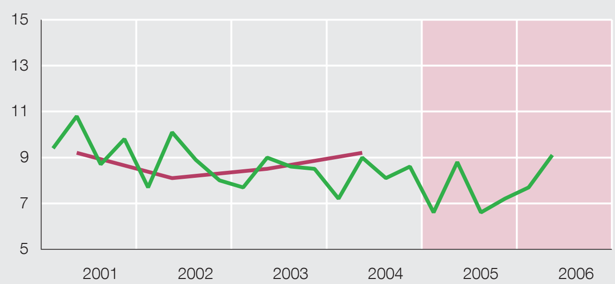
EMPLOYMENT AND WAGES
Rate of change



FINANCIAL COSTS
Rate of change



RETURN ON INVESTMENT
Ratios



REPORTING INDUSTRIAL CORPORATIONS		2001				2002				2003				2004				2005				2006			
Number of corporations	CBA	2,814				2,715				2,612				2,267				—				—			
	CBQ	402	392	380	363	389	375	365	354	366	361	352	345	352	343	336	333	321	307	297	281	305	229	—	—
% of GDP of the sub-sector industrial corporations	CBA	28.2				27.9				28.1				24.6				—				—			
	CBQ	21.5	21.2	18.8	20.1	19.6	20.6	18.6	18.5	18.8	19.1	17.1	17.8	19.5	20.0	18.0	19.3	18.9	19.6	16.0	16.4	17.9	14.7	—	—

SOURCE: Banco de España.

year. Thus, the return on investment in the first half of 2006 was 8.5% and the return on equity 11.4%, as against 8.1% and 10.6% in the same period of 2005. At the same time, the ratio that measures the cost of external financing held at very similar levels to 2005, so that the difference between ROI and the cost of debt in the first eight months of 2006 was clearly positive and growing with respect to preceding periods. In short, the overall performance of the industrial sector was positive in the first half of 2006. Boosted by the expansion of equipment investment and the recovery of export dynamism, the sector proved itself capable of achieving notable growth in its activity and its ordinary surpluses, and this was sufficient to maintain a high level of profitability.

creating and destroying jobs separately and reveals in both cases more buoyant average compensation (3.4% and 4.7%, respectively) than for the sample as a whole (3.1%). Meanwhile Table 4 shows, inter alia, an increase in the percentage of firms whose average compensation grew by more than the rate of inflation of the period. There were no significant differences across sectors, the average increase in compensation being around 3.4%. Only in the energy sector did average personnel costs grow at a somewhat higher rate of 4.7%, partly owing to the increase in variable remuneration and, also, to the costs associated with the voluntary redundancies in this sector. This conclusion is strengthened by the data of Table 2.B, which shows how, once again, the aggregate of firms that increased or kept their workforces unchanged recorded more moderate increases in average compensation, while it was in the group of job-destroying firms that average personnel costs increased most strongly, this rate rising to 4.7%.

Profits, rates of return and debt

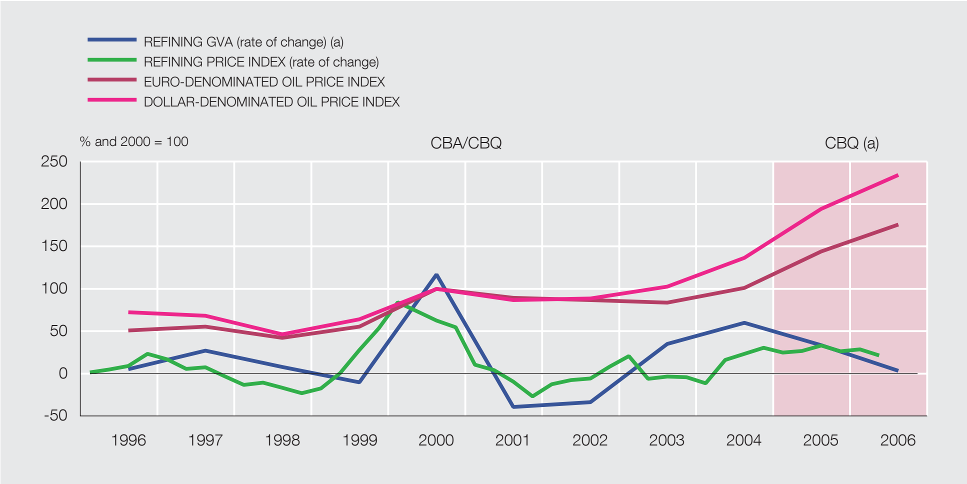
The expansion of activity in the first half of 2006 enabled the firms to absorb the increase in personnel costs and increase their gross operating profit by 7.6%, which was well above the 4.7% rate recorded in the same period of 2005. Financial costs increased very strongly in the first half of 2006, by as much as 25.3%. The main reasons for this growth were:

	Q1-2 06 / Q1-2 05
Change in financial costs	**25.3%**
A. Interest on borrowed funds (1 + 2)	*25.9%*
1. Due to the cost (interest rate)	2.7%
2. Due to the amount of interest-bearing debt	23.2%
B. Commissions and cash discounts	*–0.6%*

As seen in the table, the growth in financial costs was largely attributable to new financing. However, this was against a background in which the recent rises in interest rates are gradually being passed through to the ratio that approximates the cost of financing borne by firms, which was slightly higher than in 2005. The increase in debt was therefore the main reason for the growth of financial costs and, as indicated above, this increase was driven by a share purchase transaction carried out in 2006 Q1 by a large telecommunications firm, which was financed by a large inflow of external funds. If the effect of this transaction on the sample is removed, the rest of the firms of the aggregate still record an increase in their recourse to additional sources of external financing, although at a somewhat more moderate rate of around 12%. The upward trend in debt is apparent in the analysis of the E1 ratio (see Chart 4). These developments are consistent with the improvement in the data available on gross fixed capital formation calculated by the Central Balance Sheet Data Office since 2005 using CBQ data, according to which, investment by the sample firms grew at a nominal rate of 8.1% in the first half of 2006, as against 5.6% in the same period a year earlier. For its part, the E2 ratio, a

IMPACT OF OIL PRICES ON THE REFINING SECTOR

CHART 2

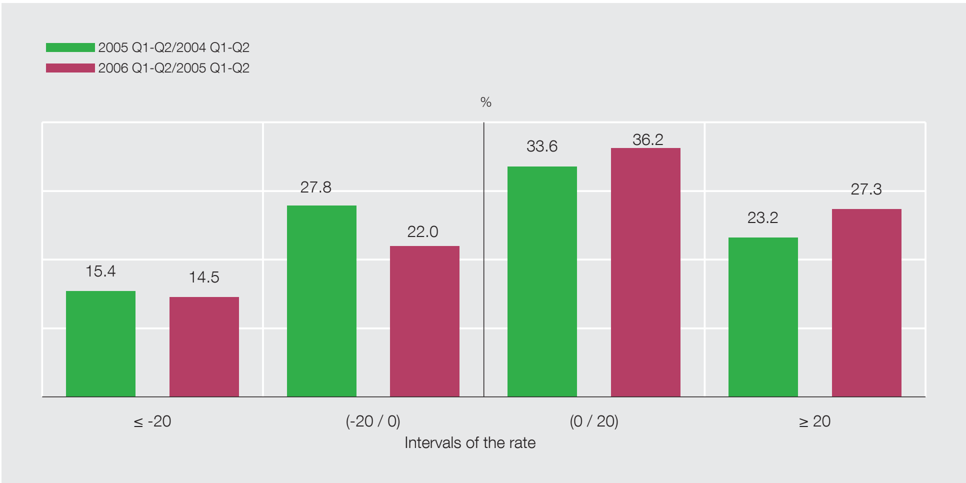


SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio (Informe mensual de precios).

a. The 2005 and 2006 data relate to the CBQ.

DISTRIBUTION OF CORPORATIONS BY RATE OF CHANGE IN GVA AT FACTOR COST

CHART 3



SOURCE: Banco de España.

measure of the capacity to repay the firms' debt by comparing it to the GVA generated, confirms that the increase in debt was more marked and concentrated in the multinational group aggregate, which raised the level of this ratio significantly, the transaction mentioned above having a significant impact on this rise. For the rest of firms, the E2 ratio remained very stable, and even slightly below the level reached in 2005. It can therefore be concluded that the increased recourse to external funds by the firms as a whole has not reduced their solvency, thanks to the positive trend in their productive activity.

The sharp increase in financial costs in the first half of 2006 could not be offset by receipts of financial revenue, since the growth in this heading was 9.4%, well below the 26.4% rate recorded a year earlier, as a result of the smaller flow of dividends received by Spanish companies. In any event, ONP increased by a notable 6.3%. Although this did not match the rate recorded in 2005 (13%), it was sufficient to ensure that the companies had high and even ris-

PERSONNEL COSTS, EMPLOYEES AND AVERAGE COMPENSATION

Percentage of corporations in specific situations

TABLE 4

	CBA		CBQ (a)			
	2003	2004	04 Q1 - Q4	05 Q1 - Q4	05 Q1 - Q2	06 Q1 - Q2
Number of corporations	8,772	7,969	817	784	813	723
PERSONNEL COSTS	100	100	100	100	100	100
Falling	25.6	27.9	32.3	28.7	28.7	23.0
Constant or rising	74.4	72.1	67.7	71.3	71.3	77.0
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	31.6	30.6	44.5	40.8	41.5	38.7
Constant or rising	68.4	69.4	55.5	59.2	58.5	61.3
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	38.9	44.4	46.3	49.2	48.5	47.7
Higher or same growth (b)	61.1	55.6	53.7	50.8	51.5	52.3

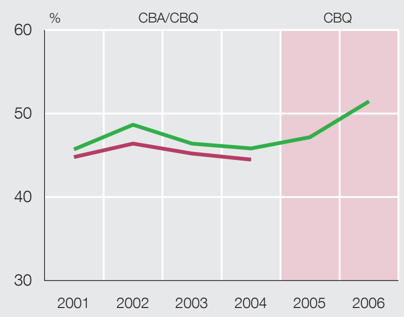
SOURCE: Banco de España.

a. Weighted average of the relevant quarters for each column.
b. Annual percentage change in the CPI, for CBA, and quarterly percentage change for CBQ.

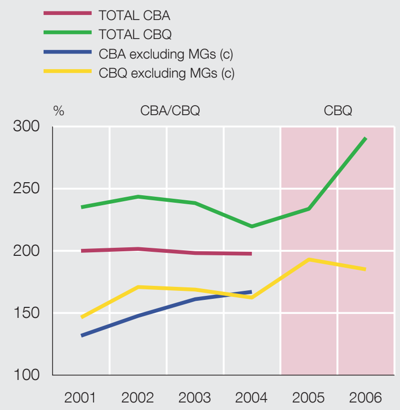
DEBT RATIOS

CHART 4

E1. INTEREST-BEARING BORROWING/NET ASSETS (a)
Ratios



E2. INTEREST-BEARING BORROWING/GVA (b)
Ratios



	2001	2002	2003	2004	2005	2006
CBA	44.8	46.4	45.2	44.5		
CBQ	45.7	48.7	46.4	45.8	47.2	51.5

	2001	2002	2003	2004	2005	2006
CBA	200.0	201.4	198.2	197.6		
CBQ	235.1	243.6	238.4	219.5	233.8	290.9
CBA excl. MGs	131.6	147.6	161.0	167.1		
CBQ excl. MGs	146.4	170.8	168.9	162.5	193.0	185.0

SOURCE: Banco de España.

a. Ratio calculated from final balance sheet figures. Own funds include an adjustment to current prices.
b. Ratio calculated from final balances sheet figures. Interest-bearing borrowing includes an adjustment to eliminate intragroup debt (aproximation of consolidated debt).
c. MGs = corporations in the sample belonging to the main reporting multinational groups.

GROSS OPERATING PROFIT, ORDINARY NET PROFIT, RETURN ON INVESTMENT AND ROI-COST OF DEBT (R.1 - R.2). BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS

TABLE 5

Ratios and growth rates of the same corporations on the same period a year earlier

	GROSS OPERATING PROFIT				ORDINARY NET PROFIT				RETURN ON INVESTMENT (R.1)				ROI-COST OF DEBT (R.1-R.2)			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2004	05 Q1-Q4	05 Q1-Q2	06 Q1-Q2	2004	05 Q1-Q4	05 Q1-Q2	06 Q1-Q2	2004	05 Q1-Q4	05 Q1-Q2	06 Q1-Q2	2004	05 Q1-Q4	05 Q1-Q2	06 Q1-Q2
Total	10.0	4.7	4.7	7.6	21.5	14.3	13.0	6.3	8.1	9.4	7.8	8.6	4.5	5.6	4.0	4.7
SIZE																
Small	14.9	—	—	—	23.0	—	—	—	7.1	—	—	—	3.4	—	—	—
Medium	10.1	0.5	-3.0	9.5	13.8	-3.1	-6.5	18.9	8.2	7.5	7.6	7.9	4.8	4.3	4.5	4.7
Large	9.8	4.9	5.0	7.5	22.3	15.0	13.8	5.9	8.1	9.4	7.9	8.6	4.5	5.6	4.1	4.7
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	7.8	12.1	10.4	11.4	9.0	33.8	31.6	5.6	8.0	10.3	9.0	9.4	4.7	6.8	5.5	5.8
Industry	7.0	-1.8	2.4	6.1	10.5	-5.4	5.4	9.7	9.2	8.2	8.1	8.5	5.7	4.3	4.4	4.9
Wholesale and retail trade	13.2	0.4	0.2	10.0	19.6	2.7	0.8	12.7	12.3	9.1	8.4	8.0	8.7	5.4	4.8	4.6
Transport and communications	8.3	2.2	3.0	5.1	26.2	5.8	7.1	7.9	9.5	14.8	14.1	16.6	5.3	10.7	10.0	12.1

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the quarterly data.

ing levels of profitability, with respect to the preceding year, as well as to provide the funds to cover financial costs. Thus, the return on investment (R1) was 8.6% in the period to June 2006, as against 7.8% in the same period of 2005. At the sectoral level (see Table 5), a similar trend to that for the whole sample was seen in all sectors, with high levels of profitability that were very similar to or above those in 2005. This development is corroborated by the information in Table 6, which shows that the percentage of firms with profit rates of over 15% increased in the first six months of the year, to the detriment of the segment including firms with profit rates of less than 5%. At the same time, the ratio that approximates the cost of external financing stood at 3.9%, up slightly from 2005, although still at favourable levels. As a result, the difference between the ROI and cost of debt continued to widen with respect to preceding periods, to stand at 4.7% in the first half of 2006. Finally, an analysis of the extraordinary results shows significant growth of almost 30% in extraordinary revenue, due to the existence of sizable gains generated in certain transactions for the sale of fixed assets (both tangible and financial), which took place in the first half of 2006, and even a fall in capital losses with respect to the preceding period. A new development in Q2 was the sharp increase of 89.3% in net provisioning [included under heading 9 "Other (net provisioning and income tax)"], which more than offset the increase in extraordinary revenue mentioned above. The growth in this heading was exclusively attributable to provisions (taxes actually fell by 9.2% with respect to the same period of the previous year), as can be seen by comparing the existence of reversals (or negative provisioning) in 2005 with the new extraordinary provisioning in 2006 Q2 by certain Spanish multinationals, to cover the fall in value of their share portfolios as a result of the trend in certain foreign investments. Overall, the above developments meant that the final net profit grew by 3.3%, and thus more moderately than the ordinary surpluses. However, it represented 33.9% of the GVA generated in the period, a ratio that is not so very far from the high of 34.9% obtained in the first half of 2005.

In conclusion, Spanish firms, in the first six months of 2006, achieved notable growth in their activity, which resulted in continued job creation, the generation of surpluses and high levels of

STRUCTURE OF REPORTING CORPORATIONS' RETURN ON INVESTMENT AND ORDINARY RETURN ON EQUITY

TABLE 6

		CBQ (a)			
		RETURN ON INVESTMENT (R.1)		ORDINARY RETURN ON EQUITY (R.3)	
		05 Q2 - Q1	06 Q2 - Q1	05 Q2 - Q1	06 Q2 - Q1
Number of corporations		813	723	813	723
Percentage of corporations by profitability bracket	R ≤ 0%	23.1	22.1	25.8	25.6
	0% < R ≤ 5%	22.0	21.2	17.1	15.6
	5% < R ≤ 10%	16.6	15.8	11.7	12.3
	10% < R ≤ 15%	11.0	11.9	10.5	8.2
	15% < R	27.3	29.0	34.9	38.3
MEMORANDUM ITEM: Average return		7.8	8.6	11.5	13.7

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the quarterly data.

profitability. A simultaneous stepping up of business investment also entailed an increase in debt, without interest rates having increased significantly. All this occurred against a more stable and buoyant international background which, together with the improvement in equipment investment and the sustained buoyancy of private consumption, enabled growth to take place in practically every sector analysed, including industry. This scenario gives rise to an outlook of continued improvement in the dynamism of the sector in the short term, particularly if the slowdown in oil prices is confirmed.

19.9.2006.

Introduction

Despite the bout of financial volatility in May and June, the Latin American economy accelerated during the first half of the year. Although the year-on-year growth rate of the region as a whole was 4.1% in Q2, notably down on Q1 (5.4%), the quarter-on-quarter rates recorded in both periods had not been attained since 2004, the best year of the last 25 for Latin America. Underpinning the upturn was the recovery in the two main economies, Brazil – despite the interruption witnessed in Q2 – and, above all, Mexico. This performance, along with the very gradual moderation in Argentina and Venezuela, has notably reduced the growth dispersion in the region in relation to recent years, as shown in Chart 1. The chart also highlights the fact that most countries in the region are maintaining a high cruising speed. However, the most notable feature of recent developments in Latin America was the sufficiency with which its economies overcame the considerable financial turbulence last spring. The episode markedly affected several emerging countries, especially those with sizeable external imbalances (see Chart 1). But it was only moderately felt in the Latin American countries, with the possible exception of Colombia, in marked contrast to previous episodes. In any event, the financial indicators temporarily underwent notable corrections. The conclusion that may be drawn from this episode is doubly positive, since it shows the improvement in these countries' economic and financial fundamentals and, at the same time, it indicates the need to take such improvement further, which paves the way for the economic authorities not wavering in their commitment to economic discipline.

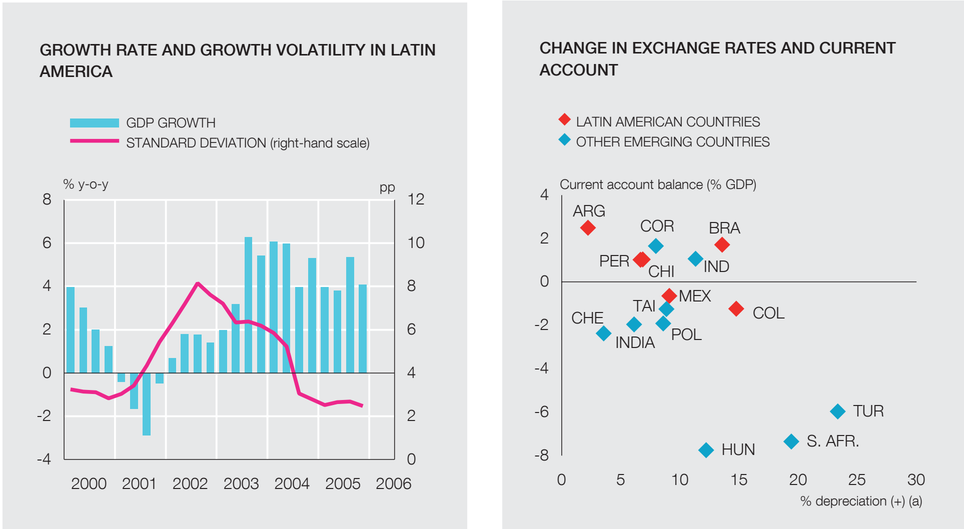
During the first half of 2006, economic activity benefited from a further firming of domestic demand, based on the strength of consumption, since the behaviour of investment was volatile and differed from country to country. The strong pick-up in credit, which is growing at a very high rate and across the board, is playing a significant role in this expansionary cycle. Although the export boom persists, the negative contribution of net external demand increased once again and, in some countries, there are incipient signs of the external sector flagging. The inflation rate continued on its declining path at the overall level, although it is only in Brazil that the downward cycle of interest rates continues, a significant exception on the global board. The aggregate fiscal deficit continued its convergence towards equilibrium, underpinned by the persistent strength of revenue, and without the electoral cycle having exerted any relevant adverse impact on the countries concerned.

The financial markets rose only to fall and then rise again. After starting the year in very favourable conditions, significant losses were posted in May and June, but the markets then subsequently recovered to a large extent. The fact that the bout of turbulence had a limited impact shows the progress made in reducing vulnerability, to which the authorities have contributed very actively; but it is also clear that vulnerability remains latent. The novel position of being a lender to the rest of the world – reflected in the current account surplus in many countries (see Chart 1) – appears to have softened the effects of the turbulence and has allowed reserves to continue being built up, the domestic costs of which, however, are becoming increasingly evident in some countries.

The economic outlook for the coming quarters remains favourable, and the sound financial conditions, the tethering of inflation – which has translated into a notable decline in real interest rates recently – and the ongoing robustness of the labour market provide most countries with a sound foundation for the sustained growth of domestic demand. The external economic environment should also support this favourable outlook. Nonetheless, it should be stressed that the volatility in the second half of the year has been associated with the entrenchment of

GDP, EXCHANGE RATE AND CURRENT ACCOUNT
Year-on-year change and percentage points

CHART 1



SOURCE: National statistics.

a. Change between maximum and minimum reached from January to August 2006.

a global financial environment of diminished liquidity and has left investors feeling warier. Both factors make it more likely for emerging markets to be subjected to bouts of volatility in the near future.

Against this background, it is important that the Latin American countries should not only shore up their macroeconomic and financial fundamentals but that they should be resolute in pushing through a reform agenda. The dichotomy between healthy discipline in the macroeconomic sphere and measures aimed at increasing market interventionism and at reducing the legal security of investors is significant in several countries in the region. In this respect, the changes in composition that are taking place in the two South American trade blocs – founded on different concepts in respect of trade integration – increase the risk of protectionist pressures and of contagion to other domestic economic policies.

Economic and financial developments

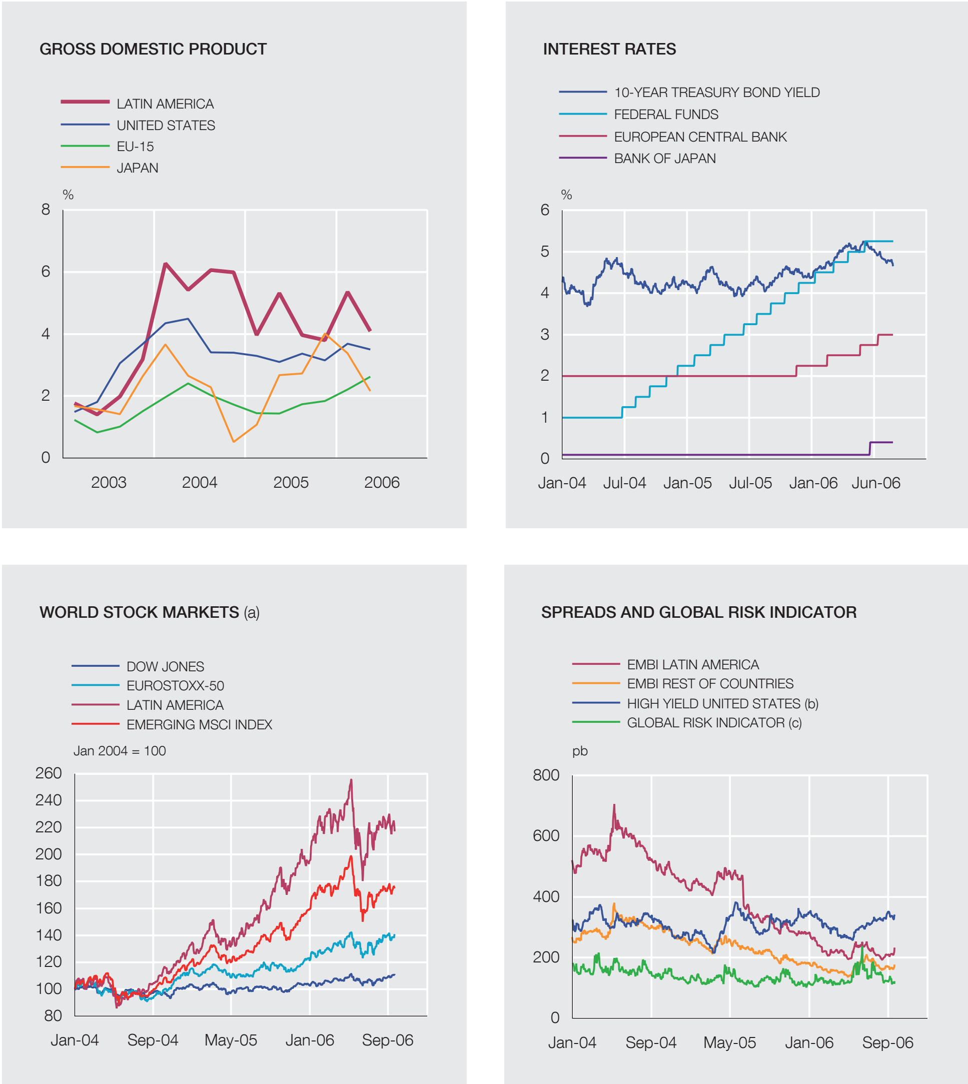
EXTERNAL ENVIRONMENT

During the first half of the year an economic environment of robust growth was maintained, although there was an episode of intense global financial volatility. This affected above all some emerging countries, against a backdrop of diminished global liquidity and a reassessment of expectations concerning growth and inflation in the industrialised countries.

Growth trajectories diverged from one country to another, with a more balanced growth scenario discernible in terms of areas (see Chart 2). There were signs of a slowdown in the United States during Q2 (GDP growth dipped from 5.6% to 2.6% in annualised quarterly terms); China continued to show strong dynamism, not exempt from risks of overheating; the Japanese economy confirmed an expansion in growth in Q2, albeit at a more moderate rate than in Q1; and, at the same time, the signs of dynamism shown in the euro area economy in previous months firmed. Against this background, the US Federal Reserve raised its official interest rate on two further occasions (May and June) to 5.25% and, since then, there has been a pause following more than two years of uninterrupted rises; Japan emerged from a prolonged phase of zero interest rates, applying the first official rise in six years in July; and the ECB raised its official interest rate on two occasions, to 3%.

GLOBAL MACROECONOMIC AND FINANCIAL INDICATORS
Year-on-year changes, percentage, basis points and indices

CHART 2



SOURCES: Bureau of Economic Analysis, Eurostat, Bloomberg and JP Morgan.

a. Indices in dollars.
b. B1 rated Bond.
c. Implied volatility in CBOE options.

The conjunction of a rise in US inflation with preliminary signs of a possible reduction in growth triggered a period of uncertainty concerning the future course of both variables. That gave rise to a brief but intense (in some areas) bout of global financial instability in May (see Chart 2). This episode followed another more localised one in March, driven by the tightening of monetary conditions in Japan. The change entailed a move into a phase of stricter global liquidity conditions, since Japan had been a leading provider of liquidity to the global system in recent years.

Accordingly, during the first half of 2006 US long-term interest rates were on a rising trend that was only interrupted in May, coinciding with an episode of volatility, whereby the abnormally low level of such rates since the start of the last upward cycle was mitigated to some extent. Nonetheless, since mid-June, when expectations firmed that the Federal Reserve would take a pause in the process of rate rises, the upward movement in long-term rates was corrected.

They currently stand at below 5%, a low for the past six months, which makes for a yield curve with a clearly negative slope. Stock markets in the main developed economies were also affected by the volatility in May, although this downward movement was subsequently reversed on the main equity markets, and the US and European markets have now regained their levels as at the start of Q2. In the past six months, the exchange rate of the dollar against the euro depreciated significantly, by around 6%, and stood at around 1.27 in September. This course of the dollar coincided with the expectations of a narrowing of rate spreads relative to the other economies and with signs of a slowdown in the US economy; however, during the episode of financial stability, the dollar appreciated moderately on the back of its safe-haven status. Oil and other commodities posted an additional rise. In the case of oil, the price of a barrel of Brent once again hit an all-time high at over $78 in the first fortnight of August, although in late September it dipped once more to around $60. Metals, meanwhile, stood at highs for the previous years. The price of copper (which is relevant in economies such as Chile), for example, increased by 23% from the start of Q2.

Financial volatility was more marked in the emerging markets, which underwent one of the most turbulent periods of recent years in terms of certain variables. The stock markets witnessed the most severe correction, with declines which, in the aggregate of the emerging countries (see Chart 2), amounted to 25%, and the exchange rates of some countries also depreciated notably. It should be stressed that this episode came about after a favourable phase, which had run almost uninterruptedly for three and a half years. The economies most affected were precisely those in which the stock market boom had been most intense, e.g. India and the Persian Gulf countries, and those in a more vulnerable position from the standpoint of the external sector, such as Turkey (see Chart 1). In contrast, China stood out in that its financial variables were not impacted by the episode.

In any event, the episode was short-lived. As from June, there was a positive and sharp reaction on the emerging markets, in parallel to that in the developed countries, whereby sovereign spreads resumed previous levels practically across the board, especially in Latin America. The sovereign spreads for Asia and emerging Europe were, exceptions aside, still above the levels recorded at the start of Q2. Moreover, stock markets have also strengthened in a generalised fashion following the period of volatility, although they are still far from regaining the high levels prior to the turbulence.

ECONOMIC ACTIVITY AND DEMAND

The Latin American economy enjoyed a recovery in the opening months of 2006 (see Chart 3 and Table 1). In this period the year-on-year growth rate increased to 5.2%, although in Q2 it has eased off across the board to around 4.1% in the area as a whole. Nonetheless, quarter-on-quarter rates were comfortably above 1% in both quarters (1.5% in Q1 and 1.4% in Q2), notably higher figures than those of the previous six-month period (see Chart 3). The improvement in activity in the area as a whole can be explained by the recovery in Mexico and Brazil; in the latter case, however, the Q2 figure was rather disappointing. Continuing high growth rates in Argentina, Venezuela and Uruguay, confirmed by the favourable Q2 data, were also notable, and growth was strong in Colombia, Peru and Chile. Nonetheless, in these last two countries activity eased off, with signs that it might further slacken in the coming quarters, despite the excellent behaviour of the price of copper.

The higher frequency indicators included in Chart 4 corroborate to some extent the favourable outlook for the coming quarters. Consumer confidence has tended to stabilise at a high level, while retail sales are moving on a slightly declining path. Moreover, although the high growth rates of industrial production attained in Q1 have eased off, this variable has accelerated in recent months in countries such as Mexico and Colombia.

LATIN AMERICAN GDP
Year-on-year changes, unless otherwise specified

CHART 3

SOURCE: National statistics.

The strength of growth has chiefly been the result of the firming of domestic demand. Its average contribution to year-on-year growth in the six-month period stands at 6.5 pp, regaining the buoyancy seen in 2004, although there was something of a downturn in the last quarter (see Chart 5). Chart 6 shows that private consumption remained robust and even continued to trend upwards in some countries such as Brazil and Mexico. In this latter economy, a fundamental factor in recent months has been the sound behaviour of the labour market. In contrast, employment in Brazil slowed, although compensation has continued growing at a good pace in real terms. Real wages tended to quicken, attaining rates of around 5% in the area as a whole, driven by the increase of more than 10% in Argentina and Venezuela, and employment growth stabilised at 4%. However, the unemployment rate held stable in recent quarters, owing to the ongoing increase in the participation rate. Gross fixed capital formation, which had risen notably in Q1 to a growth rate of 16% for the region as a whole, was checked across the board (a year-on-year rate of 9.7%); the recent collapse in investment in Chile was particularly acute. Apart from this case, the decline in investment, which has traditionally been

LATIN AMERICA: MAIN ECONOMIC INDICATORS

TABLE 1

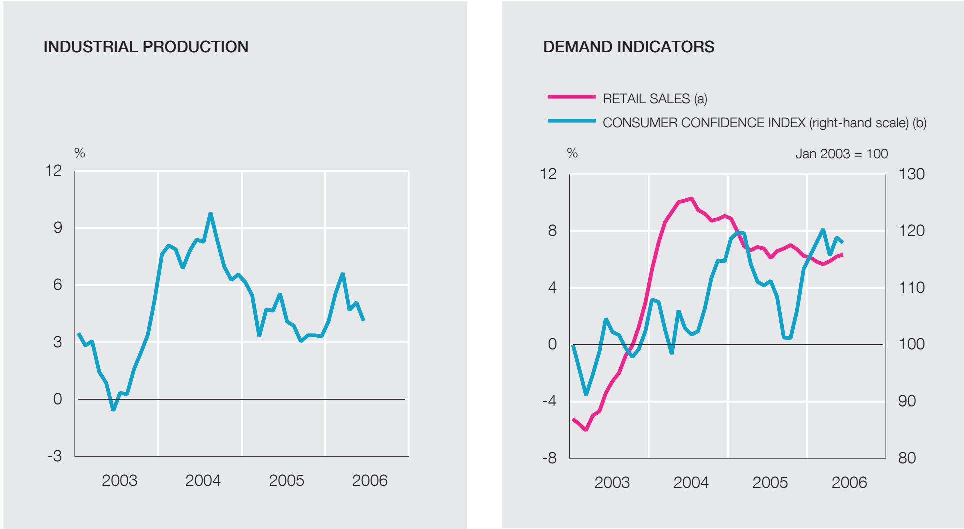
	2003	2004	2005	2004		2005				2006	
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
GDP (y-o-y change)											
Latin America (a)	2.1	6.0	4.3	6.1	6.0	4.0	5.3	4.0	3.8	5.4	4.1
Argentina	8.8	9.0	9.1	8.7	9.3	8.0	10.4	9.2	9.0	8.8	7.9
Brazil	0.5	5.0	2.3	5.9	4.8	2.7	3.9	1.0	1.4	3.4	1.2
Mexico	1.4	4.2	3.0	4.5	4.8	2.4	3.3	3.4	2.7	5.5	4.7
Chile	3.9	6.2	6.4	6.9	7.4	6.6	7.2	5.8	5.8	5.3	4.5
Colombia	4.0	5.0	5.2	3.8	4.2	4.5	5.9	6.6	3.9	5.5	5.9
Venezuela	-7.7	17.9	9.3	14.2	12.1	6.6	10.7	9.5	10.2	9.9	9.2
Peru	3.8	5.2	6.4	4.8	7.2	5.9	5.9	6.3	7.7	7.3	6.0
Uruguay	2.5	12.0	6.6	12.4	9.5	6.6	7.6	6.0	6.2	7.7	9.1
CPI (y-o-y change)											
Latin America (a)	10.9	6.0	6.3	6.3	6.5	6.5	6.7	6.0	6.0	5.8	5.1
Argentina	14.9	4.4	14.1	5.4	5.7	8.2	8.8	9.8	11.7	11.6	11.4
Brazil	14.8	6.6	6.9	6.9	7.2	7.4	7.8	6.2	6.1	5.5	4.3
Mexico	4.6	4.7	4.0	4.8	5.3	4.4	4.5	4.0	3.1	3.7	3.1
Chile	2.8	1.1	3.1	1.5	2.3	2.3	2.8	3.3	3.8	4.1	3.8
Colombia	7.1	5.9	5.1	6.0	5.8	5.2	5.0	4.9	5.1	4.2	4.0
Venezuela	31.4	21.7	16.0	21.5	19.5	17.0	16.3	15.4	15.2	12.6	11.2
Peru	2.3	3.7	1.6	4.4	3.8	2.2	1.8	1.2	1.3	2.4	2.3
Uruguay	19.4	9.2	4.7	10.0	8.1	5.6	4.5	3.9	4.8	6.4	6.4
PUBLIC-SECTOR BALANCE (% GDP)											
Latin America (a) (b)	-2.0	-0.8	-0.8	-1.0	-0.8	-0.7	-0.5	-0.5	-0.8	-0.8	-0.6
Argentina	0.4	2.6	1.5	2.7	2.5	2.6	1.5	1.2	1.5	1.7	2.3
Brazil	-3.6	-2.5	-3.1	-2.8	-2.7	-2.6	-2.8	-2.9	-3.3	-3.9	-3.4
Mexico	-0.7	-0.3	-0.1	-0.2	-0.3	-0.5	-0.5	0.0	-0.1	0.1	0.4
Chile	-1.4	2.4	4.8	1.9	2.4	3.3	4.1	4.6	4.8	6.5	6.9
Colombia	-2.6	-0.6	-0.5	0.3	-0.6	-0.6	-0.7	-1.7	-0.5	…	…
Venezuela	-4.3	-2.7	2.6	-5.8	-2.7	-0.1	3.2	5.3	2.1	…	…
Peru	-1.8	-1.3	-0.7	-2.1	-2.0	-2.2	-2.5	-2.6	-2.8	-2.8	-3.0
Uruguay	-4.6	-2.5	-1.6	-2.4	-2.5	-2.1	-2.2	-2.0	-1.6	-0.9	-1.1
PUBLIC DEBT (% GDP)											
Latin America (a)	54.4	49.8	42.4	50.6	49.8	50.3	42.4	42.8	42.4	42.0	26.5
Argentina	141.0	125.7	70.7	120.6	120.2	121.6	66.2	66.6	66.8	66.5	…
Brazil	57.2	51.7	51.5	52.0	51.7	51.3	51.4	51.5	51.5	51.6	50.4
Mexico	24.7	23.0	22.3	22.9	21.3	22.7	21.6	22.6	20.8	21.7	21.3
Chile	13.3	10.8	7.5	11.8	10.3	10.0	8.7	7.9	7.1	6.5	5.7
Colombia	50.9	46.7	46.7	46.5	44.4	46.6	44.6	43.3	45.5	44.4	…
Venezuela	56.9	53.5	48.7	49.8	53.5	47.6	49.2	50.6	48.7	37.9	…
Peru	47.7	44.3	37.7	42.2	41.5	42.0	35.0	38.0	36.9	36.4	30.7
Uruguay	108.3	100.7	82.9	101.5	100.7	78.1	80.3	81.6	82.9	75.6	…
CURRENT ACCOUNT BALANCE (% GDP)											
Latin America (a) (c)	0.8	1.3	1.7	1.3	1.3	1.3	1.3	1.5	1.7	1.9	1.9
Argentina	6.1	2.3	3.1	2.8	2.2	1.9	1.6	2.4	3.0	3.6	3.4
Brazil	0.8	1.9	1.8	1.7	1.8	1.9	1.7	1.6	1.6	1.5	1.3
Mexico	-1.5	-1.0	-0.6	-0.8	-0.9	-1.1	-1.0	-0.9	-0.6	-0.1	-0.1
Chile	-1.5	1.7	0.6	1.4	1.7	1.4	1.0	0.6	0.6	1.0	1.6
Colombia	-1.7	-1.0	-1.6	-1.2	-1.0	-0.8	-0.7	-1.5	-1.7	-1.6	…
Venezuela	13.4	13.7	22.4	13.6	13.7	14.4	16.9	20.4	22.4	23.6	24.2
Peru	-1.7	0.0	1.4	-0.2	0.0	0.3	0.7	0.9	1.4	1.1	1.6
Uruguay	0.5	0.3	0.0	0.2	0.3	-0.2	0.0	-0.1	0.0	-0.2	…
EXTERNAL DEBT (% GDP)											
Latin America (a)	46.7	40.2	27.2	42.9	40.2	39.4	30.6	29.2	27.2	26.8	…
Argentina	119.8	112.4	62.4	110.8	107.6	107.5	61.8	61.2	59.0	60.6	…
Brazil	40.1	33.3	21.3	35.3	31.7	29.8	25.5	22.6	19.7	18.5	…
Mexico	22.1	20.4	16.8	21.3	18.9	19.9	17.6	17.2	15.4	16.7	…
Chile	54.8	46.3	39.0	47.2	43.0	41.8	39.7	38.4	34.9	34.3	32.7
Colombia	44.9	40.5	31.3	38.7	36.7	34.0	30.8	29.5	30.0	28.5	…
Venezuela	48.3	44.1	41.7	41.1	43.4	36.9	40.1	39.5	41.2	33.8	31.5
Peru	48.3	44.8	36.1	43.2	42.0	42.6	35.4	36.4	35.3	34.5	28.8
Uruguay	98.0	87.6	67.9	85.6	87.6	66.4	66.7	66.6	67.9	60.6	…

SOURCE: National statistics.

a. Aggregate of 8 represented countries.
b. 2006 H1: estimation.
c. 2006 Q2: estimation.

SUPPLY AND DEMAND
Year-on-year changes and levels, 3-month moving average

CHART 4

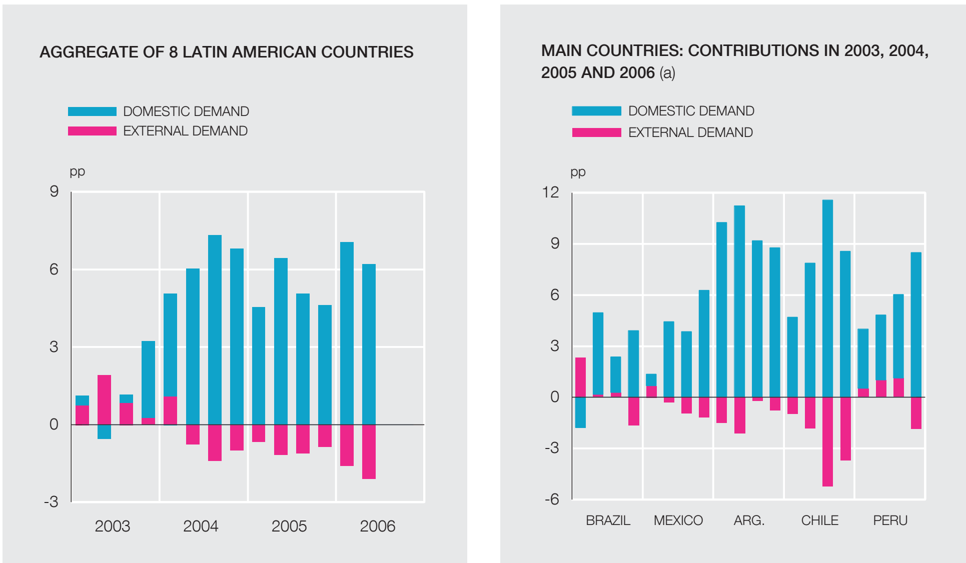


SOURCE: National statistics.

a. Eight biggest economies, excluding Peru and Uruguay.
b. Argentina, Brazil, Chile, Mexico and Peru.

CONTRIBUTIONS TO REGIONAL GROWTH
Percentage points

CHART 5



SOURCE: National statistics.

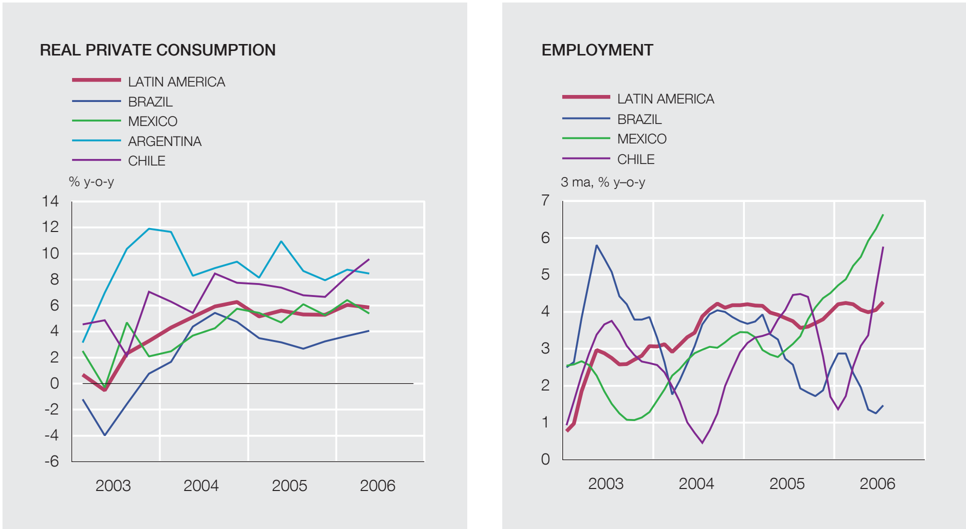
a. Information available to date.

highly sensitive to financial conditions, might be attributed in some countries to the episode of volatility, therefore conceivably making it a temporary phenomenon.

In addition to a sound economic outlook and a favourably performing labour market, both consumption and investment are being sustained by the downtrend in real interest rates in most of the countries in the region in recent years (see Chart 7). This is contributing, among other factors, to the greater availability of financing for households and firms, which is translat-

PRIVATE CONSUMPTION AND LABOUR MARKET
Year-on-year change and 3-month moving average

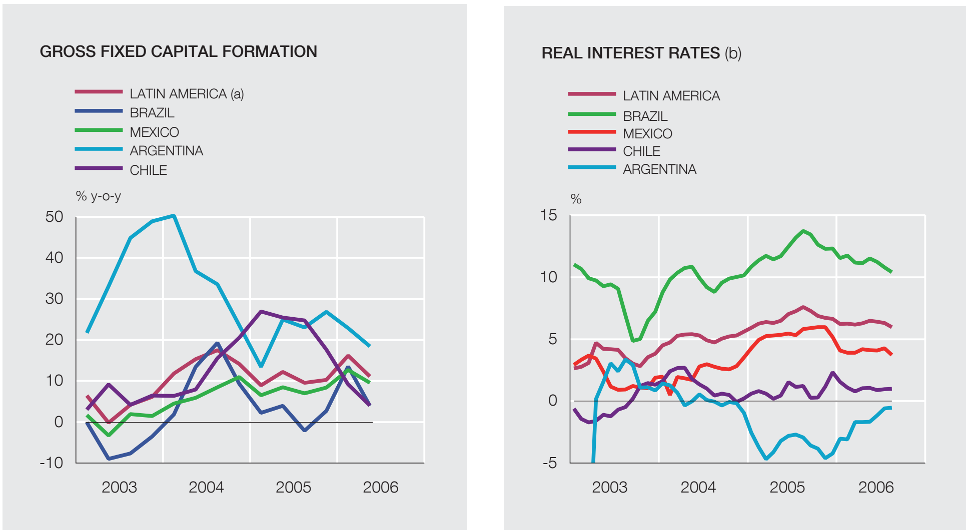
CHART 6



SOURCE: National statistics.

GROSS FIXED CAPITAL FORMATION AND REAL INTEREST RATE
Year-on-year rate and percentage

CHART 7



SOURCES: IMF and National statistics.

a. Seven largest economies.
b. Short-term interest rate minus inflation rate.

ing into a notable recovery in credit in the region, the recent trend and determinants of which are analysed in Box 1. In the first half of the year, bank lending to the private sector remained strongly dynamic across the board, with real year-on-year growth of 20% for the region as a whole (see panel 1 in the Box). In the main countries, growth rates held at over 10%; there was a fresh acceleration in Argentina and Colombia, and a sustained growth rate of close to 50% in Venezuela. At a more detailed level, the first signs of a recovery in mortgage lending were seen in Argentina, and this same credit component performed exceptionally in Mexico.

The negative contribution of external demand to growth continued to increase, widening to 2 pp in Q2 (see Chart 5). Of particular note were Brazil and Peru, where the contribution of external

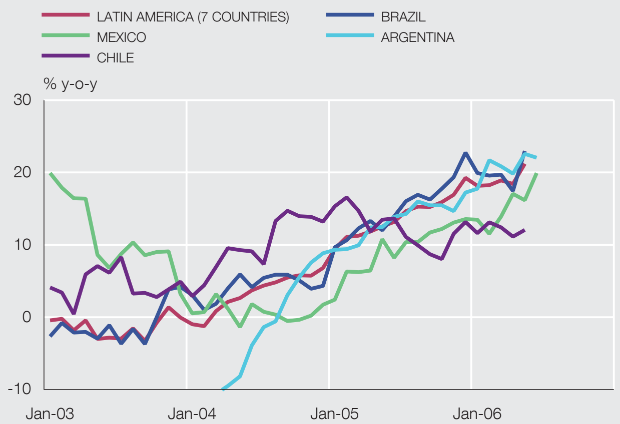
Since early 2004, and after a long period of stagnation, bank lending to the private sector in Latin America has been growing at a high rate (see panel 1). However, lending – which amounts to scarcely 25% in terms of GDP in the region as a whole – remains relatively undeveloped, in general, and its weight has hardly increased in the past ten years (see panel 2); indeed, declines have been seen in the ratio in Argentina, Colombia and Mexico. The scant banking intermediation is better seen in panel 3, which shows the lending/GDP ratio relative to per capita income and in comparison with other emerging countries. With the exception of Chile, lending is far more underdeveloped in Latin America than in the other countries. This scant financial depth is all the more worrying when it is considered that banks are the biggest source of funds for the private sector (individuals and corporations alike) in the region, given the limited development of capital markets.

Among the possible explanations for this meagre development of lending in Latin America are the recurrent financial crises the region has undergone. Crises not only curtail lending substantially, but also, the process of recovery is very prolonged. Panel 4 depicts the lending/GDP ratio in each country, taking as a point of reference the year in which the respective crisis began. Although there are usually situations of excess credit in the run-up to crises, it is striking that in no country have the pre-crisis lending ratios been regained, even though more than a decade has passed in some cases. In fact, some of the recent strong growth in lending may be attributed to the recovery from previous financial crises. Adding to this is the fact that bank lending is also positively correlated with the business cycle, although there is no consensus in the literature on the direction of causality. The past few years have proven very favourable from the standpoint of economic growth for the region, so the cyclical factor is another of the reasons behind the recovery in lending since early 2004.

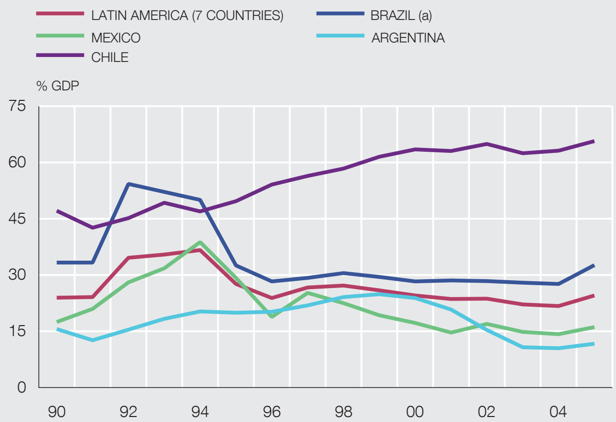
Besides past crises and the cyclical factor, credit supply and demand in Latin America have historically been limited by a series of structural factors, most of which have developed favourably. These include most notably:

1. The macroeconomic framework, which has improved substantially in recent years, with inflation rates under control in most

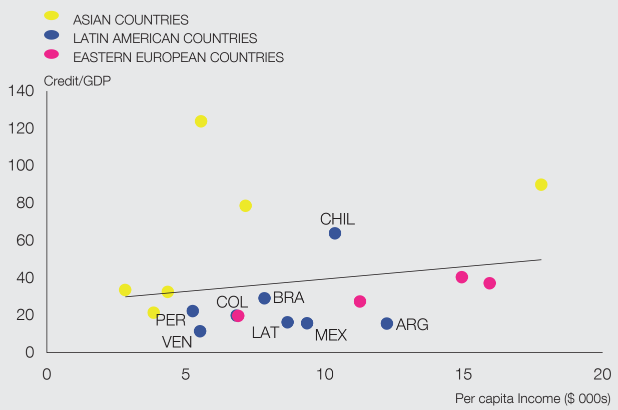
1 CLAIMS ON PRIVATE SECTOR



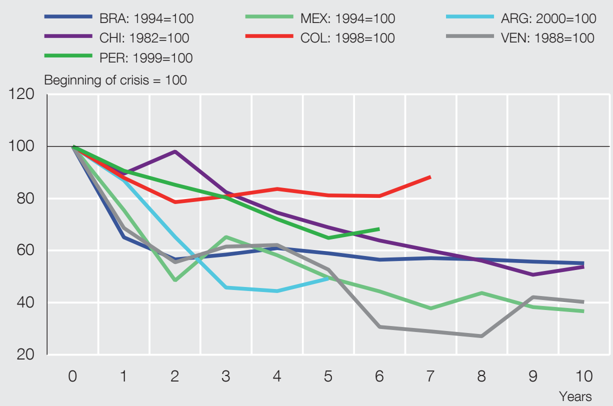
2 CLAIMS ON PRIVATE SECTOR



3 CREDIT AND PER CAPITA INCOME



4 CREDIT/GDP
Index numbers



Source: IFS.

a. The figure for 1993, affected by a hyperinflationary process, is omitted.

countries, a better fiscal performance and a surplus on the current account balance.

2. Volatility and financial vulnerability, which have been alleviated by the reduction in debt and in currency mismatches, associated with the excessive dollarisation of previous periods (although dollarisation is still very high in some countries such as Peru).

3. The crowding out of private-sector borrowing by the public sector, which is now a less relevant factor owing to the consolidation of public finances, the development of local capital markets - outside the banking sector - and better access to foreign markets.

4. The quantity and quality of creditors' information and the transparency thereof, which has also improved. Notable in this area is the publication of financial stability reports by various central banks.

5. Stricter regulatory frameworks and more prudent risk assessment policies, which should reduce the likelihood of financial crises.

6. The effectiveness of creditors' rights, where substantial progress has been made with the approval of several bankruptcy laws, although similar headway has not been made in respect of interpretation by the legal system.

7. Access to credit for excluded sectors. In this area, progress is limited by deep-seated factors in the region, such as the marked informality of the labour market and inequality in the distribution of income. Even so, specific policies have recently been implemented aimed at extending access to credit, such as "payroll credit" (payment of wage-linked credit) in Brazil or the extension of micro-loans.

Favourable developments in these factors might be contributing to a higher trend growth of lending, the momentum behind which may be added to the combination of cyclical motives and to the recovery from crises. Despite these factors, it should be considered whether the strong growth rates in lending observed might be fuelling a fresh episode of excess credit, like those that usually precede a banking crisis. However, credit excesses are usually accompanied by signs in the form of macroeconomic imbalances (current account deficit, overvalued currencies, increases in the relative price of non-tradable goods, etc.) and financial imbalances (external debt, excessive dollarisation of liabilities), which are not currently discernible in the region. Nor are sizeable financial imbalances clearly perceptible and, as indicated, supervision and regulation have improved. Indeed, the identification of vulnerabilities in past crises has been conducive to more prudent behaviour in the current circumstances, especially as regards exposure to foreign exchange risk on bank balance sheets.

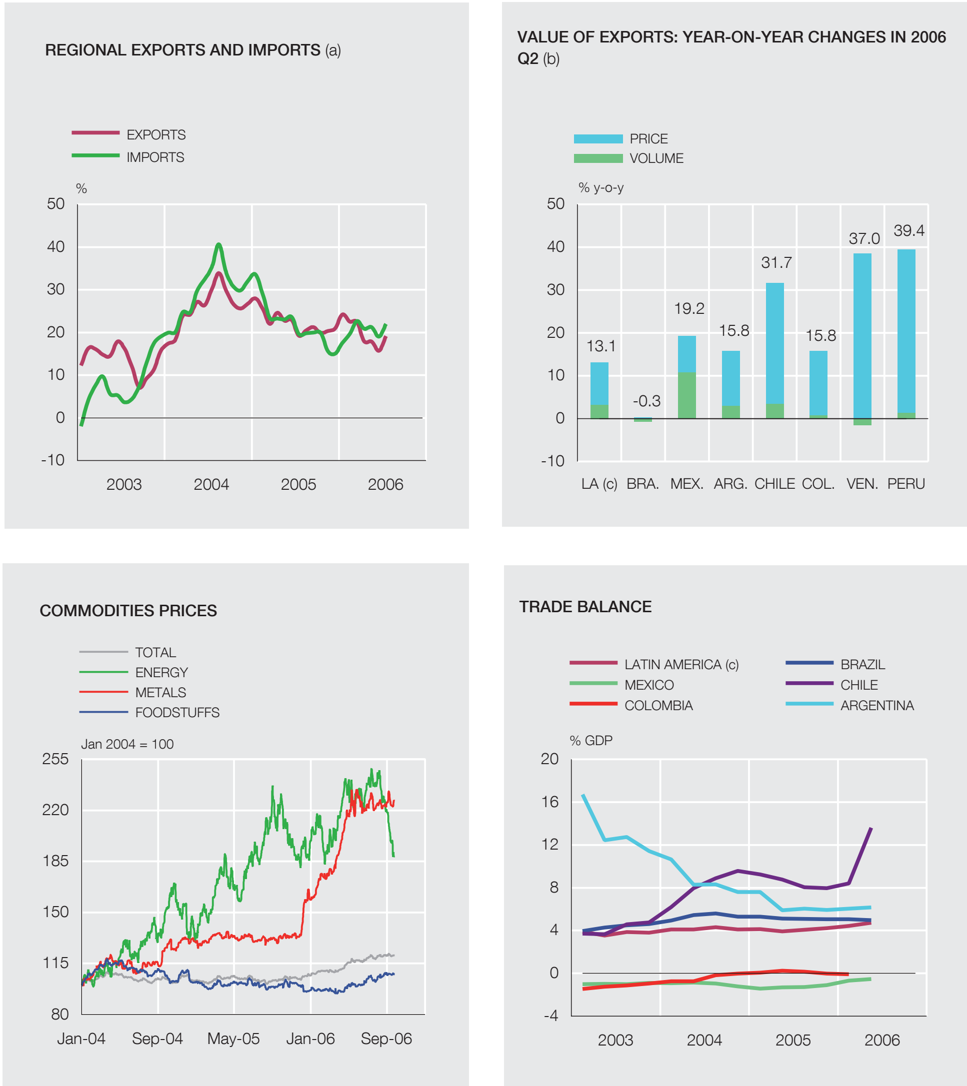
In sum, while private-sector bank lending may be expected to post more moderate growth rates in the coming years as the cycle matures and the recovery from previous financial crises runs its course, the conditions are in place for lending to maintain high trend growth allowing for convergence of the lending/output ratio towards the levels of countries with a similar economic standing. Structural improvements are also helping enhance market instruments and institutions, such as the lengthening of loan maturities, the emergence of domestic markets for local-currency-denominated public debt in some countries and, above all, the reduction in financial costs and in real interest rates. In order to continue along these lines, there is a need to entrench the improvements in the macroeconomic environment and to shore up institutional conditions and supervisory and regulatory mechanisms.

demand turned negative. After a prolonged period of extraordinary expansion (since 2002) exports began to show some signs of easing (see Chart 8). On National Accounts data, they grew by scarcely 3% in volume terms in the area as a whole. The strength of Mexican exports was prominent, as was the decline in Brazil's exported volume, after a long period of dynamism. However, favourable developments in prices, which account for virtually all of the increase in Chilean, Peruvian and Venezuelan exports, raised their growth above 13% in value terms. Imports stabilised at a slightly higher growth rate than that of exports, underpinned by the strength of domestic demand.

Despite this greater subtraction from growth of external demand and as a result of the favourable behaviour of relative prices, the trade balance for the area as a whole widened once again to 4.5% of GDP, after holding stable for more than two years at a surplus of 4%. Across the different countries, the trend of the deficit in Mexico was notable, having halved to 0.5% of GDP in recent quarters, while in Chile the trade balance doubled to over 14% of GDP, driven by changes in the price of copper. As a result, the current account surplus continued to widen, drawing close to 2% of GDP in the region as a whole. Salient developments included the widening of the surplus in Argentina and the elimination of the deficit in Mexico, to which the ongoing growth of remittances

EXTERNAL ACCOUNTS AND DETERMINANTS
Year-on-year changes, indices and percentage of GDP

CHART 8



SOURCES: National statistics and Banco de España.

a. 3-month moving average. Customs data in US dollars.
b. National Accounts data, in local currency.
c. Aggregate of 7 largest economies.

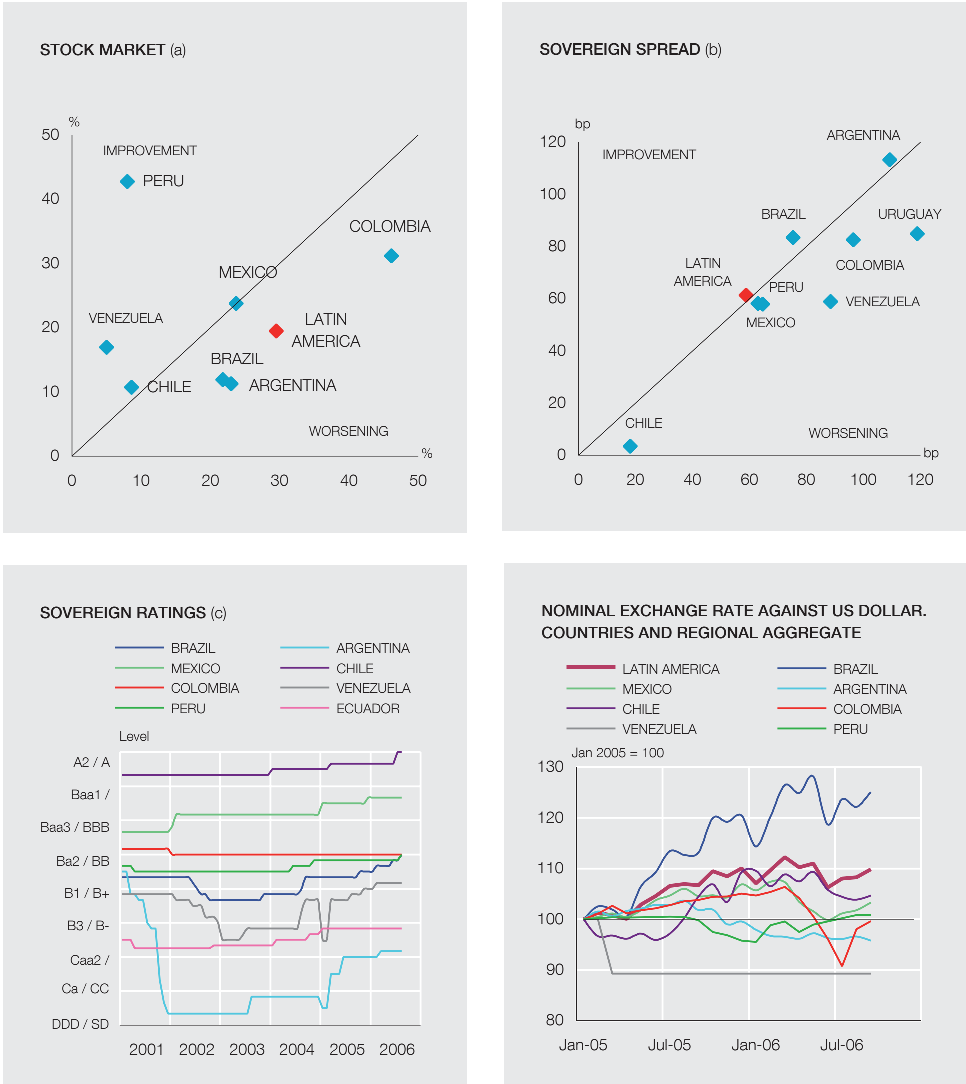
was conducive. In Chile and Peru, changes in the trade balance scarcely bore on the current account balance, owing to the fact that greater revenue from commodities exports also leads to a strong deterioration in the incomes balance. In any event, it remains notable that all the countries are running an ample current account surplus (or a very small deficit) at such an advanced phase in the business cycle. The exception is Colombia, where there has been some deterioration in the current account deficit in recent quarters, though it is still short of 2% of GDP.

FINANCIAL MARKETS AND EXTERNAL FINANCING

Financial markets in the region were marked by the bout of instability that began in May. This saw a fall-off in capital inflows to Latin America and other emerging markets and simultaneously affected, albeit to differing degrees of intensity, all the countries in the area and the main financial indicators: the stock market, sovereign spreads and exchange rates. Nonetheless, as significant as the deterioration in the indicators in May was their rapid and robust recovery subsequently, which has allowed many of the Latin American countries to regain the levels

SOVEREIGN SPREADS, STOCK MARKETS, RATINGS AND NOMINAL EXCHANGE RATE AGAINST THE DOLLAR
Basis points and indices

CHART 9



SOURCES: JP Morgan, Bloomberg, Moody's, Standard and Poor's and Fitch.

a. Worsening: change from annual high to Q2 period of turbulence and the low observed during this period. Improvement: change from that low to subsequent high.
b. Worsening: change between maximum spread observed during Q2 turbulence and the yearly minimum spread until then. Improvement: change between that maximum and the subsequent minimum.
c. Simple average of ratings from Moody's, Standard and Poor's and Fitch.

observed before the turbulence, and in some cases to better them (see Chart 9). This reaction may be viewed in a most favourable light, especially when considering that, with the odd exception, the recovery in the Latin American economies has been sharper than that in other emerging economies. Contributing to this has been the reduction in financial vulnerabilities in recent years, generally prompted by sounder external positions, a reduction in financial costs and imbalances, and greater macroeconomic discipline, which have reinforced the resilience of these economies.

The first two panels of Chart 9 depict the marked oscillation that stock markets and sovereign spreads have undergone in recent months. On average in the region, stock markets fell – in local currency terms – by almost 30%, with a notable decline of close to 50% in Colombia, this being the market where the recovery was also sharpest. In August, most of the countries had already recouped much of what they had lost, although the area aggregate still showed a fall of around 10% on the prior highs. Only Chile, Venezuela and Peru posted annual highs subsequently. The Peruvian index has most risen in 2006 (over 110%), due in part to overcoming the electoral uncertainty that had overshadowed market performance to January.

Sovereign spreads trended in parallel with stock markets. The regional sovereign spread, measured by the regional EMBI index (see chart 2), which posted an all-time low of around 190 bp before the May turbulence, widened by over 25% (almost 60 bp) to over 250 bp. The countries where the spread most widened were Argentina and Uruguay, although it was Colombia, with a rise of over 90 bp, that posted a proportionately higher increase. From June, movements reversed to the point of an improvement on previous levels in countries such as Brazil and Argentina, and an approximation to such levels in the remaining countries. The exception was Chile, where the spread did not recover. Indeed, the regional aggregate once again posted an all-time low in August, although subsequently it rose slightly again.

The foreign exchange markets were also buffeted by financial turbulence and, although the signs of recovery in these markets were clear, few currencies – among which the Mexican peso – recovered their previous levels. The strength of the Peruvian peso was notable over the April-September period, standing at a high for the year (a 3% appreciation in the past two quarters). In contrast, the Colombian peso and the Chilean peso underwent the heaviest depreciations during this period, of around 5% and 2.5% respectively. This interruption in the rising course of currencies was, in some cases, welcomed by the authorities, since the fears of an excessive exchange rate appreciation had been becoming increasingly patent in certain areas.

It is interesting to note that the countries most affected by the turbulence were those where capital inflows to the stock market had been most intense in recent years, which makes it reasonable that the reversal should have been more forceful in these countries. This is particularly the case of Colombia, whose stock market rose by 900% from January 2002 to May 2006, by far the biggest rise in the region. Nonetheless, this is also the only country running a current account deficit and a very downwardly sticky public debt ratio of close to 50% (unlike in other countries, as shown in Chart 13). That draws a parallel between Colombia and other emerging countries severely affected in this episode (see Chart 1), marking a note of caution that is valid for the entire area despite the robust recovery in train.

In any event, despite the volatility of the period, there was an improvement in several countries' credit ratings in the region (Brazil in June and September, Peru in August and Chile in July, as can be seen in Chart 9).

On IMF forecasts, net capital flows to the region will be nil in the year as a whole, unlike the case for the past two years, in which the balance was negative (see Chart 10). As forecast net private flows are very similar to those last year (somewhat over $12 billion), equilibrium will be obtained by the lower negative balance of official flows. This reduction will come about despite the fact that the figure includes Argentina's cancellation of IMF loans (made last year, but recorded in January), Uruguay's partial cancellation and other cancellations with other agencies by various countries, such as that of Mexico with the IDB and the World Bank, and that of Brazil with the Paris Club. Box 2 analyses the importance of the role played by IMF programmes in the recovery of private flows to Latin America and other emerging economies.

THE CATALYSING EFFECT OF THE IMF ON PRIVATE CAPITAL FLOWS TO LATIN AMERICA AND THE EMERGING ECONOMIES

Among other objectives, the financial programmes of the International Monetary Fund (IMF) pursue the recovery of private capital flows to beneficiary countries. There are three fundamental channels through which the IMF may reinforce foreign investors' confidence and, therefore, catalyse private flows: liquidity, conditionality and signalling. The liquidity provided by the IMF raises the recipient's ability to pay and thus reduces the likelihood of it defaulting. The conditionality associated with the IMF programmes and compliance therewith increases investors' confidence in emerging countries' economic policies. Finally, the subscription to and renewal of programmes gives an IMF seal of approval to the recipient's macroeconomic policies, inducing a positive signalling effect to foreign investors.

However, the catalysing effect of IMF programmes on private flows is difficult to discern empirically, and some studies even conclude that entering into an agreement with the IMF is associated with a withdrawal of private capital from the country. The catalysing effect appears only in very specific cases, such as the countries that apply to the multilateral agency from a good starting position, or that have access to international credit markets.

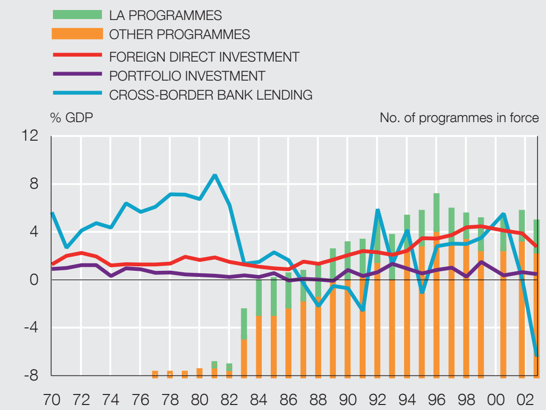
These results have been justified questioning the three above-mentioned channels. Thus, if the greater liquidity provided by the IMF does not immediately restore foreign investors' confidence in the recipient country, its only purpose would be to fuel a further outflow of capital. Regarding conditionality, in most cases the IMF programmes exert a contractionary effect on activity, at least in the short term, which would reduce the country's ability to pay. Finally, the signing of an agreement with the IMF may alert foreign investors to a country's problems, insofar as they may suspect that the government and the IMF have more information than them about the scale of the problems.

A recently published paper[1] analyses the question in detail, distinguishing between types of private flows and between types of programmes signed with the IMF. Panel 1 offers a summary description of the sample used in this paper. The programmes in force increased substantially after the 1982 debt crisis, and they peaked at 75 in 1996 (of a total of 156 countries, i.e. that year almost half all nations were under an agreement with the IMF). The programmes most used are Stand-by Arrangements (SBAs) and Poverty Reduction and Growth Facilities (PRGFs). These are long-term concessional programmes, with a stronger component of structural conditionality than other types of agreements. The other programs considered are less recurrent: Extended Fund Facility (EFF)-type programmes (geared to crisis resolution but with a longer life than SBAs) and preventive programmes, which are similar to the latter (and characterised, therefore, by conditionality) but in which the signatory country undertakes not to make any withdrawal of funds unless a financial crisis breaks out. Regarding the different types of flows, foreign direct investment received as a percentage of GDP is on a growing trend with little volatility and portfolio flows are very small (they do not exceed 1.5% of GDP in any year), while bank loans display high volatility, predominating especially at the start of the sample and petering out at the end. With these data, considering other determinants of private capital inflows in the emerging economies, and adjusting for potential endogeneity and selection bias in the estimations, the results (in the accompanying panel) are somewhat more favourable than those obtained to date by other studies.

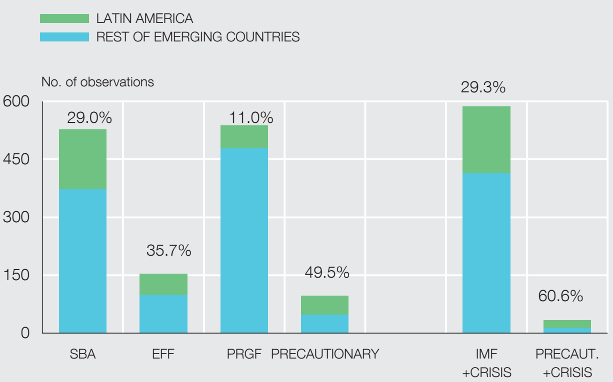
In fact, the signing of a program with the IMF would entail direct investment inflows for an amount equivalent to 0.4 pp of GDP, and this effect would be significant for the PRGF and EFF programmes. Regarding portfolio flows, at the aggregate level the effect is not significant, but it is in the case of EFFs. Finally, bank loans are discouraged both by the signing of an EFF and an SBA, whereby, overall, signing an agreement with the IMF would entail an outflow of this type of capital equivalent to 1.2% of GDP.

1. See Banco de España Working Paper no. 0617 "What kind of capital flows does the IMF catalyze and when?", by Javier Díaz-Cassou, Alicia García-Herrero and Luis Molina.

1 NET PRIVATE CAPITAL FLOWS AND IMF ARRANGEMENTS



2 GEOGRAPHICAL DISTRIBUTION OF PROGRAMMES (a)



SOURCE: Banco de España.

a. The percentage refers to the share of the Latin American countries in each of the types of programme or situation.

The most positive results are for preventive programmes. The empirical results (see accompanying table) suggest preventive agreements have a greater positive impact than the rest: they would appear to raise direct investment received by a proportion 4.5 times greater than that of other agreements as a whole and, although they do not have significant effects on bank loans, at least the coefficient turns positive. The different effects, derived from the specific characteristics of these agreements, on the three above-mentioned channels might explain these better results. The liquidity effect would be mitigated, but the other two, above all the signalling effect, could be amplified.

It is worthwhile, finally, examining whether the external flows channelled towards the Latin American countries have responded differently to the signing of financial programmes with the IMF. The resort by the Latin American countries to IMF programmes is proportional to their representativeness; accounting for 35 countries of 156, i.e. 22.4% of the total, they give rise to 22.5% of the observations with an agreement with the multilateral agency in force. By type of programme, they were particularly active in the signing of EFFs and, especially, of preventive agreements (see panel 2).

If the previous exercise is repeated in the sub-sample of countries from the region, that gives the coefficients displayed on the right of the accompanying table. Hence, the effect of the programmes on direct investment is significantly greater than for the other emerging economies, something that stems from a very strong effect of PRGF-type programmes (5.5 pp of GDP, compared with only 0.6). EFF-type programmes, which are those most widely signed by the region, generate a bigger increase in portfolio investment than for the emerging economies as a whole (0.9 pp, against 0.4). In a negative sense, the effect of SBAs on bank loans is greater than in the sample as a whole. Finally, in the case of preventive programmes, the results are rather more unfavourable than for the emerging economies as a whole.

This last result may be due to the greater recurrence of crises in Latin America. Preventive programmes would, in principle, be designed for times of calm in the recipient countries, i.e. in the absence of a crisis. When a crisis breaks out, the presence of a preventive programme may exacerbate the outflow of capital, insofar as prior subjection to conditionality has not enabled the problems to be circumvented. In this respect, of the 33 observations in the sample where a crisis coincides with a preventive agreement in force, 20 belong to the region. Accordingly, the last line of the accompanying table shows the results for the preventive programmes in a sub-sample of crisis-free observations and these are compared with the same sub-sample in Latin America. The results improve for Latin America, but also for the sample as a whole, inferring that this is only a partial explanation for the results.

In conclusion, the catalysing effect of agreements with the IMF depends on the type of flow and on the programme in question. Medium- and long-term agreements, with a stronger component of structural conditionality (PRGFs and EFFs) tend to raise direct investment, and in the case of EFFs, portfolio investment too. If, moreover, the agreement is a preventive one, numerous catalysing effects can be found, particularly on direct investment. Against this background, Latin America shows more favourable behaviour in the case of direct and portfolio investment, except in the case of preventive agreements, which appear to exert a lesser catalysing effect.

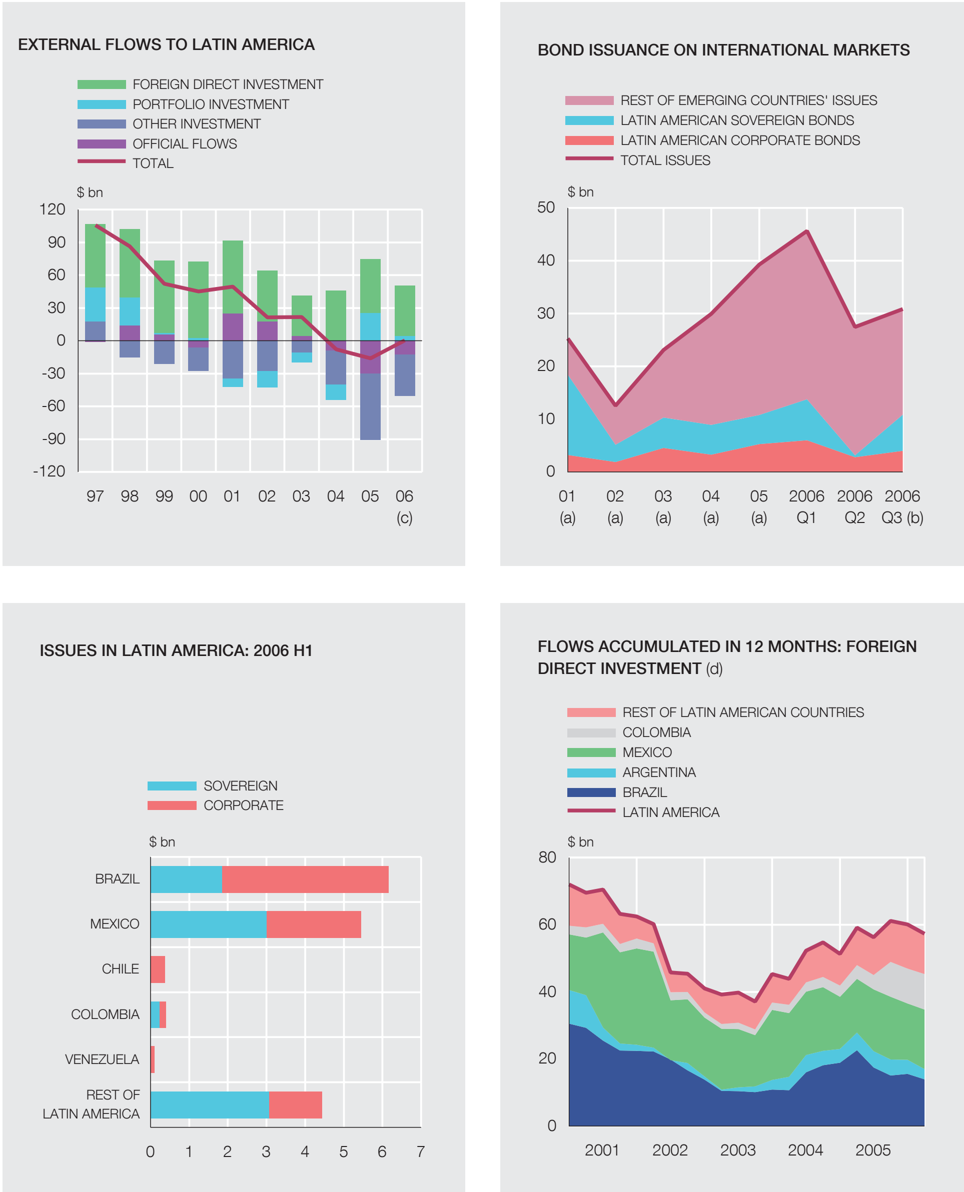
	Whole sample			LA sample		
	FDI	Portfolio investment	Cross-border bank lending	FDI	Portfolio investment	Cross-border bank lending
Dummy for IMF program	0.40 **	0.17	-1.20 ***	0.67 **	0.12	-1.69
Of which:						
— SBA/SRF	0.17	0.09	-1.24 ***	0.12	-0.25	-1.85
— EFF	0.66 *	0.45 **	-1.66 ***	0.41	0.91 ***	-2.19
— PRGF	0.61 **	-0.11	-0.19	5.50 ***	-1.22	0.30
— Precautionary: whole sample	1.79 ***	0.12	0.96	-0.12	-1.01 ***	0.60
— Precautionary: obs. without crisis	3.24 ***	0.56 *	0.74	0.40	-0.40	0.75

SOURCE: Banco de España

a. Fixed effects model. *, ** and *** imply that the coefficient for the dummy representing IMF programmes are significant at 10%, 5% and 1% levels, respectively.

EXTERNAL CAPITAL FLOWS
USD bn

CHART 10



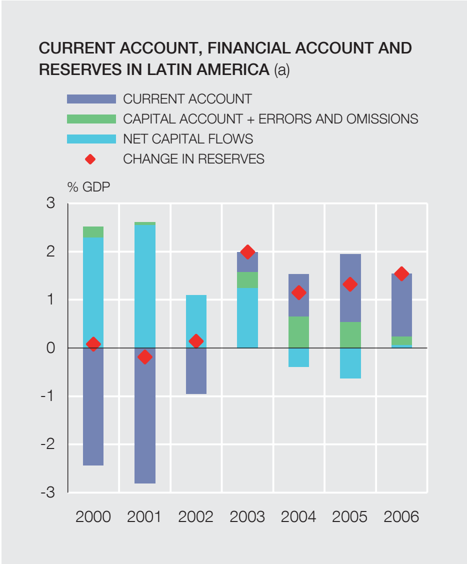
SOURCES: JP Morgan and IMF.

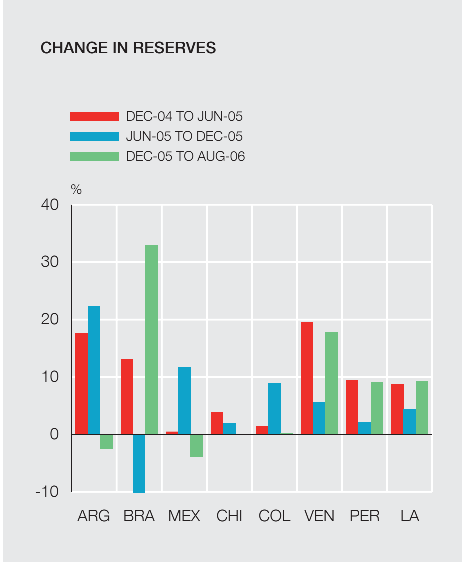
a. Quarterly average.
b. Data to August and estimation for September 2006.
c. 2006: estimation.
d. Q2 2006: estimation for Colombia.

The breakdown of private flows by category allows some striking conclusions to be drawn. Firstly, net flows of external loans and credits (under Other investment in Chart 10) have retained the negative sign of recent years, although the scale of the decline ($38 billion) is considerably less than that of the previous year. Secondly, a strong fall-off in portfolio flows is envisaged, from $25.4 billion in 2005 to a figure slightly over $4 billion. This decline is, above all, the result of a strong negative balance in fixed-income inflows, and not so much of a reduction in equity inflows, despite the recent volatility caused by the withdrawal of certain foreign funds. The Latin American countries are also reducing their exposure to external private debt through redemptions – such as the repurchase by Brazil of the remaining Brady bonds in April – and not so much due to a lesser rate of sovereign issues. After a very active first quarter, these issues practically ground to a halt in Q2 owing to the financial turbulence, and picked up again

EXTERNAL ACCOUNTS AND CHANGE IN RESERVES
Percentage of GDP and rate of change

CHART 11





SOURCE: National statistics.

notably in Q3 (see Chart 10) to the extent that, on average ($5 billion per quarter), they were only slightly down on 2005. Corporate issues showed similar dynamism, with a quarterly average of $4.3 billion (somewhat down on the previous year), although they were less affected in Q2. In countries such as Chile and Venezuela, these issues were the only ones to take place, and in Brazil they exceeded sovereign issues, totalling $4 billion in the first half of the year.

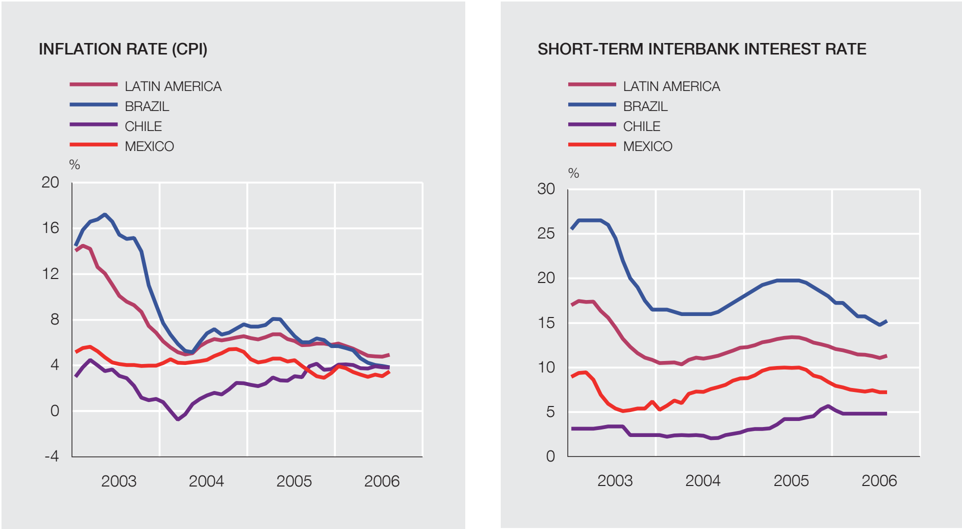
Against this background of zero or negative net inflows, foreign direct investment (FDI) flows remain strong. On present forecasts they would stand at $46 billion in 2006, a figure marginally down on the previous year, although with data to Q2, cumulative investment in Latin America points to a figure closer to $58 billion (see Chart 10). Country by country, there has been a notable decline in FDI in Brazil, prompted by a notable increase in FDI outflows ($4.5 billion, a 250% increase on the previous period), while Colombia showed the most notable increase in the region, consolidating the improvement in its attractiveness to investors in recent times.

The net balance of capital flows in the region in recent years is somewhat deceptive, since highly favourable external financing conditions have been in place during this period for these countries. These conditions, instead of being used to increase external debt, have been harnessed to reduce external exposure under favourable conditions, in order to alleviate financial vulnerability. This is one of the most characteristic – and in turn encouraging – features of this financial boom period.

As discussed, the external position remains comfortably in surplus in most of the countries, meaning that the area as a whole is a net capital exporter from a balance of payments perspective. From this standpoint, the combination of an extensive external surplus and balanced net financial flows entails (see Chart 11) the continuation of the ongoing build-up in reserves at a high rate (they are up 10% in the area as a whole in the six-month period). In this respect, the build-up in reserves does not only provide a line of defence against future financial turbulence, but goes hand in hand with the existence of a comfortable external position, which, as seen, has proven important in dampening the impact of turbulence. Nonetheless, the accumu-

INFLATION AND INTEREST RATES
Year-on-year rate and percentage

CHART 12



SOURCE: National statistics.

lation of reserves may ultimately entail sizeable and growing costs, especially in respect of monetary control in some countries, as analysed in Box 3.

PRICES AND MACROECONOMIC POLICIES

Inflation continued to perform most favourably in the area as a whole, with an additional reduction of almost 0.5 pp since the start of the year, taking the rate to 5.1% in August (see Chart 12). This performance is particularly notable against a background of rising oil prices and strong domestic demand pull, although administered prices have eased in many countries. In a less marked fashion, underlying inflation also continued to fall, dipping to 4.7% in July. Leading the reduction in inflation was Brazil, where the decline was by more than 1 pp in the last six months, while in Argentina the accelerating tendency of prices was interrupted and inflation, though still high, moved into a phase of stability from June. In Mexico, the inflation rate has stood in recent months at above the inflation target (3%), while in Chile the rising path of the past two years has been curtailed.

Despite these developments in prices, monetary policies tended to tighten. The notable exception is Brazil, whose central bank is one of the few globally to be still cutting interest rates. In any event, as Chart 7 showed, its real interest rates are also still among the highest in the region (and, practically, in the world). In Mexico, the cycle of interest rate cuts was interrupted in April, while in Colombia a new upward cycle began in May. In Peru, Chile (at a more moderate pace than in previous quarters) and Argentina, interest-rate increases continued. The rises in Argentina continue to be very muted in relation to the scale of the inflation problem faced, although real Argentine interest rates might cease to be negative in the coming quarters (see Chart 7 once more). Alternative price control policies have acquired a leading role and, in recent months, they appeared to achieve the desired effect, by means also of their dissuasive impact on other sectors not directly affected.

In the area as a whole, the budget deficit stabilised at around 0.5 pp in the last two years, although the primary surplus continues moving on a slightly rising trend at close to 4% of GDP (see Chart 13). Notable in recent quarters were the upward trend of the primary surplus in Mexico and Peru, which enabled them to build on a fiscal surplus position, and the drastic widening of the Chilean surplus.

THE BUILD-UP OF INTERNATIONAL RESERVES IN LATIN AMERICA: DETERMINANTS AND DOMESTIC CONSEQUENCES

BOX 3

One of the key features of the international economy in recent years has been the substantial increase in international reserves at the global level. The essential drivers – with the exception of Japan – have been the emerging economies, mainly in Asia, and more recently the oil exporting countries. Overall Asian international reserves at end-2005 thus account, after posting annual growth of 28% during the period 2002-2005, for 60% of total world reserves. The reserves of the oil exporting countries (OPEC and Russia), while accounting for a much smaller fraction of total world reserves (9% at end-2005), grew at an annual rate of 34% over the same period. Despite having received less attention, a large number of Latin American countries have likewise significantly built up their international reserves (see Chart 1), having posted annual growth of 20% in the period 2003-2005; even so, reserves in the area as a whole were equivalent at end-2005 to only 5% of world reserves. Of note were the holdings of Mexico ($66 billion) and Brazil ($71 billion).

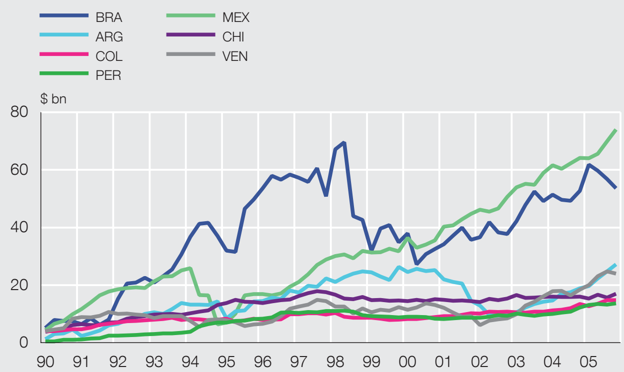
The persistence of sound financial conditions combined with ample external surpluses have generated strong upward pressure on local currencies. Although these appreciations have in part corrected a previous sharp movement in the opposite direction, most of the region's central banks have sought to offset them, to a greater or lesser extent, with sizeable purchases of dollar-denominated assets. In some countries, there have been other reasons, rather than an express desire to control the exchange rate, for the build-up. In Mexico, the strong increase in reserves has been fuelled by the sale of dollars by the state-owned oil company to the central bank, a mechanism whereby it is sought to prevent oil revenues being traded on foreign exchange markets, given the volatility that operations of this scale and irregularity might generate.

The increase in reserves has allowed financial vulnerability to be reduced. Following the crisis in the late 90s and early years of the current decade, as recently as in 2002, some countries had very small international reserves in relation to historical standards and to covering against vulnerabilities. The increase in reserves has also provided for the restructuring of sovereign debt through two channels. The first is direct, as the reserves are used, in specific instances (Brazil, Argentina and, more recently, Uruguay and Mexico), to repurchase debt on the market and to make early repayment of loans from international financial institutions. The second is indirect since, on countering upward pressures, expectations of an appreciation in the currency persist, thereby increasing the relative attractiveness of local-currency-denominated debt. Both factors have enabled external debt and foreign-currency-denominated debt, and by extension vulnerability, to be reduced. This improvement is manifest in the attendant indicators, such as the ratio of reserves to short-term foreign debt, which has risen in many cases (see panel 2) above unity (the appropriate level according to the Guidotti-Greenspan rule). Other more elaborate studies[1], in which the suitability of the level of reserves is set against a sudden reversal in capital flows, also support the improved resilience of these economies in recent years, without the accumulation having so far become excessive.

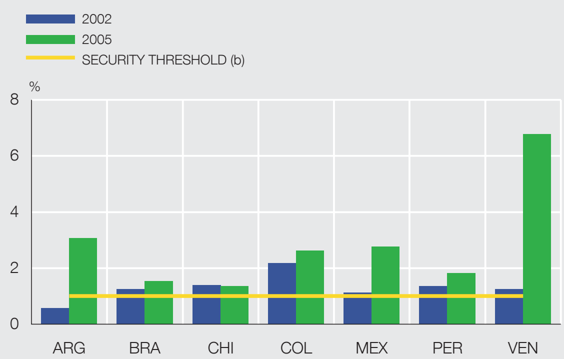
However, along with these positive aspects, the build-up in reserves gives rise to costs and problems that are also progressively affecting countries in the region. Firstly, increases in reserves are accompanied by expansions in liquidity which, if not sterilised, generate inflationary pressures. The case of Argentina is perhaps the most salient one. Despite the notable effort to sterilise increases in reserves (see Chart 17), a notable expansion in liquidity is taking place. This complicates excessively the management of monetary policy and the control of inflation which, despite price controls, is standing at an annual rate of around 10%. There is a similar problem in Venezuela, where inflation is around 15%, driven by the increases in the money supply stemming from incomplete sterilisation. Even if successful, sterilisation is not free from problems, such as the so-called fiscal costs. These

1. O. Jeanne and R. Ranciere, The Optimal Level of International Reserves for Emerging Economies: Formulas and Applications, IMF Research Department, forthcoming.

1 INTERNATIONAL RESERVES (a)



2 RESERVES AS A PERCENTAGE OF SHORT-TERM EXTERNAL DEBT
Percentage of external short-term debt



SOURCES: IMF (IFS) and External Debt Database (BIS-IMF-OECD-WB).

a. International reserves (gold excluded).
b. According to Guidotti-Greenspan Rule.

THE BUILD-UP OF INTERNATIONAL RESERVES IN LATIN AMERICA: DETERMINANTS AND DOMESTIC CONSEQUENCES (cont'd)

BOX 3

costs, defined as the spread between the return on reserve assets (US bonds in many cases) and on the bonds issued to sterilise the increases in the money supply, are proving to be of some size in Brazil and Mexico, as a result of the higher interest rates in both countries. Another problem is the distortions that central bank bond sales may cause to the financial system. A case in point is Colombia, where the bonds are largely being taken up by commercial banks. This situation biases portfolios excessively towards the public sector, and may even prompt a dilemma at the central bank by uncoupling monetary policy objectives from financial stability, in that a significant increase in interest rates (perhaps required to contain inflation in the event of a possible depreciation of the currency) would prompt a considerable deterioration in commercial bank assets, with the subsequent problems for financial stability.

In sum, in recent years, against a backdrop of sizeable trade surpluses, capital inflows and high oil prices, there has been a substantial increase in reserves in a large number of Latin American countries. This phenomenon is, along with the known positive effects in terms of the reduction in foreign exchange volatility and in financial vulnerability, giving rise to various problems. Admittedly, it is not possible to make a prediction concerning the continuity of the process in the area as a whole, as there are heterogeneous aspects to its determinants and domestic consequences. But it may be concluded that, in those countries where the build-up in reserves is essentially the outcome of foreign exchange intervention and where the process of accumulation continues at a brisk pace, the associated problems will increase and may have adverse consequences for monetary and financial stability, ultimately giving rise to the interruption of the process.

The stabilisation of the gap between the primary and total fiscal balances is explained by the scant scope available for further reductions in interest payments, which is linked to the downward interest-rate cycle and to the growing downward stickiness of public debt. Indeed, interest payments fell by more than 3 pp of GDP in recent years (see Chart 13), but have held almost flat at over 4% of GDP for almost two years, and in countries such as Brazil (8% of GDP) and Argentina (only 2%, following debt restructuring) they have recently risen. Meanwhile, public debt has also stabilised at over 40% in the area as a whole, and only in Peru and Chile has it held on a declining course.

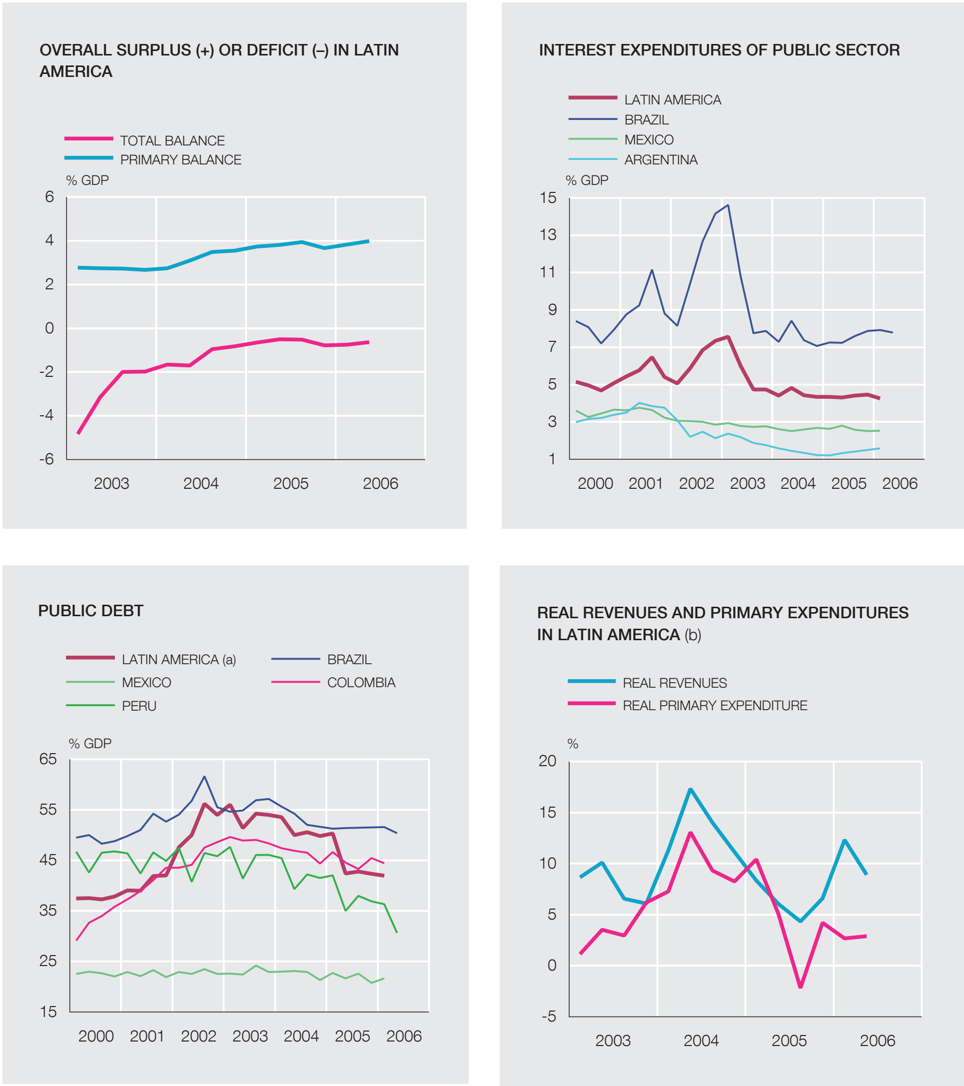
In any event, fiscal results continue to be positive, especially in a context of elections, which tend to generate pressures on expenditure. Primary expenditure in real terms turned down notably last year, from growth of over 10% to around 4% in year-on-year terms. Only in Argentina has there been a significant upturn in spending, extensive also to its provinces. In contrast, public revenue in the region continues to post high growth rates, of around 10%. The boom is a generalised one, although more marked in those tax systems that depend more on commodities revenue, such as Mexico, Venezuela and Chile. However, commitments to or uncertainty over greater future spending in some countries such as Brazil and Argentina might compromise the sound fiscal outlook.

TRADE INTEGRATION AND STRUCTURAL REFORMS

There were important movements in the trade area with a view to the reconfiguration of the Latin American regional blocs. On one hand, Venezuela's accession to MERCOSUR as a fully fledged member was formalised after it left the Andean Community. This departure was justified by the signing of the Free Trade Treaties by another two members, Peru and Colombia, with the United States. These treaties are pending discussion and approval in the US House, in the former case, and in the respective parliaments, in the latter. In both cases the timeline is significant, since the tariff benefits with the United States expire at the end of 2006. Conversely, Ecuador's ongoing negotiations with the United States reached an impasse following a conflict with a US oil company. After Venezuela's departure, Chile approached the Andean community and joined as an associate member in September, while it pursued its strategy of bilateral agreements (ratification of the agreement with China and negotiations with Japan, among others).

MAIN INDICATORS OF PUBLIC-SECTOR PERFORMANCE
Year-on-year changes and percentage of GDP

CHART 13



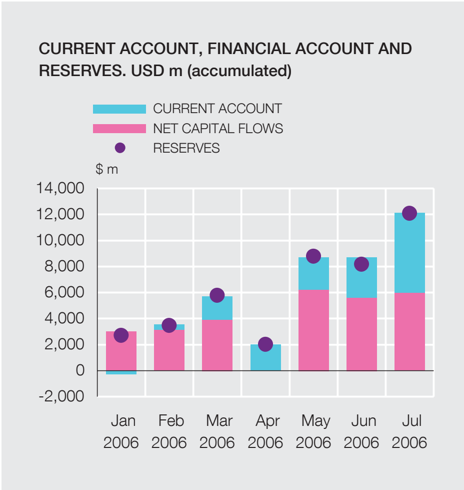
SOURCE: National statistics.

a. 2005 Q2: estimatlion excluding Argentina.
b. Deflated by CPI.

The new configuration of the regional blocs taking shape would reflect the two stances in the region in relation to trade integration. On one side is the Pacific bloc, which is more open and closer to the United States and, therefore, to the Free Trade Area of the Americas (FTAA). This bloc would include Mexico and, also, the Central American countries, whose free trade agreement with the United States (CAFTA) has not yet come fully into force. On the other side is the Atlantic bloc, represented by MERCOSUR, which is less in tune with US positions. Following Venezuela's accession and developments in recent years, MERCOSUR appears to be adopting an increasingly interventionist nature. In fact, the smallest countries in this bloc, Paraguay and Uruguay, asked to be able to enter into free trade agreements with other blocs or nations irrespective of the rest of the members, having disagreed with the course being followed.

Developments in the main countries

In *Brazil*, the year-on-year growth rate of GDP fell back to 1.2% in Q2 (the same rate as in the second half of 2005). The rise in 2006 Q1 (3.3%) proved fleeting, as a result of the fact that investment, after a notable pick-up in that quarter, resumed a year-on-year growth rate of

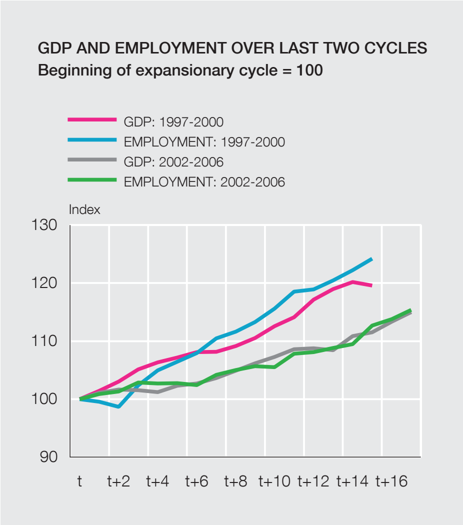


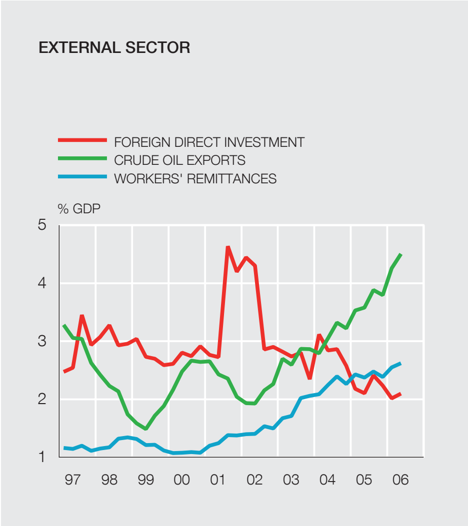
SOURCE: Central Bank of Brazil.

scarcely 2.9% in Q2, and that exports, which had been growing at a rate of close to 10% in the last year, once again posted a negative rate of change in National Accounts terms. Meanwhile, private consumption remained notably resilient and, indeed, quickened, underpinned by the strong growth of wage income and monetary easing, which are boosting credit. The growth of imports, at over 10%, led the negative contribution of the external sector to widen to 2.2 pp in Q2. In dollars, however, exports continued to grow, whereby the trade and current account surpluses stabilised at close to 6% and 2% of GDP respectively. The current account surplus and net capital inflows translated into an increase in reserves of more than $12 billion in the year to date (see Chart 14). This offset much of the decline in reserves associated with the refund of the IMF loan last year. As to fiscal results, in spite of the election campaign being waged and the replacement of the Minister of Finance, the primary surplus held above the figure of 4.25% of GDP set as a target. However, there has been a notable increase in committed public spending (increases in civil service wages and in pensions), which has restricted the government's room for manoeuvre and may affect fiscal stability in the future. Although high interest payments have allowed no more than a slight reduction in debt, measured in terms of GDP, debt management continued to pursue an improvement in its composition; specifically, debt indexed to the SELIC interest rate and external debt declined.

The most favourable aspect of the Brazilian economy was inflation and inflation expectations (see Chart 14). The inflation rate fell from 5.7% at end-2005 to 3.8% in August, and the underlying rate declined on a similar scale. Among the factors behind this process are the appreciation of the real and the effects of the official interest rate rises made by the central bank to September this year. The favourable behaviour of prices allowed the central bank to continue easing monetary policy, cutting the official interest rate by 375 bp during 2006, to which the 175 bp reduction in the closing months of 2005 should be added. Accordingly, the SELIC rate (14.25%) stood at its lowest level since 1997, and the yield curve continues to show a negative slope. The exchange rate appreciated notably to mid-May. This rising trend, which is a source of concern to the authorities, was harnessed to reform Brazilian foreign exchange legislation in August and to thus reduce the upward pressure on the real. The episode of financial turbulence temporarily eased pressure on the exchange rate (it depreciated by around 15% in one month, but has since held on a rising path). Both the sovereign spread – which narrowed by almost 100 bp between January and May to historical lows – and stock markets posted similar behaviour, comprising a correction and subsequent recovery. In the case of the markets, MEXICO

CHART 15





SOURCES: INEGI and Banxico.

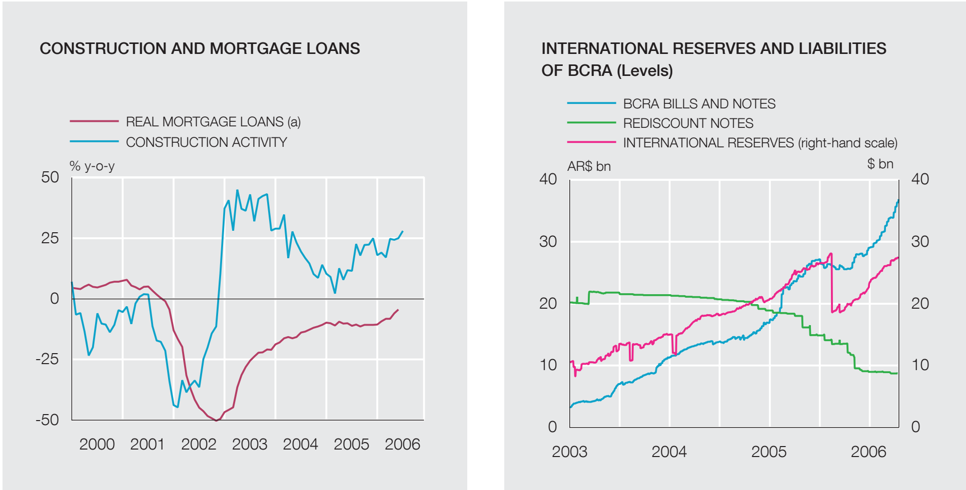
the recovery did not provide for a resumption of the levels attained in May. Despite the strong capital inflows on the debt and stock markets in the preceding period and although the greater liquidity of the Brazilian market tends to make for greater volatility, the scale of the correction was approximately in line with the average for the region (see Chart 9). In terms of structural reforms, there has been no significant progress in recent quarters in the run-up to the October presidential election.

In *Mexico* economic activity quickened notably in the first half of the year to an annual growth rate of 5.1% (5.5% in Q1 and 4.7% in Q2), compared with growth of 3% in the second half of 2005. This is the biggest growth rate posted since the second half of 2000. Higher growth was driven by domestic demand, whose growth rose to 6% in Q2. There was a particularly notable acceleration in government consumption (related to the July elections) and in investment, while private consumption continued to grow at a rate of over 6%. Underpinning consumption was the acceleration in job creation, with a growth rate of over 6%, although many of the jobs generated are temporary and the rate of increase is still less sharp than in previous cycles (see Chart 15). The contribution of the external sector (–1.2 pp in both quarters) was slightly more negative than in previous periods. Despite this and chiefly as a consequence of the improved terms of trade associated with oil prices, the trade balance posted a surplus in 2006 Q1 (for the first time in the last nine years) and ran a small deficit in Q2. The current account balance was very close to equilibrium in the first half of the year, following five years of gradual correction. Contributing to this behaviour is the growing inflow of remittances, which have become one of the most dynamic components of the external accounts (behind crude oil exports), exceeding even inward foreign direct investment (see Chart 15). The fiscal balance moved into a surplus position (0.6% of GDP) in the first half of 2006, owing to the fact that the growth of public revenue – because of both oil-related resources and tax revenue – more than offset the rise in public spending, which was partly associated with the presidential and general elections held in July.

Inflation rose in the first two months of the year owing to seasonal factors, gradually declining thereafter and standing since at over 3% (at the centre of the central bank's target interval), while underlying inflation has been increasing very slowly (by 0.2 pp in terms of its 12-month growth during 2006 to 3.3% in August). Against this background, the central bank interrupted in April the process of monetary easing initiated in August 2005 and which had entailed a de-

ARGENTINA

CHART 16



SOURCES: BCRA and INDEC.

a. Total real mortgage loans in national and foreign currency.

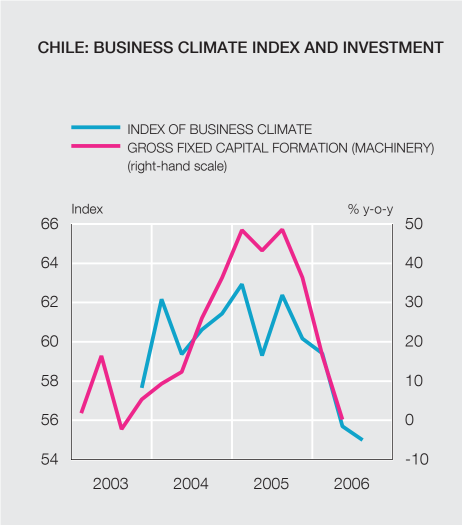
cline of 275 bp in the bank funding rate to 7% and, since the last interest rate cut, the yield curve has maintained a slightly positive slope. The exchange rate of the peso against the dollar began to move on a depreciating course in February, which steepened with the financial turbulence. From June, however, it began to appreciate moderately, without regaining its levels at the start of the year. As discussed in Box 3, high oil revenue continued to boost international reserves, up to levels never previously recorded, which has led to an increase in daily foreign exchange intervention selling dollars in accordance with a regulated mechanism. Stock market indices peaked in early May, at which point a 25% decline ensued until the end of June. The rises seen during July and August enabled levels close to the annual high to be regained. The presidential elections resulted in an extremely tight winning margin for the continuity candidate, whose party also attained a relative majority in Parliament. The opposition candidate did not accept the electoral result, giving rise to the complicated institutional situation which, however, has hardly been reflected to date in the financial indicators.

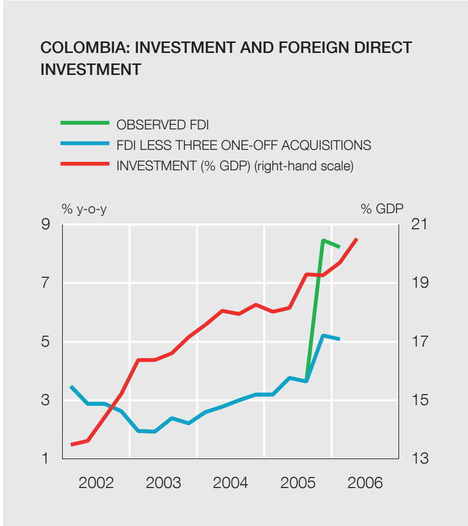
In *Argentina*, economic activity slowed slightly in the first half of the year, standing at a year-on-year growth rate of 7.9% in Q2. This slowdown in output is due to the lower growth of domestic demand, especially investment in equipment. In contrast, investment in construction continued at a year-on-year growth rate of over 22% and, moreover, mortgage loans have shown the first signs of recovery (see Chart 16). Private consumption held at a similar growth rate to that of output in both quarters, driven by increases in employment of over 5% year-on-year. In the first half of the year, the excellent performance of the trade balance continued and the surplus on the current account balance widened due to the improvement in the incomes balance, associated with lower interest payments. The primary fiscal surplus run by the central government stood above the target set in the 2006 budget, but below that recorded in 2005. However, the data released on the provincial fiscal situation, the legal rulings that oblige the government to increase certain pensions and the amendment of the Financial Management Law – which grants greater budgetary powers to the government – pose some uncertainty about the future course of public finances.

The uptrend in inflation recorded in the second half of 2005 was interrupted, assisted by the price agreements on some products and the regulation of certain charges. The 12-month

CHILE AND COLOMBIA

CHART 17





SOURCES: Central Bank of Chile, ICARE, Central Bank of Colombia and National Statisitics Department of Colombia.

inflation rate dipped from 12.3% in December to 10.7% in August and, moreover, inflation expectations lessened. However, price developments continue to be the main factor of concern, since inflationary pressures might be renewed following the approval of the increases in gas and electricity charges (which have not yet gone up in practice). The central bank continued very gradually to tighten monetary policy, but monetary conditions remain lax, as testified by the still-negative real interest rates. The pace of money issuance linked to high intervention on the foreign exchange market was maintained (allowing the reserves in the prepayment operation to the IMF at the beginning of the year to be restored in their virtual entirety and the exchange rate of the peso against the dollar to hold stable), despite the attempts at sterilisation through the net placement of bills and the cancellation of rediscounts granted during the crisis (see Chart 16). The financial turbulence was also felt on the Argentine markets, with corrections in stock market indices and the widening of sovereign spreads, along with the interruption of dollar purchases by the central bank. Subsequently, these movements reversed, in their entirety for the sovereign spread and only partially for the stock market indices.

Economic activity in *Chile* continued to slow in the first half of 2006. There was a dip in growth from 5.8% in the last two quarters of 2005 to 5.3% and 4.5%, respectively, in the first two quarters of 2006. The main explanatory factor behind this was the collapse in investment, especially in machinery and equipment, which declined from a year-on-year growth rate of over 40% in the second half of 2005 to a rate of 0.2% in Q2 this year (see Chart 17, which also shows the decline in the business confidence index). Consumption continued to grow at a high rate, given strong job creation and the buoyancy of bank credit. The negative contribution of the external sector (–3.5 pp) fell in relation to the previous quarters, owing to the slowdown in imports. The improvement in the terms of trade, chiefly as a result of the high price of copper, led to a sharp improvement in the surplus on the trade balance, which exceeded in the first half of 2006 the annual total for the whole of 2005 which, in turn, had been an all-time high. However, as has recently been the case, this exceptional trade surplus was largely offset by the increase in the deficit on the incomes balance, due to the higher repatriation of profits generated by foreign direct investment. Also, the high price of copper, along with the buoyancy of domestic demand and the limits on spending prompted by the structural surplus rule, allowed the budget surplus to reach an historical high in the first two quarters of the year. Given this exceptional position in public finances, there was industrial action in various industries demanding, among other things, increases in public spending. Inflation held at close to 4% (the upper limit of the central bank's target interval), owing to fuel prices, since underlying inflation dipped to 3% (at the centre of the target interval). Against this background, the central bank continued the process of interest rate rises, but at a lesser pace than in 2005, as it implemented a sole rise of 25 bp per quarter, taking the official interest rate to 5.25%. Notably, unlike in other countries in the region, the sovereign spread held stable after having risen during the financial turbulence. This was due above all to the negative trend of the debt spread of state-owned companies, which are also included in the calculation of the EMBI. As regards reforms, the government unveiled structural measures aimed at boosting growth and competitiveness in the economy.

Growth in *Colombia* quickened notably in relation to 2005 Q4, placing the year-on-year growth rate at 5.9% in 2006 Q2, thereby resuming a growth rate similar to that recorded in the previous quarters of 2005. The contribution of domestic demand to growth stood at 9.5 pp in the six-month period, with the growing contribution of investment particularly to the fore, assisted in turn by the sharp rise in foreign direct investment, which is notable even when certain recent exceptional transactions are stripped out (see Chart 17). The contribution of the external sector remained strongly negative (4 pp), in view of the sharp slowdown in exports, which translated into an increase in the trade deficit. The deterioration in the trade balance, along with higher interest payments and a reduction in inflows in the form of remittances, prompted an increase in the current account deficit. From the fiscal standpoint, the data for the first half of the year show progress in public finances to have firmed. Inflation held at a rate of below 4% in the first half of the year, but it has risen in recent months, drawing close to the upper limit of the central bank's target interval (4%-5%). Against this backdrop, there were three consecutive rises in interest rates (by 25 bp on each occasion) between May and August, taking them up to 6.75%. The financial indicators were the most affected in the region during the turbulence in May, owing to limited market liquidity and to the more marked improvement in the previous quarters, although the recovery has also been notable in recent months. The government obtained an absolute majority in the presidential and general elections, which have given it ample room for manoeuvre to tackle anew the reforms outstanding in the fiscal and other areas.

In *Peru*, the dynamism of the economy remained high, though diminishing (year-on-year growth of 6% in Q2). Domestic demand was mainly underpinned by investment, which quickened notably. The negative contribution of the external sector (amounting to almost 2 pp on average in the half-year period) is the main new development in respect of the growth pattern. This change can be explained by the strong slowdown in exports which, after posting double-digit growth in the previous quarters, dropped to growth of scarcely more than 1% in the first half of the year. Despite this, the surplus on the trade balance widened to 9% in Q2, and the current account balance was once again in surplus, given the high price of exported commodities, which also explains why public finances posted the most favourable figures in recent years. After rising to March, inflation dipped again in the following months to below 2%. Notwithstanding, the central bank raised its official interest rate six times (25 bp each month) from December 2005 to May 2006, among other reasons to counter expectations of a currency depreciation, linked to uncertainty over the results of the presidential elections, against a background of high financial dollarisation. The sovereign spread and the stock market indices did not behave so adversely in May as in other neighbouring countries, since the fears associated with the electoral outcome, which generated some volatility at the start of the year, abated once the first-round results were known.

In *Venezuela*, economic activity remained strongly dynamic in the first half of 2006, with growth of 9.2% in Q2, stemming almost in its entirety from the non-oil sector. Domestic demand quickened, especially in Q2, when it posted a year-on-year growth rate of 17.1%, despite the slowdown in private consumption. The negative contribution of the external sector continued to increase during the half-year period, rising to almost 9 pp, owing to the decline in exports and the acceleration in imports. Despite this, the trade surplus widened owing to high oil prices, which led to the current account surplus reaching a record high during Q2. In contrast, direct investment flows into the country were negative during the first half of the year, owing to the sale of foreign-held shares to resident investors, and to the cancellation of private-sector oil corporations' bonds to their parent companies. Fiscal policy continues to be notably expansionary. Inflation slowed to May (without dipping below the 10% ceiling), but rebounded to almost 15% in August. These pressures on prices reveal excessive liquidity that harbours inflationary risks for the future. Finally, mention should be made of the elimination of the tax on bank debits, the creation of a new tax on hydrocarbons exports and several operations relating to public debt management, aimed at lengthening the maturity of public debt and reducing the proportion of external debt.

In *Uruguay*, growth in Q2 rose to 9.1% year-on-year. Driven by the notable pace of growth, the trade deficit worsened during the six-month period. At slightly below 7%, year-on-year inflation gradually increased from the start of the year. In the fiscal realm, the primary surplus progressively increased to 3.6% of GDP in July, in line with the government forecast for 2006. Mention should also be made of the early cancellation of a portion of the debt with the IMF in March and July 2006. This initiative by Uruguayan institutions is part of a more efficient debt management programme, although the debt replaced continues to be issued in dollars, whereby potential balance sheet problems persist. In *Ecuador*, growth quickened in Q1 (a growth rate of 5.6% year-on-year), thanks to the fact that the greater buoyancy of domestic demand more than offset the negative contribution of the external sector. Inflation, meanwhile, after undergoing increases in Q1, moved back to a year-on-year rate of 3%, the same as the end-2005 figure. In *Bolivia*, the new government ordered the nationalisation of energy resources in May, royalties were raised from 50% to 82% for certain operations, the price of gas for export to Argentina increased and a process of renegotiation of contracts with foreign companies was initiated. The impact of these measures, besides seriously damaging the country's attractiveness to investors, is already translating into difficulties in the operation and management of gas resources.

29.9.2006.

Financial regulation: 2006 Q3

Introduction

In 2006 Q3, a relatively large number of new financial provisions were enacted.

First, the rules on the determination and control of the minimum capital of financial institutions have been amended to update their content and incorporate certain changes arising from the application of International Accounting Standards (IAS). In addition, the rules have adapted the additional supervision requirements applicable to financial conglomerates.

In relation to public debt, the procedures for the Treasury to enter into credit facilities and other short-term financing transactions and to take out medium and long-term loans provided for in the General Budget Law have been regulated.

The information that residents who hold accounts abroad are required to send to the Banco de España has been updated, as has that which foreign collective investment institutions (IIC) registered with the CNMV (Spanish National Securities Market Commission) must send to the CNMV. The latter information may now be sent telematically to speed up processing.

In relation to the prevention of money laundering, certain obligations have been placed on subject persons who engage in currency exchange or cross-border transfer management, given the growing commercial attractiveness of these transactions, associated with the increase in numbers of foreign residents in Spain.

In the field of insurance, a new law has been published on private insurance and reinsurance mediation in order to adapt Spanish law to the Community framework and to improve customer protection.

Finally, at the level of the Community, a directive has been published that establishes, inter alia, the organisational requirements and operating conditions for investment firms, and a regulation that does the same in relation to transaction reporting, market transparency and the admission to trading of the financial instruments of such firms.

Amendment of the law on the determination and control of minimum capital

Law 5/2005 of 22 April 2005 on the supervision of financial conglomerates, which amends other financial sector laws, had two basic aims: the establishment of a supplementary supervision regime for financial conglomerates, and the revision of sectoral laws (on banking, securities and insurance) to make them consistent with one another and to bring them into line with the new regime for financial conglomerates.

Law 5/2005 partially incorporated into Spanish internal law Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate. This partial transposition was completed by RD 1332/2005 of 11 November 2005, which implemented Law 5/2005.

Both Law 5/2005 and RD 1332/2005 established various supplementary supervision requirements applicable to financial conglomerates. Also, they made groups comprising banks or securities firms and insurance companies (which the Circular calls “mixed groups), that fail to fulfil the requirement of significant sectoral diversification to be considered a financial conglomerate, subject to a specific obligation to report information to the supervisor.

Within the framework of these obligations, and exercising its powers as co-ordinator of various financial conglomerates and supervisor of the parent institution of most mixed groups, the Banco de España has published *Circular (CBE) 2/2006 of 30 June 2006* [Official State Gazette (BOE) of 8 July 2006], amending Circular 5/1993 of 26 March 1993 on the determination and control of minimum capital, in order to incorporate and adapt the changes made by the legislation mentioned above.

First, the Circular introduces significant changes in relation to the eligibility and deductibility of certain elements of capital. Thus, in the section on reserves certain gains arising from the application of IAS are eligible, as are positive valuation adjustments to provisions for net investments in foreign business. In the reserves for regularising, updating or revaluing assets, certain percentages are added to the gross amounts of gains (net of losses) that are recorded as valuation adjustments on available-for-sale financial assets within equity. Likewise, included in the calculation of capital is the book value of the general provision for credit losses, i.e. that linked to inherent losses or losses not specifically assigned for impairment of credit risk, in an amount up to 1.25% of risk-weighted assets that formed the basis for calculating the provisions. On the other hand, the regime for non-voting shares and callable shares, and other similar instruments, has been clarified, the part that is actually paid up being eligible. In the same way, it is explicitly recognised that the Banco de España has the power to verify whether non-voting, callable and preference shares are capital, in order to qualify their eligibility as capital and their assignment to the relevant elements thereof.

Reflecting the provisions of Royal Decree 1332/2005, new deductions from capital are made, inter alia, for holdings in insurance and reinsurance companies or in entities whose main objects consist of taking holdings in insurance companies, when the holding is more than 20% of the capital of the investee.

Second, the Circular recalls and details the obligations of groups of financial institutions to have risk management and internal control procedures, and the supervision of their intragroup operations, already established in higher-ranking provisions. As regards the risk management procedures and internal control mechanisms, they shall be based on policies clearly defined by the governing bodies and implemented by means of an appropriate, integrated, transparent and coherent organisational structure with well defined lines of responsibility, taking into consideration all the risks of the activity performed. The processes of decision taking and risk identification, assumption, measurement, management, monitoring and control shall be approved by competent bodies at the appropriate level and based on objective criteria, and shall include the appropriate separation of functions, the establishment of operational limits, the frequency of the analysis and revision of both the risks and processes, the periodic preparation of rigorous stress tests, the necessary emergency plans, the adjustment to the policies defined by senior management and the quality, quantity and periodicity of reporting to the governing bodies. The management bodies of the institutions shall have adequate resources to allow them at all times to carry out a comprehensive assessment of the risks that have been incurred or may be incurred and to adopt the strategies of maintenance of the necessary capital levels in each case, anticipating the potential impact on solvency, profitability, liquidity and the risk profile of the institution of, among other factors, their commercial strategies, the development of competition and developments in the economic environment.

Third, some minor changes have been introduced into the definition of consolidable groups, especially when they are controlled by a financial institution situated in a third country. In this respect, in the case of co-ordination groups of Spanish credit institutions controlled by a foreign financial institution with registered office outside the European Union, the Banco de España shall check, after hearing the institutions concerned, that they are not subject to supervision on a consolidated basis by the competent authority of a third country, which is equivalent to that provided for in Spanish law, in which case the consolidated supervision regime provided for in this Circular shall be applicable to such group.

In the section on the definition of large exposures and limits on concentration, the conditions are established to ensure that, in the aggregation and calculation of the risks subject to these limits, the gains recorded as valuation adjustments of available-for-sale financial assets within net worth are not taken into account.

Finally, section eight of Circular 5/1993 (previously devoted to prudential monitoring of mixed groups) has been revised to also include the information that must be submitted by financial conglomerates in relation to which Spain performs the function of co-ordinator, in accordance with the provisions of Law 5/2005 of 22 April 2005.

Supplementary Treasury financing

General Budget Law 47/2003 of 26 November 2003 regulated Treasury operations, empowering the Minister of Economy and Finance to authorise transactions relating to public debt and to establish the formal procedures to be followed when such debt is incurred. The Minister could also delegate these powers in an ordinary manner to the Treasury.

In relation to credit transactions, the Law provided that the arrangement of credit facilities or loan transactions in national currency or foreign currency should be in accordance with procedures established by regulations, which would guarantee the principles of objectivity, transparency and publicity appropriate for the type of transaction concerned and enable these transactions to be carried out in an orderly and predictable way. In addition, the Law provided for the possibility of selling outright or under repos newly issued securities, expanded existing issues or any securities the Treasury might have in its securities account; it was also appropriate to clarify the procedure for arranging this type of operation[1].

Order EHA/2393/2006 of 14 July 2006 (BOE of 25 July 2006) has now been published in order to enable both these aims to be achieved. It regulates the procedures for the arrangement of credit facilities and other short-term financing transactions and medium-and long-term loans by the Directorate General for Treasury and Financial Policy.

The purpose of the Order is to establish the foundations of the procedures through which the Treasury may enter into such transactions. These procedures should be understood as supplementing those for regular issues of State debt, insofar as the basic objective of the transactions regulated is to cover temporary cash requirements. Also, they must guarantee respect for the principles of objectivity, transparency and publicity established by Law 47/2003, notwithstanding that cases may arise in which, in order to apply an appropriate default-risk management policy, or because of the need to avoid speculative movements in the market prior to the performance of the transaction, it is appropriate to restrict the competition to financial institutions that are public debt market makers. The reason for this restriction is the need for the Treasury to rigorously control its counterparty risk. As these short-term financing instruments will frequently be used on dates on which a considerable amount of State debt securities are

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1. Up until now, existing financing transactions have been covered by the following provisions: the annual ministerial orders, which provide for the creation of State debt; the Order of 9 May 1995, which authorises interest rate swap transactions in relation to issues of State debt in pesetas and credit facilities in pesetas that may be drawn down using Treasury bills, and the Order of 19 June 1997, which regulates the stripping of principal and coupon payments from State debt securities and the reconstitution of such securities, and authorises the Treasury to enter into special loans with financial institutions.

redeemed, failure to deliver the cash agreed could make it difficult for the Treasury to service State debt. Accordingly, for reasons of safety, it is best if these transactions are only carried out with the most creditworthy institutions.

The Order establishes that the Treasury may arrange such credit facilities as it may consider necessary to ensure the short-term financing of its temporary cash requirements.

Alternatively or in addition, the Treasury may arrange another type of short-term financing operation to cover its temporary cash requirements, such as a loan or a repurchase agreement in respect of State debt securities or other securities, whether they be newly issued, expansions of existing issues or any securities the Treasury might have in its securities account. It may also enter into medium and long-term loans, to supplement the financing instruments usually used, in order to minimise the cost of the medium and long-term funds raised and to adapt their terms to the State's financial requirements.

Specific obligations for the prevention of money laundering

Law 19/2003 of 4 July 2003 on cross-border capital movements and financial transactions and measures to prevent money laundering, introduced a number of amendments to Law 19/1993, which entailed a notable updating of the Spanish legal regime for the prevention of money laundering in the light of the provisions of Directive 2001/97/EC of the European Parliament and the Council of 4 December 2001. Subsequently, Regulation 925/1995 was adjusted to the provisions of that law by means of Royal Decree 54/2005 of 21 January 2005.

Recently, there has been a progressive increase in the number of subject persons engaged in the activity of money exchange or cross-border transfer management, the traditional establishments having been joined by other entities. It is necessary to establish equal treatment under the rules on the prevention of money laundering to avoid unjustified distortions or advantages, whether direct or indirect, unless their own characteristics make such specifications desirable.

For this purpose, *Order EHA/2619/2006 of 28 July 2006* (BOE of 10 August 2006), which implements certain obligations relating to the prevention of money laundering on subject persons engaging in currency exchange or cross-border transfer management activities, has been published to ensure that the needs of the prevention of money laundering are reasonably harmonised.

The Order applies to all persons subject to obligations in relation to the prevention of money laundering who engage in currency exchange or cross-border transfer management activities, with respect to transactions that are not subject to a debit or credit in the account of the customer at the entity.

The Order establishes the application of measures additional to those provided for generally in relation to identification for those currency exchange or cross-border management transfer transactions without any debit or credit in the customer's account, the amount of which, either on its own, or else accumulated over each calendar quarter, exceeds €3,000 in the case of cross-border transfers or €6,000 in the case of currency exchange. Also, the execution of cross-border transfers ordered by customers who are not physically present by telephone or electronically or on-line, is regulated and must fulfil certain requirements specified in the Order.

At the same time, the retention of documents is regulated, with specific criteria established in relation to the different types of documentation required by law. In any event, subject persons shall retain transaction documentation for at least six years.

Finally, the Order gives subject persons precise instructions regarding the establishment of appropriate internal control and communication procedures and bodies to detect, foresee and prevent the performance of money laundering-related transactions. Two techniques are used: first, the content and minimum scope of the internal control measures are established, adapting them to the internal organisation of the subject person, and second, the way in which such procedures shall be considered appropriate in relation to the results that the internal control measures must obtain is specified.

Residents holding accounts abroad

In conformity with the Order of 27 December 1991, implemented by Royal Decree 1816/1991 of 20 December 1991 on cross-border financial transactions, CBE 24/1992 of 18 December 1992 regulated the information that must be sent to the Banco de España by residents with accounts at branches of banks or credit institutions operating abroad or accounts at other non-resident entities that are neither banks nor credit institutions, in which receipts, payments and foreign transfers are effected and mutual credits and debits set off against each other.

The large volume of declarations received, the need to submit statistical data within a short space of time and the intention of facilitating compliance with such requirements make it necessary to update the limits above which receipts, payments and transfers can be grouped, and to authorise the possibility of using telematic procedures for presenting declarations, since CBE 24/1992 only envisaged the sending of information by hard copy. Accordingly, *CBE 3/2006 of 28 July 2006* (BOE of 11 August 2006) on resident holders of accounts abroad, which repeals CBE 24/1992, has now been published.

The most significant changes are the following.

First, with respect to receipts, payments and transfers effected by means of credits and debits in accounts, the threshold below which movements in a single account may be aggregated, indicating the total receipts and payments corresponding to such transactions, without netting the receipts against payments, is raised from €6,000 to €12,500. Likewise, the movements in an account of over €12,500 (previously €6,000), which are credited or debited in the account on dates that come within a single notification period, shall be aggregated, without netting the receipts against payments, when their currency, the counterpart country and all the data relating to the reason for the receipt or payment specified in the Circular's procedural instructions coincide.

Second, the monthly periodicity is maintained for information on receipts, payments and transfers carried out through debits and credits in the accounts, and such information shall be sent to the Banco de España no later than on the 20th day of the month following that reported on. Holders of accounts abroad remain exempt from making such monthly declarations when the sum of neither credits nor debits, in one month, reaches the amount of €3,000,000, or the equivalent value in other currencies.

Finally, with respect to the sending of the information, the possibility is introduced of sending it telematically as well as by hard copy, in accordance with the procedures specified in the annex to the Circular.

Information on foreign collective investment institutions

CNMV Circular (CCNMV) 3/2003 of 9 December 2003 on information on foreign CIIs entered in CNMV registers imposed on such CIIs the obligation to send the CNMV any amendments to the registered documentation, except financial reports, as well as information of a statistical nature and reporting obligations in respect of shareholders.

Since then, there has been considerable growth in the number of foreign CIIs whose shares are sold in Spain, and consequently, in the number of notifications processed by the CNMV to update the registers of such institutions.

In order to speed up the processing of these notifications, to ensure that the information is made available to the public more promptly and to better guarantee the quality of such information, *CCNMV 2/2006 of 27 June 2006* (BOE of 25 July 2006) on information on CIIs entered in CNMV registers has been published. This Circular repeals CCNMV 3/2003, regulates the sending of such documentation telematically, clarifies the procedure applicable to essential amendments in the offering of shares in unharmonised foreign CIIs, specifies the documentation that must be sent to the CNMV in the case of changes in the registered information and enables investors to consult and receive information telematically.

New Law on private insurance and reinsurance mediation

Law 9/1992 of 30 April 1992 on private insurance and reinsurance mediation has hitherto been the basic regulatory framework for this activity in the Spanish insurance market. Relative to the previous legislation this Law increased the requirements to act as an insurance intermediary, in order to improve the quality of service and protect insurance and reinsurance policyholders.

Subsequently, Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation laid the foundations for harmonising the activity of insurance mediation in the European Union. This Directive was a response to the need to establish a Community legal framework to enable insurance intermediaries to operate freely throughout the Community[2], in order to contribute to the proper functioning of the single market in insurance. Another objective of the Directive referred to customer protection, both in relation to the information prior to taking out insurance, and to the need to establish out-of-court mechanisms for settling disputes between insurance intermediaries and their customers.

Law 26/2006 of 17 July 2006 (BOE of 18 July 2006) on private insurance and reinsurance mediation has now been published In order to transpose this Directive into Spanish law. This Law repeals Law 9/1992, as the significant changes introduced mean that it is better to have a single new law to regulate the activity of insurance intermediation and to adapt the new legislation to the actual market situation.

This new regulation is based on three basic principles:

a) The regulation of new forms of mediation, with the definition of insurance agents linked to more than one insurance company and reinsurance brokers.

b) The principle of equality of treatment of the various types of intermediary, for which purpose equivalent professional requirements are envisaged for all, according to their special nature.

c) The principle of transparency, which properly guarantees the protection of consumers in this area.

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2. This is the "Community passport" based on the principle of registration by the competent authority of the home Member State of all persons taking up and pursuing the activity of insurance and reinsurance mediation, provided they meet certain minimum professional requirements in relation to their professional competence, good repute, professional indemnity cover and financial capacity.

NEW FORMS OF MEDIATION

In relation to the first principle, the Law establishes, in accordance with the Directive, certain minimum professional requirements for the various intermediaries and is intended to be applied to each type of intermediary.

The Law regulates insurance agents linked to more than one insurance company, defined as those intermediaries who, under the previous legislation, did not fully meet the definition of either insurance brokers, since they lack the necessary independence, or insurance agents, since links with more than one insurance company were not permitted by that legislation. Linked insurance agents must meet a number of requirements, including, inter alia, being persons of good commercial and professional repute; having passed a training course or aptitude test on finance and private insurance; having a certain financial capacity, subject to certain exceptions relating to the operations agreed with the insurance companies; and having professional indemnity cover, unless the insurance companies in question assume any professional liability that may arise from their actions as agent.

Notwithstanding the foregoing, the Law also envisages the existence of exclusive insurance agents for one insurance company, which were already regulated in the previous legislation. These agents were linked to only one insurance company or, with the consent of the latter, to one or more other companies, provided that they had authorisation relating to businesses, categories or contracts outside the scope of activity of the authorising companies. The new Law, which broadly maintains the previous regime, establishes that they can be linked to a maximum of two insurance companies, provided they have the authorisation of the first, and their activities with the second relate to businesses, risks or contracts outside the scope of activity of the authorising company.

The Law also addresses mediation through the distribution networks of credit institutions, under the name of bancassurance operators, seeking to regulate an established reality in the Spanish market and to make this form of distribution more transparent. Credit institutions and, where applicable, commercial companies controlled by credit institutions or in which the latter have a holding, shall when they pursue the activity of insurance agent adopt the name of exclusive bancassurance operator or, where applicable, that of linked bancassurance operator, which shall be reserved for them.

The Law regulates insurance brokers, maintaining the previous regime in which the fact of their independence from insurance companies is notable, and reinsurance brokers, who were not regulated by the previous legislation, which the new Law adapts to the requirements of the Directive. Reinsurance brokers pursue the activity of reinsurance mediation and are subject to the same requirements as insurance brokers, except that they are not required to demonstrate their infrastructure or have financial capacity, since they advise insurance companies, who do not require any special protection.

As regards the activities under the freedom of establishment and freedom to provide services in the European Union, the procedure for notification prior to their commencement is regulated, both for intermediaries resident or with their address in Spain, who seek to operate in other EU Member States, and for those from other Member States who seek to operate in Spain.

INFORMATION AND CUSTOMER PROTECTION

The Law establishes a number of requirements that aim to guarantee information transparency and customer protection. The obligation to establish a single point of information containing the data in the State register and any regional registers that may exist, is an essential mechanism for consumer protection, since only intermediaries who have evidenced the required professional requirements may be entered in such register, which shall be kept up to date and readily accessible to the public.

Another aspect highlighted by the Law is the information that must be provided by the insurance intermediary to its customers prior to execution of the insurance contract so that the latter may be aware of the type of intermediary advising them of its connections with or independence from insurance companies competing in the market. Also, to ensure that customers can obtain sufficient information for taking their insurance decisions, intermediaries are required to specify their reasons for proposing a particular insurance contract.

The Law also affects customer protection by requiring procedures to be established for dealing with and settling any complaints or claims that intermediaries' customers may present pursuant to the provisions of this law and of those relating to the protection of financial services customers and those for the protection of consumers and users. For such purposes, all insurance intermediaries operating in Spain are required by the Law to have a customer attention department or service or an ombudsman for the insured, to supplement those existing in insurance companies.

Finally, the specific infringements and administrative sanctions applicable to the activity of insurance intermediation are set out and new infringements are established in accordance with the Directive and with the requirements established in this Law.

Directive on investment firms

Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments established the general framework for a regulatory regime for financial markets in the European Union. In particular, it laid down, among other aspects, the operating conditions for the provision of investment services and ancillary services by investment firms, and the organisational requirements applicable to investment firms that perform these services and activities.

Commission Directive 2006/73/EC of 10 August 2006 (OJEU of 2/9/2006) implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms has recently been published.

This Directive establishes the general organisational requirements that Member States shall require investment firms to comply with, which include the following: a) the establishment of decision-making procedures that pay special attention to the verification of compliance with the law and internal procedures, to management of risks and conflicts of interest, to complaints handling and the outsourcing of operations; b) the establishment of an organisational structure which clearly and in documented manner specifies reporting lines and allocates functions and responsibilities, as well as procedures for their proper discharge; c) necessary expertise on the part of their personnel to discharge the responsibilities allocated to them, and d) the keeping of adequate and orderly records of their business and internal organisation. Also, for these purposes, investment firms will take into account the nature, scale and complexity of their business, and the nature and range of the investment services and activities undertaken in the course of that business.

As regards risk management, the Directive establishes that Member States shall require that investment firms adopt risk management procedures and policies which identify the risks relating to the activities, processes and systems of the firm, and where appropriate, set the level of risk tolerated thereby.

Likewise, and where appropriate in view of the scale and complexity of their business, investment firms shall establish and maintain an internal audit function which is separate and independent from their other functions and activities, which shall have certain responsibilities, including to establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the investment firm's systems, internal control mechanisms and arrangements.

At the same time, the Directive regulates the outsourcing of important operational functions of investment activities (those in the performance of which a defect or failure would materially affect the ability of the firm to continue to comply with its obligations). In this process, investment firms will continue to be responsible for discharging all of their obligations under Directive 2004/39/EC; in particular, the outsourcing shall not give rise to the delegation of responsibility by senior management, nor shall it alter the relationship or obligations of the investment firm towards its clients.

An important section of the Directive refers to the protection of the clients of investment firms. With regard to the complaints received from clients or potential clients, investment firms shall be required to establish effective and transparent procedures for handling them reasonably and promptly, and to keep a record of each complaint and the measures taken for its resolution.

As for the information provided to retail clients and potential clients, the Directive establishes that it must be fair, clear, readily understandable and not misleading. Also, it shall be accurate and in particular shall not emphasise any potential benefits of an investment service or financial instrument without also giving a fair and prominent indication of any relevant risks. Where the information refers to a particular tax treatment, it shall prominently state that the tax treatment depends on the individual circumstances of each client and may be subject to change in the future. The Directive also regulates the information that the firm must supply to retail clients in relation to itself and the services it provides, and on their categorisation.

It also specifies the information that investment firms must provide to their clients in relation to both the execution of orders other than for portfolio management and the provision of portfolio management services. This section sets out the best execution criteria for client orders, and the general principles for handling such orders.

As regards the information on financial instruments, the Directive requires investment firms to provide clients or potential clients with a general description of the nature and risks of financial instruments, taking into account in particular the client's categorisation as either a retail client or a professional client. That description must explain the nature of the specific type of instrument concerned, as well as the risks particular to that specific type of instrument in sufficient detail to enable the client to take investment decisions on an informed basis.

The Directive also addresses the safeguarding of client financial instruments and funds, for which purpose it provides that Member States shall place certain restrictions on the transactions they may carry out with them and require compliance with a number of requirements, including keeping such records and accounts as are necessary to enable them at any time and without delay to distinguish assets held for one client from assets held for any other client, and from their own assets, and regularly reconciling their internal accounts and records with those of any third parties by whom those assets are held. In addition, they shall identify the conflicts of interest that may arise in the course of providing investment and ancillary services, taking into account for the purpose both the interests of the firms themselves and those of the persons connected to them.

Finally, Member States shall adopt and publish, by 31 January 2007 at the latest, the laws, regulations and administrative provisions necessary to comply with this Directive, which shall apply from 1 November 2007.

Community regulation relating to the obligations of investment firms

The general framework established by aforementioned Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 for Community financial markets contained, in particular, investment firms' reporting obligations in relation to transactions in financial instruments, market transparency requirements and the admission of financial instruments to trading.

Recently *Commission Regulation 1287/2006 of 10 August 2006* (OJEU of 2 September 2006) has been published, which implements Directive 2004/39/EC of the European Parliament and of the Council as regards record-keeping obligations for investment firms, transaction reporting, market transparency and admission of financial instruments to trading, in order to ensure a harmonised regime in all Member States.

First, as regards the recording of client transactions and orders, investment firms shall collect a single data set (the designation of the client or any relevant person acting on behalf of the client, the nature and type of the order, the date and exact time of the transaction, etc.) in order to harmonise the reporting requirements across Member States and to minimise the differences in the reporting obligations in cross-border transactions.

With regard to transaction reporting, the Regulation establishes that the reports of transactions in financial instruments shall be made in an electronic form, except under exceptional circumstances. The conditions that the methods by which those reports are made shall satisfy are specified. The Regulation also specifies the way in which transactions in financial instruments must be reported to the competent authorities, as well as the exchange of information with the competent authorities of other Member States.

The Regulation also regulates the transparency requirements in respect of transactions in shares admitted to trading on a regulated market to ensure that investors are adequately informed as to the true level of actual and potential transactions in such shares, whether those transactions take place on regulated markets, multilateral trading facilities (MTFs), systematic internalisers[3], or outside those trading venues.

A specific section of the Regulation regulates the conditions for the admission to trading of transferable securities, establishing the criteria to assess such securities so that they can be traded in a fair, orderly and efficient manner, as well as the requirements for admission to trading on a regulated market of units issued by undertakings for collective investment in transferable securities. Finally, the conditions are established that must be satisfied by derivative financial instruments.

The Regulation shall apply from 1 November 2007, except for certain provisions which shall apply from 1 June 2007.

9.10.2006.

3. The Regulation considers that an investment firm trades or executes client orders by means of systematic internalisers if they fulfil certain criteria that indicate that it performs this activity in an organised, frequent and systematic fashion.

CONTENTS

These economic indicators are permanently updated on the Banco de España website (http://www.bde.es/homee.htm). The date on which the indicators whose source is the Banco de España [those indicated with (BE) in this table of contents] are updated is published in a calendar that is disseminated on the Internet (http://www.bde.es/estadis/cdoe/ceroe.htm).

1. IMF Special Data Dissemination Standard (SDDS).

INTEREST RATES
AND EXCHANGE RATES

1. IMF Special Data Dissemination Standard (SDDS).

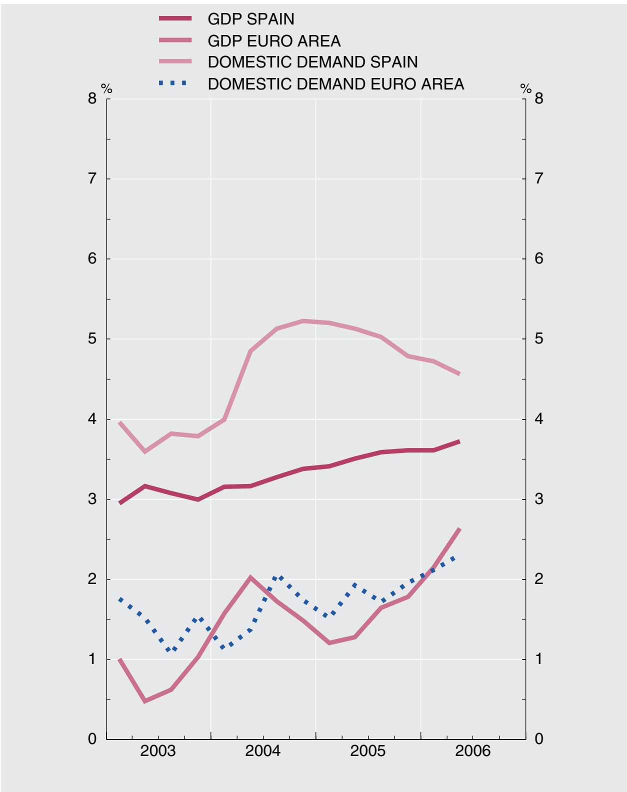
1.1. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES, REFERENCE YEAR 2000=100.DEMAND COMPONENTS. SPAIN AND EURO AREA (a)

■ Series depicted in chart.

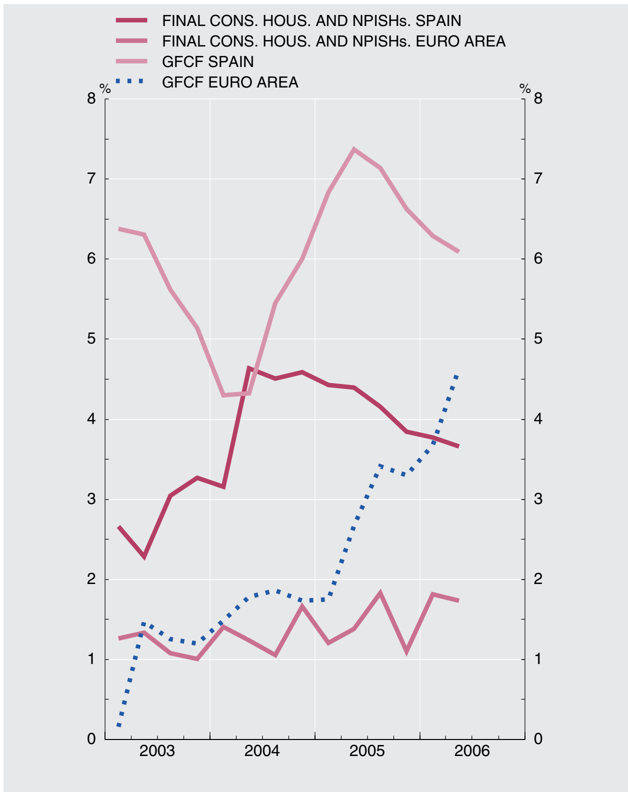
Annual percentage changes

		GDP		Final consumption of households and NPISHs		General govern-ment final consumption		Gross fixed capital formation		Domestic demand		Exports of goods and services		Imports of goods and services		Memorandum item: GDPmp (current prices) (g)	
		Spain	Euro area	Spain (b)	Euro area (c)	Spain	Euro area (d)	Spain	Euro area	Spain (e)	Euro area	Spain	Euro area (f)	Spain	Euro area (f)	Spain	Euro area
		1 ■	2 ■	3 ■	4 ■	5	6	7 ■	8 ■	9 ■	10 ■	11	12	13	14	15	16
03	P	3.0	0.8	2.8	1.2	4.8	1.8	5.9	1.0	3.8	1.5	3.7	1.1	6.2	3.1	783	7 461
04	P	3.2	1.7	4.2	1.3	6.3	1.1	5.0	1.7	4.8	1.6	4.1	6.3	9.6	6.2	840	7 735
05	P	3.5	1.5	4.2	1.4	4.8	1.4	7.0	2.8	5.0	1.8	1.5	4.5	7.0	5.5	905	7 994
03 *Q3*	P	3.1	0.6	3.0	1.1	4.5	1.8	5.6	1.3	3.8	0.6	4.1	0.8	6.7	2.2	198	1 877
Q4	P	3.0	1.0	3.3	1.0	4.8	1.8	5.1	1.2	3.8	1.0	2.3	1.5	5.3	3.1	201	1 891
04 *Q1*	P	3.2	1.6	3.2	1.4	5.7	1.5	4.3	1.5	4.0	1.6	4.8	4.5	7.7	3.4	204	1 910
Q2	P	3.2	2.0	4.6	1.2	6.3	1.2	4.3	1.8	4.9	2.0	3.8	8.1	9.9	6.5	208	1 929
Q3	P	3.3	1.7	4.5	1.1	6.8	1.1	5.4	1.9	5.1	1.7	4.5	6.4	10.9	7.8	212	1 941
Q4	P	3.4	1.5	4.6	1.7	6.2	0.7	6.0	1.7	5.2	1.5	3.5	6.2	10.0	7.3	216	1 954
05 *Q1*	P	3.4	1.2	4.4	1.2	5.5	1.1	6.8	1.8	5.2	1.2	-0.8	4.0	5.9	5.1	220	1 970
Q2	P	3.5	1.3	4.4	1.4	4.3	1.4	7.4	2.7	5.1	1.3	1.8	3.4	7.7	5.4	224	1 986
Q3	P	3.6	1.7	4.2	1.8	4.5	1.5	7.1	3.4	5.0	1.7	2.5	5.4	7.7	5.8	229	2 008
Q4	P	3.6	1.8	3.8	1.1	4.9	1.7	6.6	3.3	4.8	1.8	2.3	5.0	6.6	5.6	233	2 029
06 *Q1*	P	3.6	2.1	3.8	1.8	4.4	2.3	6.3	3.7	4.7	2.1	9.5	9.6	12.4	9.9	237	2 048
Q2	P	3.7	2.6	3.7	1.7	4.4	2.0	6.1	4.6	4.6	2.6	5.3	9.0	7.9	8.3	241	2 074

GDP. AND DOMESTIC DEMAND. SPAIN AND EURO AREA
Annual percentage changes



DEMAND COMPONENTS. SPAIN AND EURO AREA
Annual percentage changes



Sources: INE (Quarterly National Accounts of Spain. Base year 2000) and Eurostat.

a. Spain: prepared in accordance with ESA95, seasonally- and working-day-adjusted series (see Economic bulletin April 2002); Euro area, prepared in accordance with ESA95. b. Final consumption expenditure may take place on the domestic territory or abroad (ESA95, 3.75). It therefore includes residents' consumption abroad, which is subsequently deducted in Imports of goods and services. c. Euro area, private consumption.

d. Euro area, government consumption. e. Residents' demand within and outside the economic territory.

f. Exports and imports comprise goods and services and include cross-border trade within the euro area. g. Billions of euro.

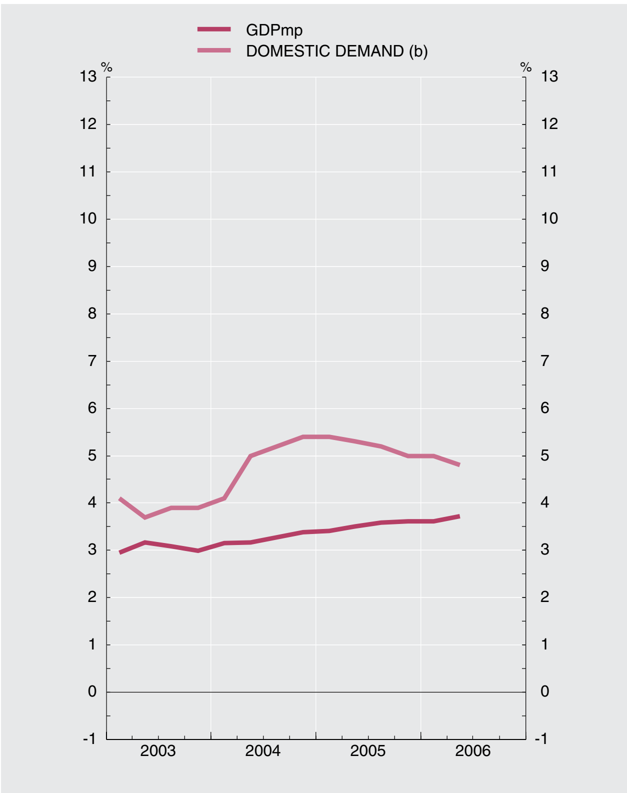
1.2. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES. REFERENCE YEAR 2000=100. DEMAND COMPONENTS. SPAIN: BREAKDOWN (a)

■ Series depicted in chart.

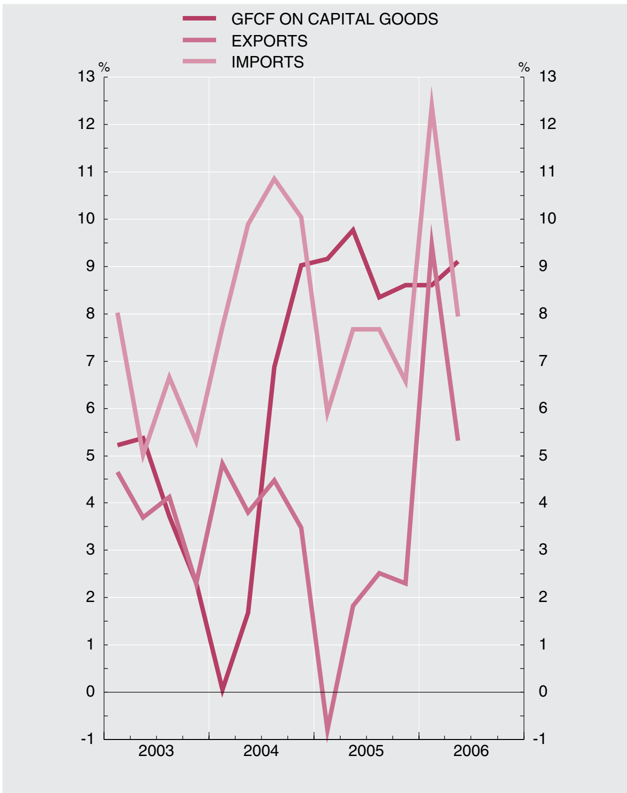
Annual percentage changes

		Gross fixed capital formation				Change in Stocks (b)	Exports of goods and services				Imports of goods and services				Memorandum items:	
		Total	Capital goods	Construc-tión	Other products		Total	Goods	Final con-sumption of non-resi-dents in economic territory	Services	Total	Goods	Final consumption of residents in the rest of the world	Services	Domestic demand (b) (c)	GDP
		1	2 ■	3	4	5 ■	6	7	8	9	10 ■	11	12	13	14 ■	15 ■
03	P	5.9	4.1	6.2	7.2	-0.1	3.7	5.2	0.1	1.2	6.2	6.7	3.2	4.6	3.9	3.0
04	P	5.0	4.4	5.5	4.5	0.0	4.1	5.1	0.0	4.4	9.6	9.7	20.1	7.4	4.9	3.2
05	P	7.0	9.0	6.0	7.5	-0.0	1.5	0.0	2.0	7.3	7.0	6.6	21.4	6.1	5.2	3.5
03 *Q3*	P	5.6	3.7	5.9	7.7	-0.1	4.1	6.0	-0.1	0.5	6.7	7.5	3.9	3.3	3.9	3.1
Q4	P	5.1	2.3	6.0	6.8	-0.2	2.3	4.0	-1.4	-1.2	5.3	5.7	8.2	3.1	3.9	3.0
04 *Q1*	P	4.3	0.1	6.0	5.3	0.1	4.8	6.1	1.1	3.3	7.7	7.3	16.8	8.0	4.1	3.2
Q2	P	4.3	1.7	5.5	4.3	0.0	3.8	5.9	-4.5	3.8	9.9	9.9	19.7	7.9	5.0	3.2
Q3	P	5.4	6.9	5.2	4.2	-0.0	4.5	5.5	0.7	4.3	10.9	11.3	20.1	7.3	5.2	3.3
Q4	P	6.0	9.0	5.2	4.3	-0.0	3.5	3.1	2.9	6.1	10.0	10.3	23.6	6.4	5.4	3.4
05 *Q1*	P	6.8	9.2	6.0	6.4	-0.0	-0.8	-2.1	1.0	3.1	5.9	6.9	20.1	-1.2	5.4	3.4
Q2	P	7.4	9.8	6.2	8.0	-0.0	1.8	2.4	-4.9	6.3	7.7	7.8	22.9	4.0	5.3	3.5
Q3	P	7.1	8.3	6.3	8.4	0.0	2.5	0.1	7.5	8.0	7.7	6.6	23.2	9.9	5.2	3.6
Q4	P	6.6	8.6	5.6	7.4	0.0	2.3	-0.3	4.2	11.9	6.6	5.0	19.4	11.9	5.0	3.6
06 *Q1*	P	6.3	8.6	5.8	4.8	0.1	9.5	13.0	-8.6	14.2	12.4	11.3	13.8	17.4	5.0	3.6
Q2	P	6.1	9.1	5.7	3.3	0.1	5.3	4.7	-1.8	14.8	7.9	7.5	9.0	9.6	4.8	3.7

GDP. DOMESTIC DEMAND
Annual percentage changes



GDP. DEMAND COMPONENTS
Annual percentage changes



Source: INE (Quarterly National Accounts of Spain. Base year 2000).
a. Prepared in accordance with ESA95, seasonally- and working-day-adjusted series (see Economic bulletin April 2002).
b. Contribution to GDPmp growth rate.
c. Residents' demand within and outside the economic territory.

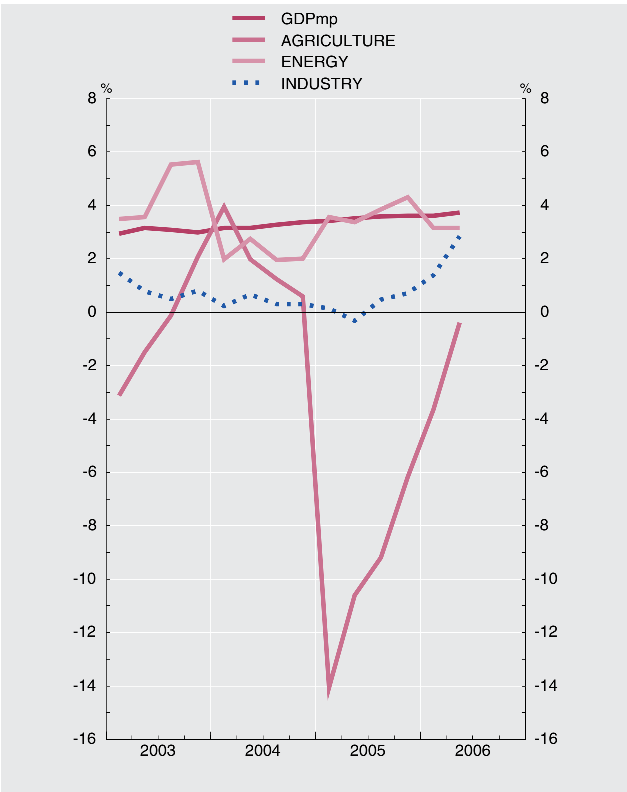
1.3. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES. REFERENCE YEAR 2000=100. BRANCHES OF ACTIVITY. SPAIN (a)

■ Series depicted in chart.

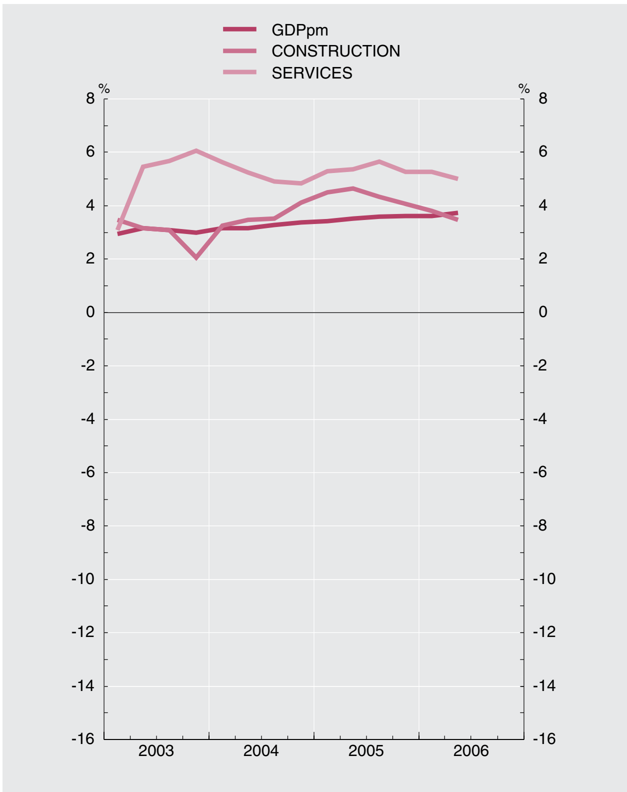
Annual percentage changes

		Gross domestic product at market prices	Agriculture and fisheries	Energy	Industry	Construction	Services			VAT on products	Net taxes linked to imports	Other net taxes on products
							Total	Market services	Non-market services			
		1 ■	2 ■	3	4 ■	5 ■	6 ■	7	8	9	10	11
03	P	3.0	-0.7	4.5	0.9	5.1	2.9	2.6	4.2	5.1	6.6	9.0
04	P	3.2	1.9	2.2	0.4	5.1	3.6	3.6	3.7	2.6	12.4	7.0
05	P	3.5	-10.0	3.8	0.3	5.4	4.4	4.6	3.5	5.6	4.9	6.0
03 *Q3*	P	3.1	-0.1	5.5	0.5	5.7	3.1	2.9	3.8	3.6	8.1	8.7
Q4	P	3.0	2.1	5.6	0.8	6.1	2.0	1.6	3.7	9.1	8.4	10.7
04 *Q1*	P	3.2	4.0	2.0	0.2	5.6	3.3	3.2	3.4	0.5	12.8	11.8
Q2	P	3.2	2.0	2.7	0.7	5.2	3.5	3.5	3.4	-0.2	13.2	10.0
Q3	P	3.3	1.2	2.0	0.3	4.9	3.5	3.4	3.8	5.8	11.1	5.8
Q4	P	3.4	0.6	2.0	0.3	4.8	4.1	4.1	4.1	4.5	12.4	0.8
05 *Q1*	P	3.4	-14.1	3.6	0.1	5.3	4.5	5.1	2.4	6.2	11.1	5.0
Q2	P	3.5	-10.6	3.4	-0.3	5.4	4.7	4.6	4.7	8.0	4.6	0.7
Q3	P	3.6	-9.2	3.9	0.5	5.7	4.3	4.6	3.3	4.6	1.8	7.4
Q4	P	3.6	-6.2	4.3	0.7	5.3	4.1	4.1	3.8	3.6	2.2	11.1
06 *Q1*	P	3.6	-3.7	3.2	1.4	5.3	3.8	3.9	3.7	4.5	2.1	8.2
Q2	P	3.7	-0.4	3.2	2.8	5.0	3.5	3.5	3.4	5.5	2.0	8.2

GDP. BRANCHES OF ACTIVITY
Annual percentage changes



GDP. BRANCHES OF ACTIVITY
Annual percentage changes



Source: INE (Quarterly National Accounts of Spain. Base year 2000).
a. Prepared in accordance with ESA95, seasonally- and working-day-adjusted series (see Economic bulletin April 2002).

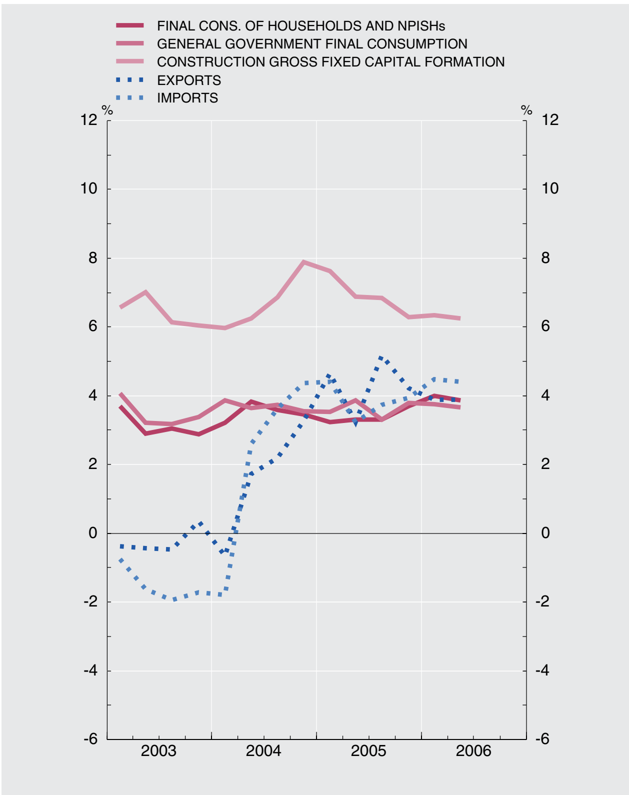
1.4. GROSS DOMESTIC PRODUCT. IMPLICIT DEFLATORS. SPAIN (a)

■ Series depicted in chart.

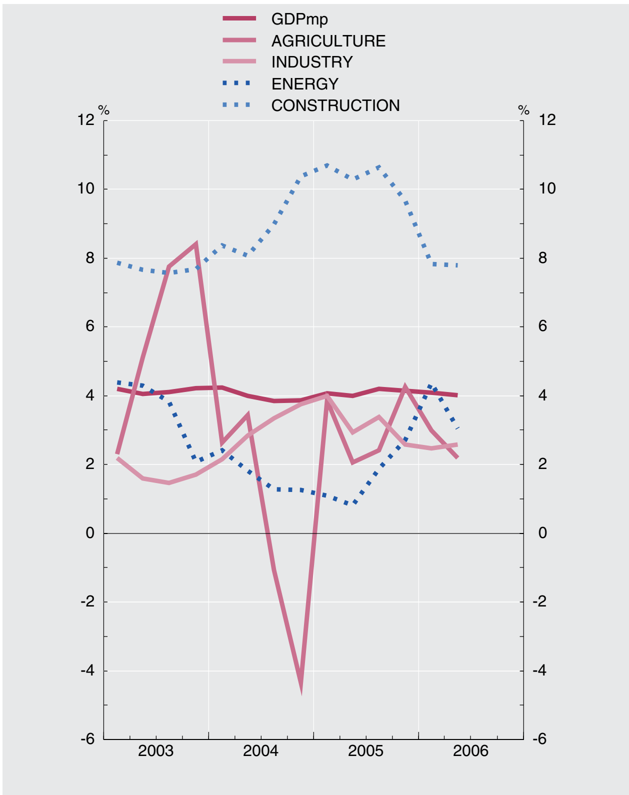
Annual percentage changes

		Demand components							Gross domestic product at market prices	Branches of activity					
		Final consumption of households and NPISHs (b)	General government final consumption	Gross fixed capital formation			Exports of goods and services	Imports of goods and services		Agriculture and fisheries	Energy	Industry	Construction	Of which	
				Capital goods	Construction	Other products								Services	Market services
		1 ■	2 ■	3	4 ■	5	6 ■	7 ■	8 ■	9 ■	10 ■	11 ■	12 ■	13	14
03	P	3.1	3.4	1.5	6.4	5.1	-0.2	-1.5	4.1	5.9	3.6	1.7	7.7	3.9	3.5
04	P	3.5	3.7	2.2	6.8	5.9	1.6	2.2	4.0	0.1	1.7	3.0	9.0	3.4	3.8
05	P	3.4	3.6	2.0	6.9	4.4	4.3	3.8	4.1	3.1	1.6	3.2	10.3	3.1	3.7
03 *Q3*	P	3.0	3.2	2.0	6.1	5.5	-0.5	-1.9	4.1	7.8	3.8	1.5	7.6	3.9	3.6
Q4	P	2.9	3.4	2.3	6.0	5.8	0.3	-1.7	4.2	8.4	2.1	1.7	7.7	4.0	3.2
04 *Q1*	P	3.2	3.9	2.2	6.0	5.5	-0.7	-1.8	4.2	2.6	2.4	2.2	8.4	3.8	4.0
Q2	P	3.8	3.6	2.6	6.3	6.5	1.7	2.6	4.0	3.4	1.8	2.8	8.1	3.3	3.6
Q3	P	3.6	3.7	2.3	6.9	6.3	2.2	3.6	3.8	-1.1	1.3	3.3	9.0	3.2	4.2
Q4	P	3.5	3.5	1.9	7.9	5.2	3.3	4.4	3.9	-4.3	1.3	3.7	10.4	3.2	3.5
05 *Q1*	P	3.3	3.5	2.3	7.6	4.8	4.6	4.4	4.1	3.9	1.1	4.0	10.7	3.1	3.7
Q2	P	3.4	3.9	1.8	6.9	4.4	3.2	3.2	4.0	2.1	0.8	2.9	10.3	3.1	3.6
Q3	P	3.4	3.3	1.7	6.8	4.2	5.2	3.7	4.2	2.4	1.9	3.4	10.6	3.2	3.6
Q4	P	3.7	3.8	2.2	6.3	4.4	4.2	3.9	4.1	4.2	2.7	2.6	9.7	3.1	3.7
06 *Q1*	P	4.0	3.7	2.4	6.3	4.5	3.9	4.5	4.1	3.0	4.4	2.5	7.8	3.1	3.8
Q2	P	3.9	3.7	2.5	6.2	4.6	3.9	4.4	4.0	2.2	3.0	2.6	7.8	2.9	3.7

GDP. IMPLICIT DEFLATORS
Annual percentage changes



GDP. IMPLICIT DEFLATORS
Annual percentage changes



Source: INE (Quarterly National Accounts of Spain. Base year 2000).
a. Prepared in accordance with ESA95, seasonally- and working-day-adjusted series (see Economic bulletin April 2002).
b. Final consumption expenditure may take place on the domestic territory or abroad (ESA95, 3.75). It therefore includes residents' consumption abroad, which is subsequently deducted in Imports of goods and services.

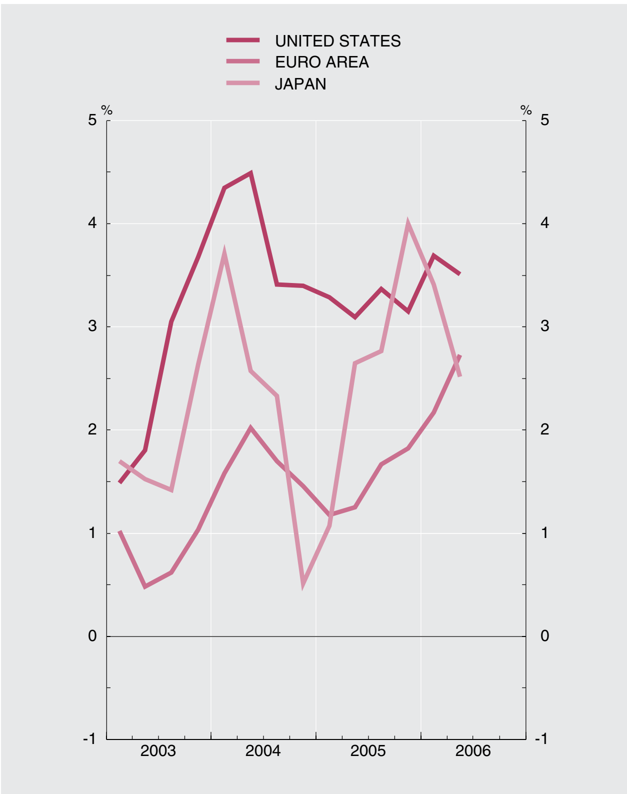
2.1. INTERNATIONAL COMPARISON. GROSS DOMESTIC PRODUCT AT CONSTANT PRICES

■ Series depicted in chart.

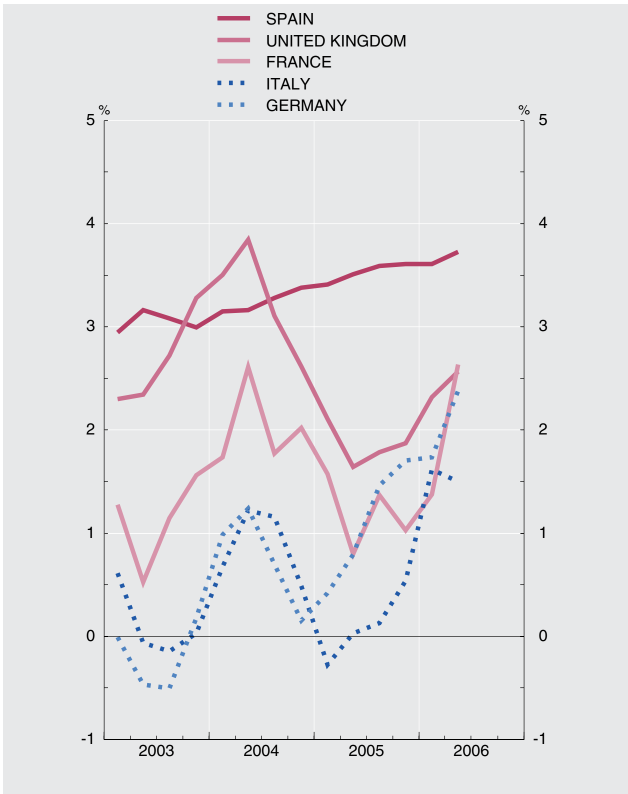
Annual percentage changes

	OECD	EU-15	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
	1	2	3 ■	4 ■	5 ■	6 ■	7 ■	8 ■	9 ■	10 ■
03	2.0	1.1	0.8	-0.2	3.0	2.5	1.1	0.1	1.8	2.7
04	3.3	2.0	1.7	0.8	3.2	3.9	2.0	0.9	2.3	3.3
05	2.8	1.6	1.5	1.1	3.5	3.2	1.2	0.1	2.6	1.9
03 *Q2*	1.6	0.8	0.5	-0.5	3.2	1.8	0.5	-0.1	1.5	2.3
Q3	2.0	1.0	0.6	-0.5	3.1	3.1	1.1	-0.1	1.4	2.7
Q4	2.8	1.5	1.0	0.2	3.0	3.7	1.6	0.0	2.6	3.3
04 *Q1*	3.6	2.0	1.6	1.0	3.2	4.3	1.7	0.7	3.7	3.5
Q2	3.7	2.4	2.0	1.2	3.2	4.5	2.6	1.2	2.6	3.8
Q3	3.2	2.0	1.7	0.7	3.3	3.4	1.8	1.2	2.3	3.1
Q4	2.8	1.7	1.5	0.2	3.4	3.4	2.0	0.5	0.5	2.6
05 *Q1*	2.6	1.4	1.2	0.4	3.4	3.3	1.6	-0.3	1.1	2.1
Q2	2.7	1.4	1.3	0.8	3.5	3.1	0.8	0.0	2.7	1.6
Q3	2.9	1.8	1.7	1.5	3.6	3.4	1.4	0.1	2.8	1.8
Q4	2.9	1.9	1.8	1.7	3.6	3.1	1.0	0.5	4.0	1.9
06 *Q1*	3.2	2.2	2.2	1.7	3.6	3.7	1.4	1.6	3.4	2.3
Q2	...	2.7	2.7	2.4	3.7	3.5	2.6	1.5	2.5	2.6

GROSS DOMESTIC PRODUCT
Annual percentage changes



GROSS DOMESTIC PRODUCT
Annual percentage changes



Sources: ECB, INE and OECD.
Note: The underlying series for this indicator are in Table 26.2 of the BE Boletín Estadístico.

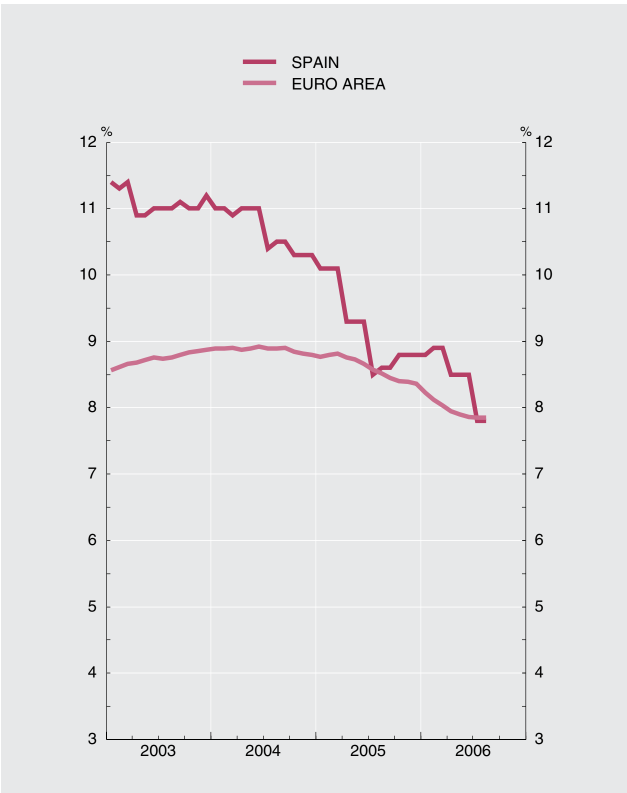
2.2. INTERNATIONAL COMPARISON. UNEMPLOYMENT RATES

■ Series depicted in chart.

Percentages

	OECD 1	EU-15 2	Euro area 3 ■	Germany 4 ■	Spain 5 ■	United States 6 ■	France 7 ■	Italy 8 ■	Japan 9 ■	United Kingdom 10 ■
03	7.1	8.0	8.7	9.3	11.1	6.0	9.5	8.4	5.2	4.9
04	6.9	8.1	8.9	9.6	10.7	5.5	9.6	8.0	4.7	4.7
05	6.6	7.9	8.6	9.5	9.2	5.1	9.7	7.7	4.4	4.7
05 *Mar*	6.7	8.1	8.8	9.8	10.1	5.1	9.8	7.9	4.5	4.6
Apr	6.7	8.0	8.8	9.9	9.3	5.1	9.8	7.7	4.4	4.6
May	6.6	8.0	8.7	9.6	9.3	5.1	9.9	7.7	4.4	4.7
Jun	6.6	7.9	8.7	9.5	9.3	5.0	9.9	7.7	4.2	4.6
Jul	6.6	7.9	8.6	9.4	8.5	5.0	9.9	7.6	4.4	4.6
Aug	6.5	7.8	8.5	9.5	8.6	4.9	9.8	7.6	4.3	4.7
Sep	6.5	7.8	8.5	8.8	8.6	5.1	9.8	7.6	4.2	4.8
Oct	6.5	7.8	8.4	9.1	8.8	4.9	9.6	7.6	4.5	5.0
Nov	6.5	7.8	8.4	9.3	8.8	5.0	9.6	7.6	4.6	5.0
Dec	6.4	7.7	8.4	9.4	8.8	4.9	9.5	7.6	4.4	4.9
06 *Jan*	6.2	7.6	8.2	9.0	8.8	4.7	9.4	7.5	4.5	5.0
Feb	6.2	7.6	8.1	8.8	8.9	4.8	9.4	7.5	4.1	5.1
Mar	6.1	7.5	8.0	8.6	8.9	4.7	9.3	7.5	4.1	5.2
Apr	6.1	7.4	7.9	8.2	8.5	4.7	9.2	...	4.1	5.3
May	6.1	7.4	7.9	8.4	8.5	4.7	9.1	...	4.0	5.4
Jun	6.0	7.4	7.9	8.2	8.5	4.6	9.0	...	4.2	5.4
Jul	6.1	7.4	7.8	8.2	7.8	4.8	8.9	...	4.1	...
Aug	6.1	7.4	7.9	8.5	7.8	4.7	8.8	...	4.2	...

UNEMPLOYMENT RATES



UNEMPLOYMENT RATES

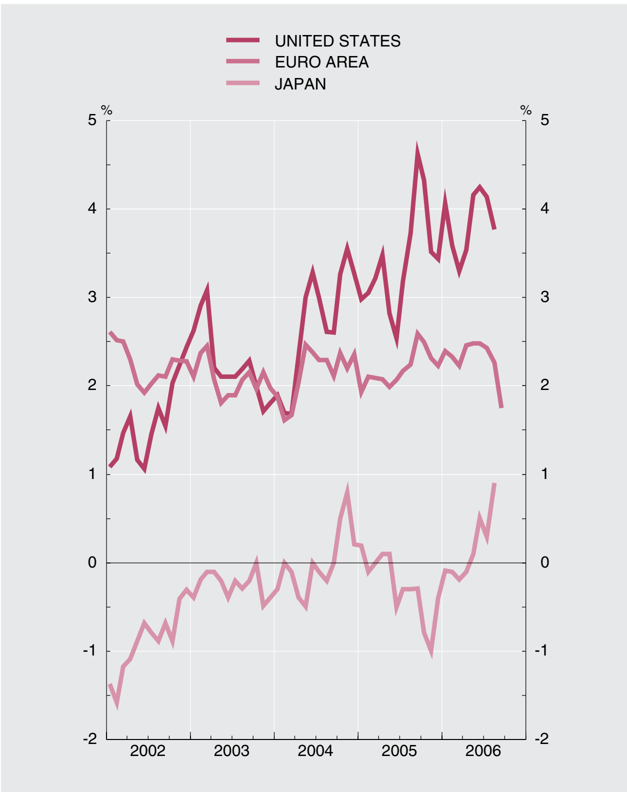
Sources: ECB and OECD.

2.3. INTERNATIONAL COMPARISON. CONSUMER PRICES (a)

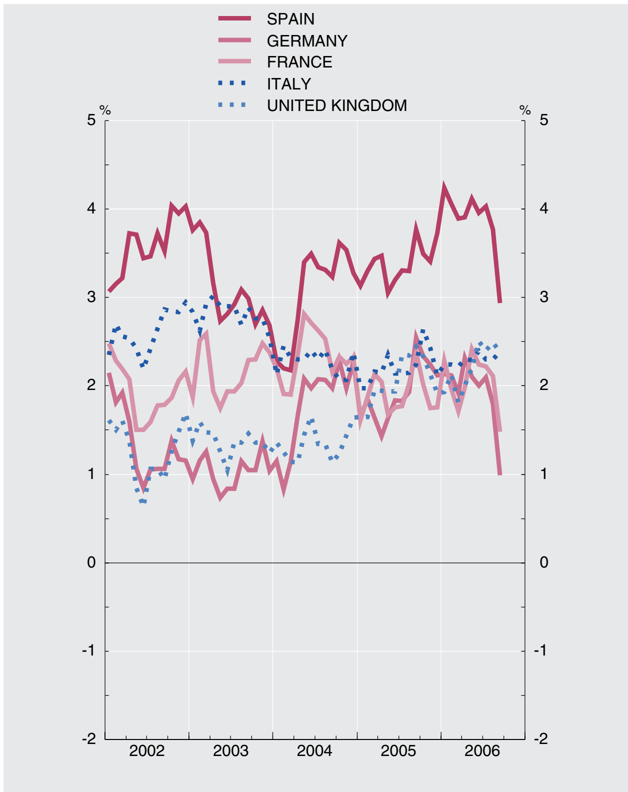
■ Series depicted in chart. *Annual percentage changes*

	OECD 1	EU-15 2	Euro area 3 ■	Germany 4 ■	Spain 5 ■	United States 6 ■	France 7 ■	Italy 8 ■	Japan 9 ■	United Kingdom 10 ■
02	2.5	2.1	2.2	1.4	3.6	1.6	1.9	2.6	-0.9	1.3
03	2.4	2.0	2.1	1.0	3.1	2.3	2.2	2.8	-0.2	1.4
04	2.4	2.0	2.1	1.8	3.1	2.7	2.3	2.3	-0.0	1.3
05	2.6	2.1	2.2	1.9	3.4	3.4	1.9	2.2	-0.3	2.1
05 *Apr*	2.7	2.0	2.1	1.4	3.5	3.5	2.0	2.1	0.1	1.9
May	2.3	1.9	2.0	1.6	3.0	2.8	1.7	2.3	0.1	1.9
Jun	2.2	2.0	2.1	1.8	3.2	2.5	1.8	2.1	-0.5	1.9
Jul	2.4	2.2	2.2	1.8	3.3	3.2	1.8	2.1	-0.3	2.4
Aug	2.8	2.3	2.2	1.9	3.3	3.7	2.0	2.1	-0.3	2.3
Sep	3.2	2.5	2.6	2.5	3.8	4.6	2.4	2.2	-0.3	2.4
Oct	2.9	2.4	2.5	2.3	3.5	4.3	2.0	2.6	-0.8	2.3
Nov	2.5	2.3	2.3	2.2	3.4	3.5	1.8	2.4	-1.0	2.1
Dec	2.6	2.2	2.2	2.1	3.7	3.4	1.8	2.1	-0.4	1.9
06 *Jan*	2.9	2.3	2.4	2.1	4.2	4.1	2.3	2.2	-0.1	1.9
Feb	2.8	2.2	2.3	2.1	4.1	3.6	2.0	2.2	-0.1	2.1
Mar	2.5	2.1	2.2	1.9	3.9	3.3	1.7	2.2	-0.2	1.8
Apr	2.7	2.4	2.5	2.3	3.9	3.5	2.0	2.3	-0.1	2.0
May	3.1	2.4	2.5	2.1	4.1	4.2	2.4	2.3	0.1	2.2
Jun	3.2	2.5	2.5	2.0	4.0	4.2	2.2	2.4	0.5	2.5
Jul	3.2	2.4	2.4	2.1	4.0	4.1	2.2	2.3	0.3	2.4
Aug	3.0	2.3	2.3	1.8	3.8	3.8	2.1	2.3	0.9	2.5
Sep	...	1.8	1.7	1.0	2.9	...	1.5	2.4	...	2.4

CONSUMER PRICES
Annual percentage changes



CONSUMER PRICES
Annual percentage changes



Sources: OECD, INE and Eurostat.
Note: The underlying series for this indicator are in Tables 26.11 and 26.15 of the BE Boletín Estadístico.
a. Harmonised Index of Consumer Prices for the EU countries.

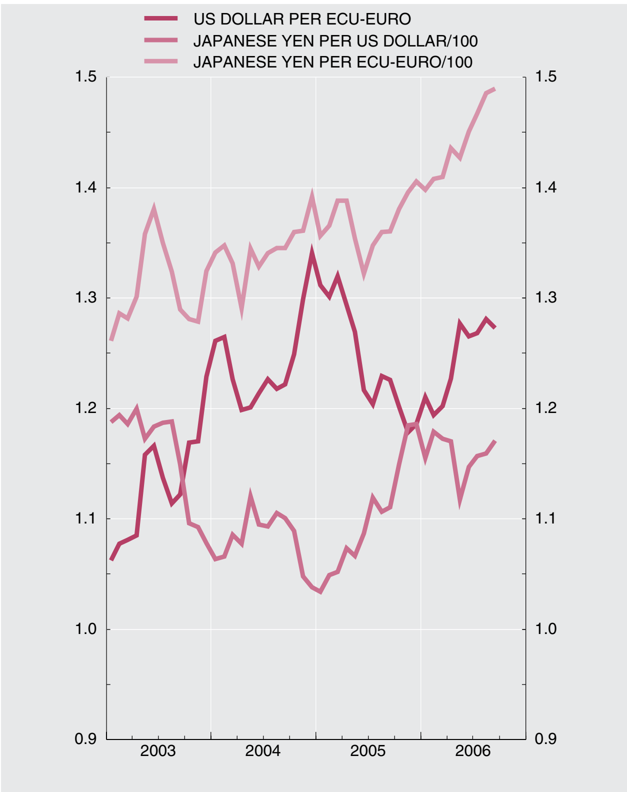
2.4. BILATERAL EXCHANGE RATES AND NOMINAL AND REAL EFFECTIVE EXCHANGE RATE INDICES FOR THE EURO, US DOLLAR AND JAPANESE YEN

■ Series depicted in chart.

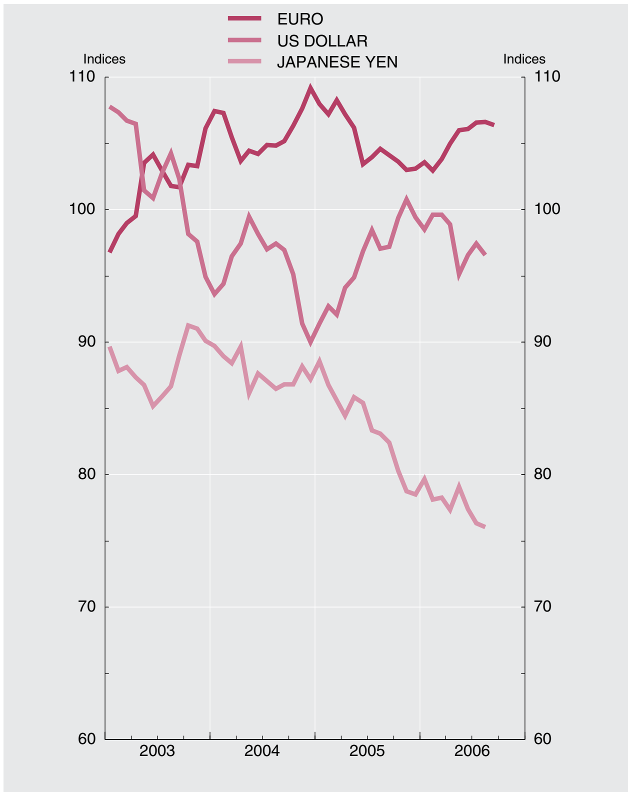
Average of daily data

	Exchange rates			Indices of the nominal effective exchange rate vis-à-vis the (a) developed countries 1999 QI=100			Indices of the real effective exchange rate vis-à-vis the developed countries (b) 1999 QI=100					
							Based on consumer prices			Based on producer prices		
	US dollar per ECU/euro	Japanese yen per ECU/euro	Japanese yen per US dollar	Euro	US dollar	Japanese yen	Euro	US dollar	Japanese yen	Euro	US dollar	Japanese yen
	1 ■	2 ■	3 ■	4	5	6	7 ■	8 ■	9 ■	10	11	12
03	1.1313	130.98	115.93	99.9	97.5	99.9	101.7	102.5	88.2	102.2	102.8	87.9
04	1.2433	134.41	108.18	103.8	89.7	101.5	105.9	95.6	87.7	105.2	96.6	87.6
05	1.2445	136.88	110.17	103.0	88.5	99.5	105.2	96.2	83.6	103.6	98.3	84.1
05 *J-S*	1.2633	136.02	107.77	103.7	87.6	100.9	105.9	95.0	85.0	104.5	96.9	85.4
06 *J-S*	1.2446	144.15	115.85	103.0	88.2	94.4	105.2	97.8	77.8	103.9	99.8	79.4
05 *Jul*	1.2037	134.75	111.94	101.7	90.5	99.5	104.0	98.5	83.3	102.3	100.6	84.1
Aug	1.2292	135.98	110.63	102.3	88.9	99.5	104.6	97.0	83.1	102.9	99.1	84.0
Sep	1.2256	136.06	111.03	101.8	88.5	99.1	104.1	97.2	82.4	101.9	99.8	82.9
Oct	1.2015	138.05	114.90	101.4	90.2	96.8	103.6	99.4	80.3	101.5	102.9	80.8
Nov	1.1786	139.59	118.45	100.7	91.9	94.9	103.0	100.8	78.8	100.9	102.5	80.2
Dec	1.1856	140.58	118.58	100.7	91.3	94.4	103.1	99.4	78.5	101.1	101.8	79.8
06 *Jan*	1.2103	139.82	115.53	101.4	89.7	96.0	103.6	98.5	79.7	102.0	100.5	80.7
Feb	1.1938	140.77	117.91	100.7	90.6	94.6	103.0	99.6	78.1	101.8	101.0	79.9
Mar	1.2020	140.96	117.27	101.5	90.5	95.0	103.8	99.6	78.2	102.5	101.4	79.7
Apr	1.2271	143.59	117.03	102.7	89.4	94.3	105.0	98.9	77.3	103.7	100.8	78.6
May	1.2770	142.70	111.76	103.8	85.8	96.5	106.0	95.1	79.1	104.7	97.1	80.6
Jun	1.2650	145.11	114.72	103.9	87.0	94.6	106.1	96.6	77.4	104.7	99.0	78.5
Jul	1.2684	146.70	115.66	104.3	87.4	93.7	106.6	97.4	76.3	105.3	98.7	77.9
Aug	1.2811	148.53	115.94	104.4	86.8	92.9	106.6	96.6	76.0	105.3	...	...
Sep	1.2727	148.99	117.07	104.2	87.2	92.3	106.4	...	...	105.1	...	...

EXCHANGE RATES



INDICES OF THE REAL EFFECTIVE EXCHANGE RATE BASED ON CONSUMER PRICES VIS-À-VIS THE DEVELOPED COUNTRIES



Sources: ECB and BE.

a. Geometric mean -calculated using a double weighting system based on 1995-97 manufacturing trade of changes in the spot price of each currency against the currencies of the other developed countries. A fall in the index denotes a depreciation of the currency against those of the other developed countries.

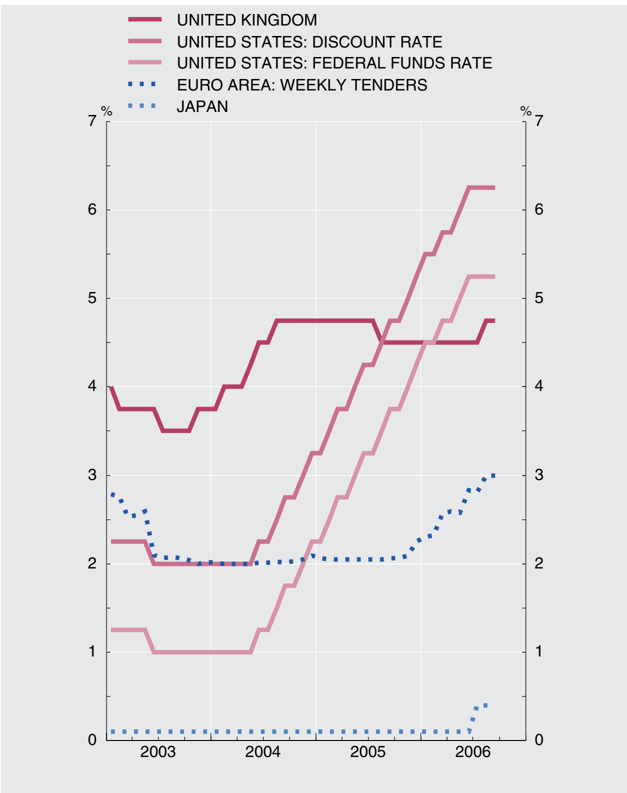
b. Obtained by multiplying the relative prices of each area/country (relation betwen its price index and the price index of the group) by the nominal effective exchange rate. A decline in the index denotes a depreciation of the real effective exchange rate and, may be interpreted as an improvement in that area/country's competitiveness.

2.5. OFFICIAL INTERVENTION INTEREST RATES AND SHORT-TERM INTEREST RATES

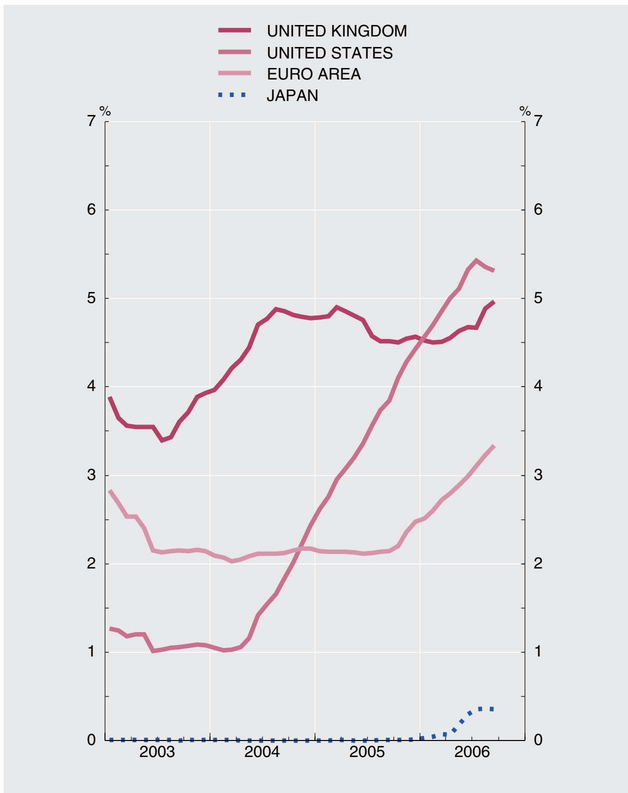
■ Series depicted in chart. *Percentages*

	Official intervention interest rates					3-month interbank rates									
	Euro area (a)	United States: Discount rate (b)	United States: Federal funds rate	Japan (c)	United Kingdom (d)	OECD	EU-15	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
	1 ■	2 ■	3 ■	4 ■	5 ■	6	7	8 ■	9	10	11 ■	12	13	14 ■	15 ■
03	2.00	2.00	1.10	0.10	3.75	1.63	2.55	2.33	-	-	1.12	-	-	0.01	3.64
04	2.00	3.25	1.40	0.10	4.75	1.75	2.48	2.11	-	-	1.54	-	-	0.00	4.55
05	2.25	5.25	3.25	0.10	4.50	2.57	2.55	2.18	-	-	3.50	-	-	0.01	4.68
05 *Apr*	2.00	3.75	2.75	0.10	4.75	2.40	2.54	2.14	-	-	3.07	-	-	0.01	4.86
May	2.00	4.00	3.00	0.10	4.75	2.44	2.53	2.13	-	-	3.20	-	-	0.00	4.81
Jun	2.00	4.25	3.25	0.10	4.75	2.49	2.50	2.11	-	-	3.36	-	-	0.00	4.76
Jul	2.00	4.25	3.25	0.10	4.75	2.56	2.47	2.12	-	-	3.56	-	-	0.00	4.57
Aug	2.00	4.50	3.50	0.10	4.50	2.63	2.48	2.13	-	-	3.74	-	-	0.01	4.51
Sep	2.00	4.75	3.75	0.10	4.50	2.69	2.48	2.14	-	-	3.84	-	-	0.01	4.52
Oct	2.00	4.75	3.75	0.10	4.50	2.81	2.53	2.20	-	-	4.10	-	-	0.01	4.50
Nov	2.00	5.00	4.00	0.10	4.50	2.95	2.67	2.36	-	-	4.28	-	-	0.01	4.54
Dec	2.25	5.25	4.25	0.10	4.50	3.05	2.77	2.47	-	-	4.43	-	-	0.01	4.57
06 *Jan*	2.25	5.50	4.50	0.10	4.50	3.12	2.80	2.51	-	-	4.57	-	-	0.03	4.52
Feb	2.25	5.50	4.50	0.10	4.50	3.21	2.87	2.60	-	-	4.70	-	-	0.04	4.50
Mar	2.50	5.75	4.75	0.10	4.50	3.32	2.98	2.72	-	-	4.86	-	-	0.07	4.51
Apr	2.50	5.75	4.75	0.10	4.50	3.41	3.05	2.79	-	-	5.00	-	-	0.06	4.55
May	2.50	6.00	5.00	0.10	4.50	3.52	3.14	2.89	-	-	5.11	-	-	0.18	4.63
Jun	2.75	6.25	5.25	0.10	4.50	3.66	3.23	2.99	-	-	5.33	-	-	0.30	4.68
Jul	2.75	6.25	5.25	0.40	4.50	3.75	3.32	3.10	-	-	5.43	-	-	0.36	4.67
Aug	3.00	6.25	5.25	0.40	4.75	3.78	3.46	3.23	-	-	5.36	-	-	0.36	4.89
Sep	3.00	6.25	5.25	0.40	4.75	3.81	3.57	3.34	-	-	5.31	-	-	0.36	4.97

OFFICIAL INTERVENTION INTEREST RATES



3-MONTH INTERBANK RATES



Sorces: ECB, Reuters and BE.
a. Main refinancing operations.
b. As from January 2003, the Primary Credit Rate.
c. Discount rate.
d. Retail bank base rate.

2.6. 10-YEAR GOVERNMENT BOND YIELDS ON DOMESTIC MARKETS

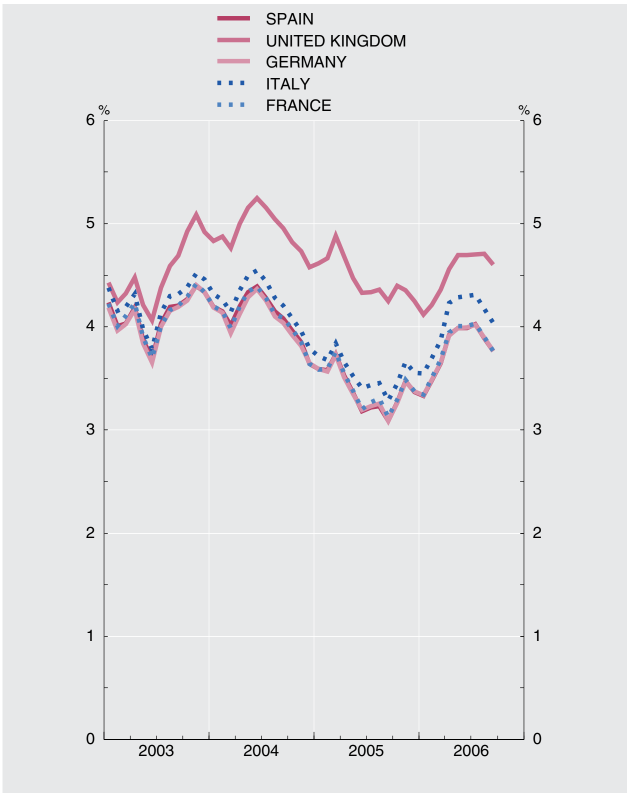
■ Series depicted in chart.

Percentages

	OECD 1	EU-15 2	Euro area 3 ■	Germany 4 ■	Spain 5 ■	United States 6 ■	France 7 ■	Italy 8 ■	Japan 9 ■	United Kingdom 10 ■
03	3.68	4.22	4.16	4.10	4.12	4.04	4.13	4.24	0.99	4.53
04	3.87	4.26	4.14	4.07	4.10	4.31	4.10	4.24	1.50	4.93
05	3.58	3.59	3.44	3.38	3.39	4.33	3.41	3.56	1.39	4.47
05 *Apr*	3.66	3.73	3.57	3.51	3.53	4.39	3.55	3.66	1.32	4.69
May	3.49	3.56	3.41	3.35	3.36	4.19	3.38	3.52	1.27	4.47
Jun	3.36	3.40	3.25	3.19	3.19	4.04	3.20	3.41	1.24	4.33
Jul	3.44	3.44	3.32	3.23	3.22	4.20	3.27	3.44	1.26	4.34
Aug	3.52	3.47	3.32	3.26	3.23	4.31	3.30	3.46	1.43	4.36
Sep	3.42	3.31	3.16	3.09	3.09	4.23	3.13	3.29	1.38	4.25
Oct	3.62	3.47	3.32	3.26	3.27	4.50	3.29	3.45	1.54	4.40
Nov	3.73	3.64	3.53	3.47	3.48	4.59	3.49	3.66	1.52	4.36
Dec	3.66	3.54	3.41	3.37	3.37	4.52	3.38	3.56	1.54	4.25
06 *Jan*	3.60	3.50	3.39	3.34	3.33	4.45	3.34	3.55	1.47	4.12
Feb	3.74	3.64	3.55	3.49	3.48	4.61	3.51	3.70	1.57	4.21
Mar	3.89	3.81	3.73	3.66	3.65	4.78	3.68	3.87	1.70	4.36
Apr	4.15	4.08	4.01	3.91	3.92	5.04	3.95	4.23	1.91	4.56
May	4.24	4.15	4.06	3.99	3.99	5.18	4.01	4.29	1.91	4.70
Jun	4.23	4.16	4.07	3.99	3.99	5.17	4.01	4.30	1.87	4.70
Jul	4.25	4.18	4.10	4.02	4.02	5.16	4.03	4.31	1.91	4.70
Aug	4.10	4.08	3.97	3.90	3.89	4.95	3.90	4.18	1.81	4.71
Sep	3.95	3.95	3.84	3.76	3.76	4.78	3.77	4.04	1.68	4.60

10-YEAR GOVERNMENT BOND YIELDS

10-YEAR GOVERNMENT BOND YIELDS



Sources: ECB, Reuters and BE.

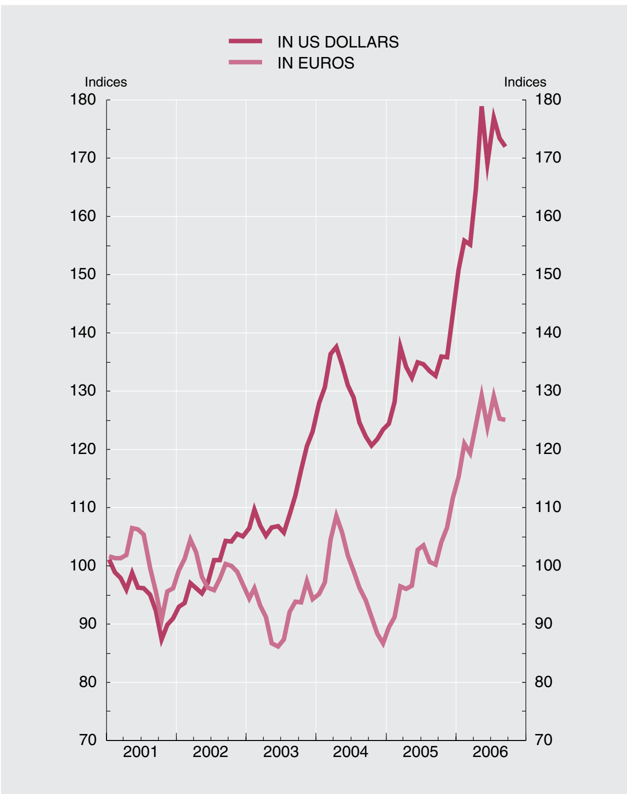
2.7 INTERNATIONAL MARKETS. NON-ENERGY COMMODITIES PRICE INDEX. CRUDE OIL AND GOLD PRICE.

■ Series depicted in chart.

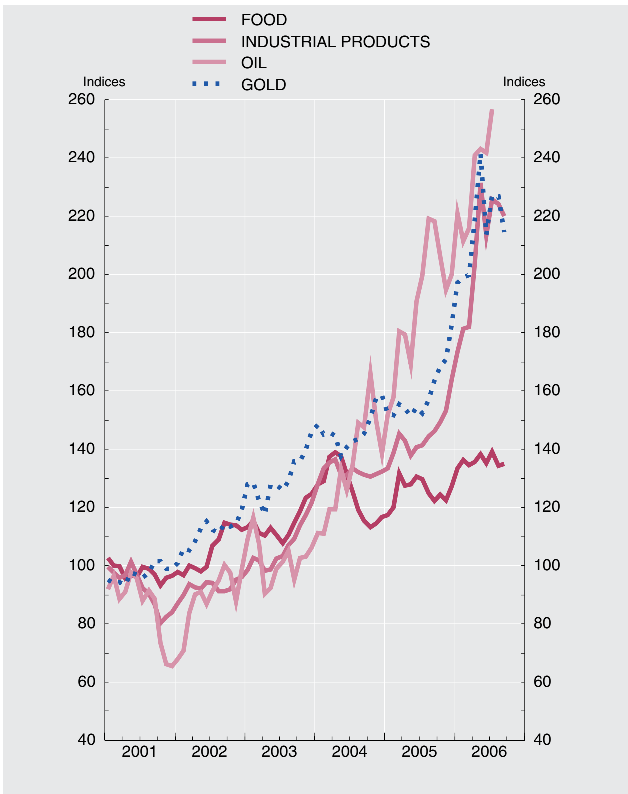
Base 2000 = 100

	Non-energy commodity price index (a)						Oil		Gold		
	Euro index	US dollar index					Index (b)	Brent North sea	Index (c)	US dollars per troy ounce	Euro per gram
	General	General	Food	Industrial products				US dollars per barrel			
				Total	Non-food agricul-tural products	Metals					
	1 ■	2 ■	3 ■	4 ■	5	6	7 ■	8	9 ■	10	11
01	100.2	95.0	97.7	91.9	94.8	88.4	86.1	24.6	97.2	271.1	9.74
02	99.3	99.5	105.2	92.4	101.0	84.7	88.5	25.0	111.1	310.0	10.55
03	92.2	110.7	114.4	106.2	118.7	95.5	102.3	28.9	130.3	363.6	10.33
04	97.4	128.3	125.5	132.2	131.5	130.7	133.8	38.3	146.7	409.2	10.58
05	100.0	134.0	125.5	144.8	131.2	152.1	189.2	54.2	159.5	445.1	11.53
05 *J-S*	97.5	132.5	125.8	141.2	130.0	147.3	185.4	53.4	154.6	431.4	11.00
06 *J-S*	123.6	166.4	135.7	206.3	150.6	236.4	...	66.7	215.5	601.3	15.50
05 *Aug*	100.7	133.5	124.9	144.5	130.3	152.2	219.1	64.3	157.0	437.9	11.45
Sep	100.3	132.6	122.1	146.2	134.6	152.5	218.4	62.6	163.5	456.0	11.98
Oct	104.0	135.9	124.3	149.3	135.7	156.7	206.1	58.3	168.4	469.9	12.57
Nov	106.6	135.8	122.4	153.1	132.8	164.2	194.7	55.0	170.9	476.7	13.01
Dec	111.6	143.3	127.3	163.9	136.0	179.0	200.0	56.5	182.8	509.9	13.81
06 *Jan*	115.2	150.9	133.4	173.4	143.0	189.5	220.9	62.9	197.1	549.9	14.53
Feb	121.0	155.9	136.2	181.3	149.5	198.6	211.5	59.7	198.9	555.0	14.94
Mar	119.4	155.2	134.4	182.0	148.3	200.3	215.8	61.6	199.7	557.1	14.89
Apr	124.2	164.7	135.6	203.8	149.0	232.3	240.8	70.3	218.9	610.7	15.99
May	129.2	178.9	138.2	231.5	156.3	272.5	243.0	69.4	241.6	673.9	16.96
Jun	123.8	169.2	135.1	213.4	162.1	241.3	241.9	68.1	213.7	596.1	15.12
Jul	129.2	176.9	139.1	225.7	158.0	262.6	256.8	73.5	227.2	633.7	16.06
Aug	125.3	173.4	134.3	224.1	150.4	264.0	...	72.9	226.8	632.6	15.85
Sep	125.0	172.0	134.9	219.9	139.1	264.0	...	61.2	214.4	598.2	15.12

NON-ENERGY COMMODITY PRICE INDEX



PRICE INDICES FOR NON-ENERGY COMMODITIES, OIL AND GOLD



Sources: The Economist, IMF, ECB and BE.

a. The weights are based on the value of the world commodity imports during the period 1999-2001.

b. Index of the average price in US dollars of various medium, light and heavy crudes.

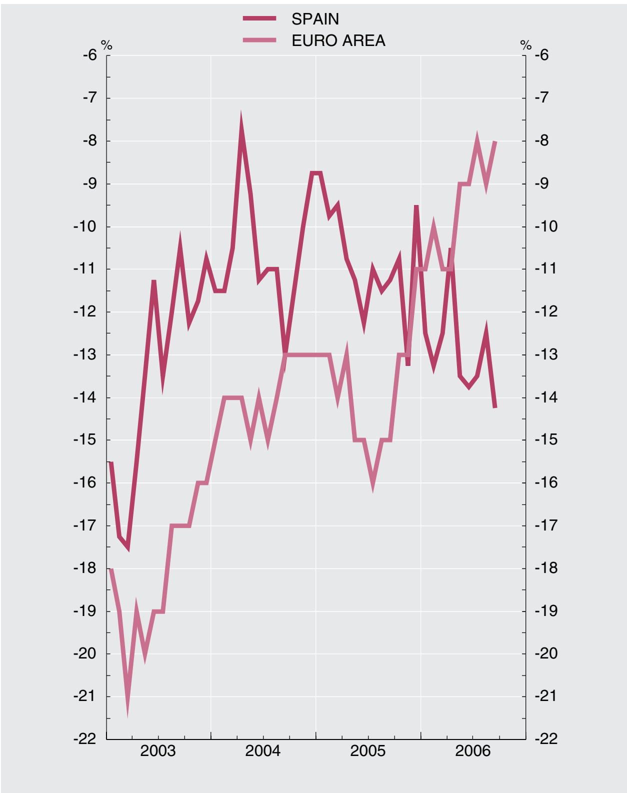
c. Index of the London market's 15.30 fixing in dollars.

3.1. INDICATORS OF PRIVATE CONSUMPTION. SPAIN AND EURO AREA

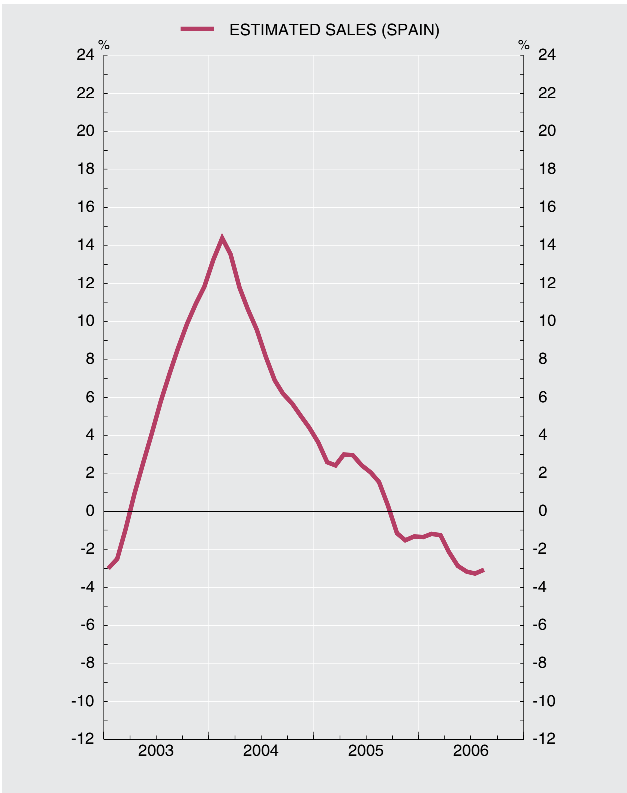
■ Series depicted in chart. *Annual percentage changes*

		Opinion surveys (net percentages): Consumers: Confidence index ■	Opinion surveys: Consumers: General economic situation: anticipated trend	Opinion surveys: Consumers: Household economic situation: anticipated trend	Opinion surveys: Retail trade confidence index	Opinion surveys: Memorandum item: euro area: Consumer confidence index ■	Opinion surveys: Memorandum item: euro area: Retail trade confidence index	New car registrations and sales: Registrations	New car registrations and sales: of which: Private use	New car registrations and sales: Estimated sales ■	New car registrations and sales: Memorandum item: euro area: Registrations	Retail trade: sales index: General index: Nominal	Retail trade: General index: of which: Deflated (a)	Retail trade: General index: of which: Large retail outlets (a)	Retail trade: By type of product (deflated indices): Food (b)	Retail trade: By type of product (deflated indices): Other (c)	Retail trade: Memorandum item: euro area deflated index
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
03		-13	-9	-2	-2	-18	-10	6.0	4.0	3.8	-1.5	5.7	2.9	5.2	0.8	4.2	0.7
04	P	-11	-4	-1	-6	-14	-9	10.8	12.2	9.8	0.9	5.5	2.8	4.4	0.4	4.5	1.4
05	P	-11	-7	-1	-5	-14	-8	1.4	1.9	0.8	1.6	4.4	1.3	3.2	0.1	2.1	1.3
05 *J-S*	P	-11	-6	-1	-6	-14	-9	3.0	3.0	2.5	2.5	4.7	1.6	3.4	0.4	2.4	1.3
06 *J-S*	A	-13	-12	-3	-9	-10	-0	-1.6	-1.4	-2.5	...	...	...	...	...	...	...
05 *Oct*	P	-11	-7	-1	-4	-13	-4	-8.6	-6.3	-9.6	0.1	3.3	-0.1	1.6	-0.2	0.1	1.4
Nov	P	-13	-14	-3	-2	-13	-7	-3.1	0.6	-4.0	-2.0	3.6	0.4	1.1	-1.6	1.6	1.3
Dec	P	-10	-9	1	-5	-11	-4	0.8	2.1	-0.4	-1.8	4.4	0.8	4.8	-0.9	1.9	0.9
06 *Jan*	P	-13	-10	-3	-10	-11	-5	0.1	-1.1	-0.3	2.0	4.7	0.2	-0.2	-0.6	0.4	1.3
Feb	P	-13	-11	-3	-13	-10	-4	-1.6	3.9	-2.3	2.6	4.2	0.1	1.6	-1.1	0.8	1.3
Mar	P	-13	-12	-3	-13	-11	-1	8.7	11.7	8.2	1.5	6.6	2.4	3.6	0.2	4.0	0.2
Apr	P	-11	-11	-	-2	-11	-	-10.4	-16.6	-10.5	1.8	0.4	-3.3	0.5	-1.8	-4.2	2.5
May	A	-14	-14	-4	-11	-9	-	1.4	5.5	0.5	8.9	6.7	2.4	5.6	1.5	3.0	1.4
Jun	A	-14	-13	-4	-19	-9	3	-1.5	0.1	-3.5	-2.5	4.5	0.4	0.8	1.6	-0.2	1.4
Jul	A	-14	-15	-3	-9	-8	-	-3.9	-6.5	-5.1	-4.7	5.4	1.3	2.9	0.6	1.8	2.2
Aug	A	-13	-11	-2	-1	-9	1	-2.4	-1.8	-3.8	-1.2	7.2	3.4	4.5	1.8	4.9	2.1
Sep	A	-14	-13	-4	-5	-8	3	-6.4	-6.5	-7.2	...	...	...	...	...	...	...

CONSUMER CONFIDENCE INDEX



CAR SALES
Trend obtained with TRAMO-SEATS



Sources: European Commission, European Economy, Supplement B, INE, Dirección General de Tráfico, Asociación Nacional de Fabricantes de Automóviles y Camiones and ECB.

a. Until December 2002, deflated by the total CPI. From January 2003, INE.

b. Until December 2002, deflated by the food component of the CPI. From January 2003, INE.

c. Until December 2002, deflated by the total CPI excluding foods, beverages, and tobacco. From January 2003, INE.

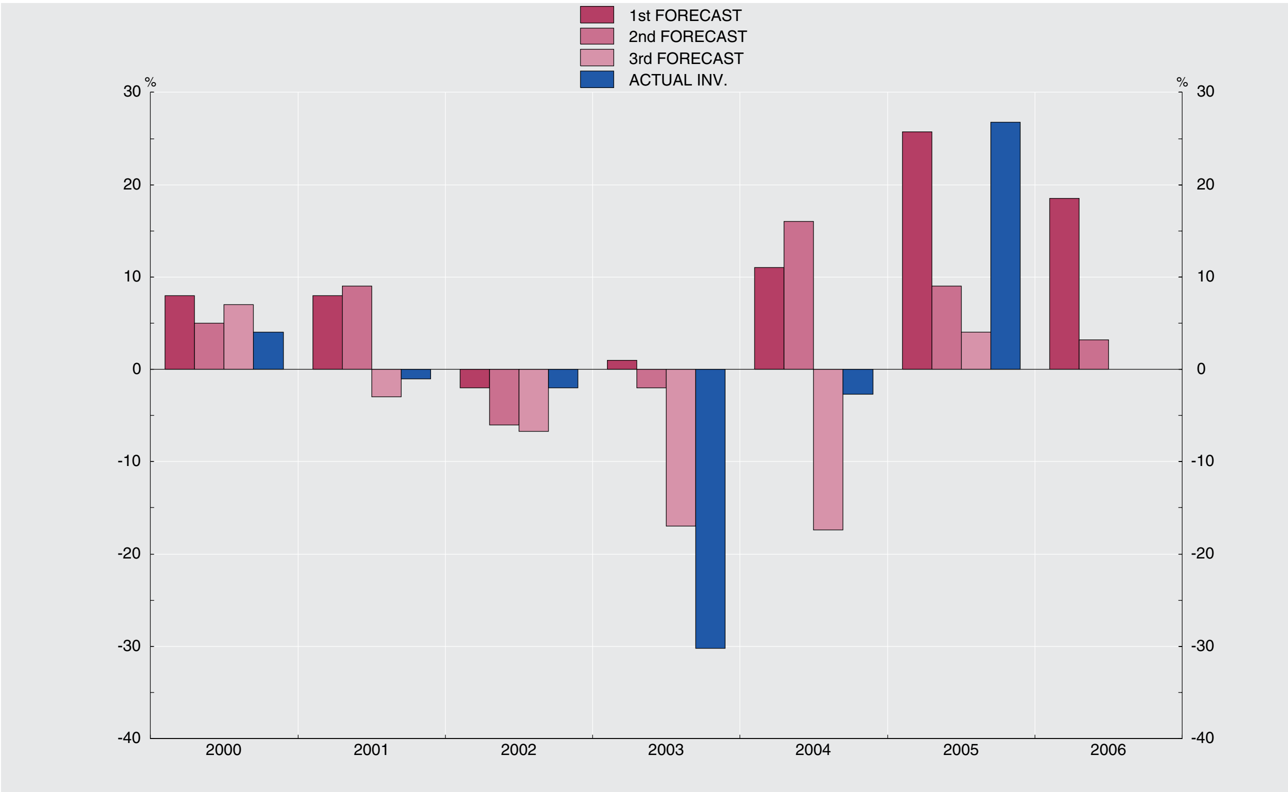
3.2. INVESTMENT IN INDUSTRY (EXCLUDING CONSTRUCTION): OPINION SURVEYS. SPAIN

■ Series depicted in chart.

Annual percentage changes at current prices

	ACTUAL INV. 1 ■	1st FORECAST 2 ■	2nd FORECAST 3 ■	3rd FORECAST 4 ■
00	4	8	5	7
01	-1	8	9	-3
02	-2	-2	-6	-7
03	-30	1	-2	-17
04	-3	11	16	-17
05	27	26	9	4
06	...	19	3	...

INVESTMENT IN INDUSTRY
Annual rates of change



Source: Ministerio de Industria, Turismo y Comercio.
Note: The first forecast is made in the autumn of the previous year and the second and third ones in the spring and autumn of the current year, respectively; the information relating to actual investment for the year t is obtained in the spring of the year t+1.

3.3. CONSTRUCTION. INDICATORS OF BUILDING STARTS AND CONSUMPTION OF CEMENT. SPAIN

■ Series depicted in chart.

Annual percentage changes

		Permits: buildable floorage				Approvals: buildable floorage		Government tenders (budget)							Apparent consumption of cement
			of which				of which	Total		Building					
		Total	Residential	Housing	Non-residential	Total	Housing	For the month	Year to date	Total	of which Residential	of which Housing	Non-residential	Civil engineering	
		1 ■	2	3	4	5 ■	6	7 ■	8	9	10	11	12	13	14 ■
03		13.4	16.2	16.3	2.0	17.5	19.9	-10.9	-10.9	-0.3	-11.7	35.4	3.8	-14.8	4.8
04		12.8	13.7	14.5	8.4	6.3	9.9	18.3	18.3	3.2	30.9	-0.5	-5.2	24.9	3.9
05	P	7.7	8.4	8.6	4.4	5.3	4.8	18.5	18.5	40.4	15.1	30.2	51.0	10.7	7.3
05 *J-S*	P	10.4	11.5	12.0	5.2	4.4	3.7	13.3	13.3	49.7	22.2	24.5	62.0	2.8	7.7
06 *J-S*	A	...	...	...	...	...	...	...	...	...	...	...	...	...	7.3
05 *Jun*	P	16.8	16.5	18.0	17.9	2.4	2.2	-10.4	19.9	93.6	-19.1	21.2	150.6	-32.6	6.7
Jul	P	26.8	22.7	21.9	46.3	-2.5	-10.7	-30.9	7.1	8.3	66.0	-23.2	-10.3	-42.9	1.7
Aug	P	8.3	13.7	12.4	-17.0	-6.0	-1.8	21.0	9.1	11.8	-23.9	559.0	50.3	24.2	15.7
Sep	P	8.5	10.5	13.5	-0.9	20.9	19.9	89.7	13.3	48.0	8.9	2.4	62.8	108.7	7.4
Oct	P	5.4	6.3	5.7	0.8	3.1	4.9	63.1	17.0	32.7	-7.2	189.3	46.9	80.8	6.3
Nov	P	-6.8	-7.0	-7.6	-5.9	5.8	6.8	42.9	18.9	81.5	88.4	101.2	79.8	18.6	3.9
Dec	P	5.4	4.2	4.6	11.2	14.8	13.7	15.1	18.5	-21.2	-35.6	-16.8	-14.8	42.7	8.8
06 *Jan*	P	28.5	28.6	28.8	28.1	23.9	18.9	18.1	18.1	142.1	259.8	192.9	83.7	-5.7	15.5
Feb	P	14.4	16.6	15.9	3.6	5.4	4.3	8.5	14.9	16.4	132.3	156.4	-5.9	4.2	12.9
Mar	P	26.8	21.3	21.5	58.4	15.2	18.0	14.9	14.9	25.3	62.8	279.8	10.0	9.9	22.0
Apr	P	12.6	2.8	5.1	61.8	-16.2	-14.0	25.9	17.7	38.8	-28.8	6.2	58.9	20.2	-8.9
May	A	...	...	...	...	10.8	14.8	68.9	28.6	46.4	203.4	144.8	15.8	78.8	8.3
Jun	A	...	...	...	...	11.5	14.4	11.1	25.3	6.0	55.1	6.5	-2.0	14.3	7.8
Jul	A	...	...	...	...	12.9	20.0	1.6	21.5	-5.2	-46.8	7.4	19.6	5.5	7.8
Aug	A	...	...	...	...	...	...	...	...	...	...	...	...	...	4.0
Sep	A	...	...	...	...	...	...	...	...	...	...	...	...	...	0.2

CONSTRUCTION
Trend obtained with TRAMO-SEATS

CONSTRUCTION
Trend obtained with TRAMO-SEATS

Sources: Ministerio de Fomento and Asociación de Fabricantes de Cemento de España.
Note: The underlying series for this indicator are in Tables 23.7, 23.8, and 23.9 of the BE Boletín estadístico.

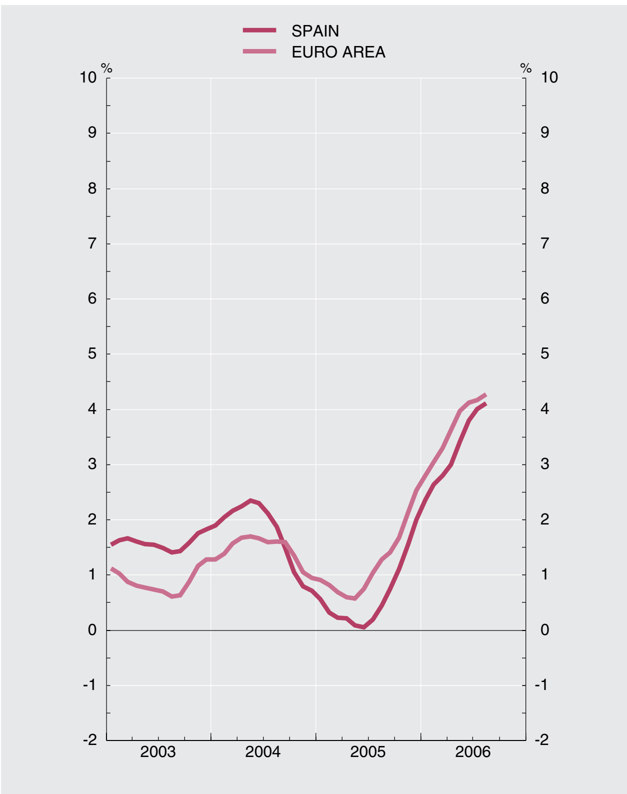
3.4. INDUSTRIAL PRODUCTION INDEX. SPAIN AND EURO AREA

■ Series depicted in chart.

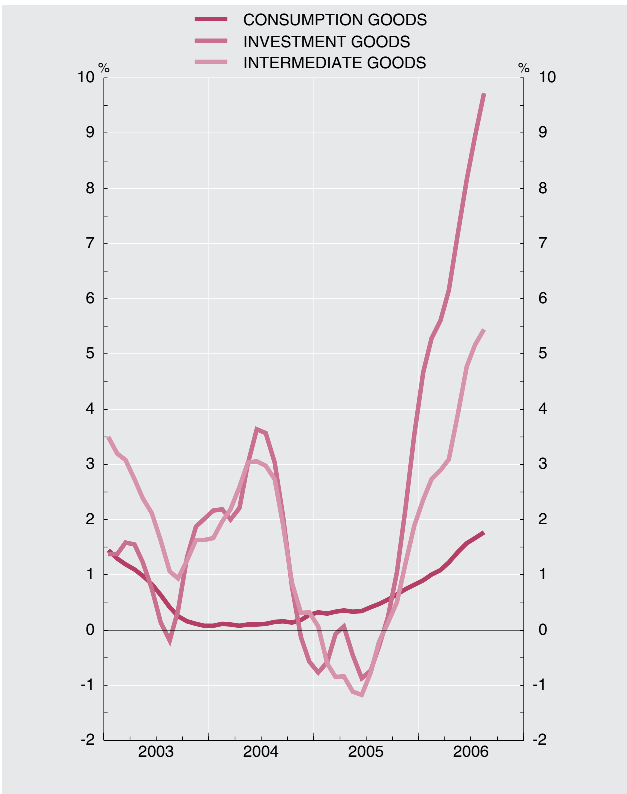
Annual percentage changes

		Overall Index		By end-use of goods				By branch of activity			Memorandum item: euro area				
		Total		Consum-ption	Investment	Inter-mediate goods	Energy	Mining and quarrying	Manufac-turing	Produc-tion and distribu-tion of electri-city, gas and water	Total	of wich	By end-use of goods		
		Original series	12-month %change 12									Manufac-turing	Consum-ption	Investment	Inter-mediate goods
		1	2 ■	3 ■	4 ■	5 ■	6	7	8	9	10 ■	11	12	13	14
03	M P	100.5	1.6	0.5	0.8	2.1	3.9	0.0	1.5	2.9	0.3	0.1	-0.3	-0.1	0.3
04	M P	102.3	1.8	0.0	1.9	1.9	4.9	-4.8	1.2	7.0	2.0	2.1	0.5	3.3	2.2
05	M P	102.4	0.1	0.2	-0.7	-0.6	2.9	-4.0	-0.3	4.1	1.2	1.2	0.6	2.6	0.7
05 *J-A*	M P	101.1	-0.2	0.3	-0.7	-1.1	2.0	-4.0	-0.6	4.0	0.8	0.8	0.2	2.4	0.1
06 *J-A*	M P	105.0	3.9	1.8	7.8	4.1	2.6	2.0	4.1	2.4	3.7	3.8	2.1	4.9	4.5
05 *May*	P	106.9	0.1	-0.1	1.7	-0.6	1.0	5.1	-0.2	2.3	-	-0.3	0.3	0.7	-0.5
Jun	P	110.1	-0.2	1.1	-1.4	-1.2	1.7	1.6	-0.5	3.0	0.6	0.5	0.6	2.5	-1.2
Jul	P	106.3	-3.5	-2.8	-6.2	-4.5	2.1	-3.4	-4.1	2.6	0.6	0.2	-0.4	2.9	-1.0
Aug	P	76.0	3.7	4.2	5.7	4.8	-0.7	5.9	4.3	-0.4	2.6	2.9	3.4	2.8	3.3
Sep	P	107.9	0.2	0.5	-2.2	-0.1	3.9	-1.7	-	2.1	1.2	1.6	1.6	2.9	0.7
Oct	P	104.7	-0.1	-	-0.9	-1.1	3.7	-4.8	-0.2	1.4	0.4	0.7	0.9	0.3	0.9
Nov	P	110.6	0.9	0.2	-1.3	1.1	5.5	-2.1	0.4	6.3	3.1	3.5	1.4	4.6	3.7
Dec	P	96.8	1.4	-1.1	2.4	1.0	5.4	-8.6	0.8	6.7	2.8	2.5	1.6	3.9	2.4
06 *Jan*	P	102.0	5.4	3.0	12.0	4.9	3.8	0.8	5.6	4.5	2.9	2.2	0.9	4.0	2.0
Feb	P	102.8	2.7	1.7	4.6	2.6	2.9	7.3	2.9	1.4	2.9	3.1	2.5	5.6	1.8
Mar	P	116.5	11.0	9.0	18.1	11.7	3.6	16.7	12.1	0.8	4.2	5.0	2.6	5.5	4.7
Apr	P	96.7	-9.8	-12.5	-10.0	-9.8	-3.6	-4.8	-10.5	-5.1	1.7	0.7	0.1	2.2	2.4
May	P	115.6	8.1	7.6	13.2	7.4	3.2	4.5	8.7	3.7	5.2	6.0	4.1	7.7	6.4
Jun	P	115.8	5.2	2.6	8.7	6.2	3.0	1.2	5.6	2.7	4.5	4.8	2.7	4.7	6.8
Jul	P	110.8	4.2	1.2	7.0	5.2	4.0	-7.3	3.9	7.2	3.0	3.2	1.5	3.3	4.4
Aug	P	79.8	5.0	2.3	12.2	5.4	3.2	-1.9	5.3	3.6	5.4	5.7	2.6	6.2	7.8

INDUSTRIAL PRODUCTION INDEX
Trend obtained with TRAMO-SEATS



INDUSTRIAL PRODUCTION INDEX
Trend obtained with TRAMO-SEATS



Sources: INE and BCE.
Note: The underlying series for this indicator are in Table 23.1 of the BE Boletín estadístico.

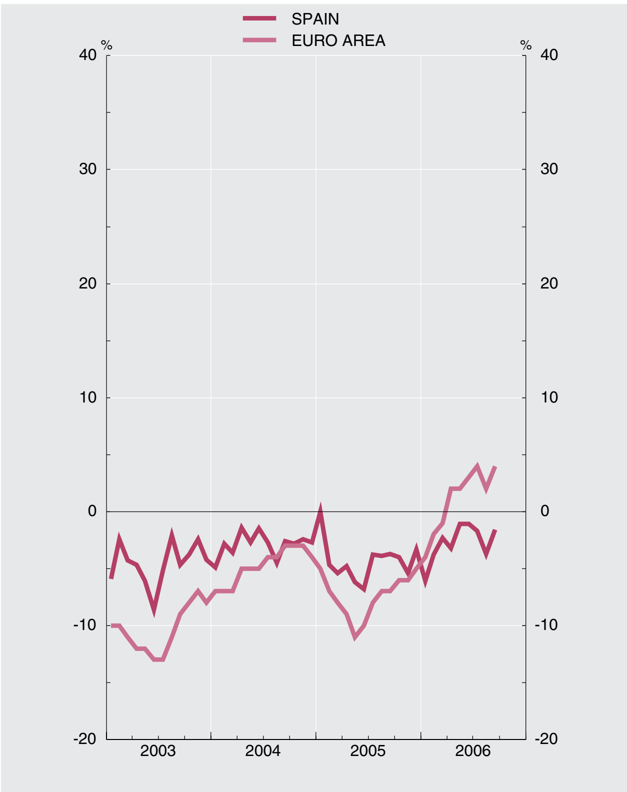
3.5. MONTHLY BUSINESS SURVEY: INDUSTRY AND CONSTRUCTION. SPAIN AND EURO AREA

■ Series depicted in chart.

Percentage balances

		Industry, excluding construction										Construction					Memorandum item: euro area		
		Business climate indi-cator- (a)	Produc-tion over the last three months	Trend in pro-duction (a)	Total orders (a)	Foreign orders	Stocks of finished products (a)	Business climate indicator: Con-sum-ption (a)	Business climate indicator: In-vest-ment (a)	Business climate indicator: In-ter-me-diate goods (a)	Business climate indicator: Other sec-tors (a)	Business climate indicator	Produc-tion	Orders	Trend: Produc-tion	Trend: Orders	Industry, excluding construction: Business climate indicator	Industry, excluding construction: Order Book	Construc-tion climate indicator
		1 ■	2	3	4	5	6	7	8	9	10	11 ■	12	13	14	15	16 ■	17	18 ■
03	M	-5	4	8	-11	-20	10	-0	-3	-9	1	10	9	20	30	19	-10	-25	-16
04	M	-3	4	10	-8	-17	11	-3	1	-4	0	14	7	21	30	26	-5	-16	-12
05	M	-4	0	7	-9	-18	12	-2	-5	-6	1	22	31	35	30	22	-7	-17	-7
05 *J-S*	M	-4	1	8	-9	-18	12	-2	-4	-7	1	22	29	35	36	23	-8	-17	-8
06 *J-S*	M	-3	6	6	-2	-12	12	-3	-1	-3	-1	15	33	23	29	12	1	-2	-1
05 *Jun*		-7	6	6	-13	-21	13	-2	-4	-12	0	18	42	30	28	27	-10	-21	-10
Jul		-4	12	7	-6	-17	12	-1	-6	-5	2	21	46	30	41	40	-8	-18	-9
Aug		-4	4	7	-9	-17	10	3	-2	-11	6	20	43	23	23	23	-7	-18	-7
Sep		-4	-4	5	-6	-18	11	-3	-6	-3	3	22	37	32	39	20	-7	-16	-5
Oct		-4	-1	7	-11	-20	8	-4	-5	-4	2	15	43	23	13	26	-6	-16	-5
Nov		-5	1	6	-8	-14	14	-3	-9	-6	2	33	30	54	15	11	-6	-16	-1
Dec		-3	-2	7	-5	-16	12	-1	-3	-5	-1	21	39	31	7	19	-5	-13	-4
06 *Jan*		-6	-3	5	-8	-19	15	-4	-7	-8	2	21	25	37	39	32	-4	-12	-2
Feb		-4	1	5	-5	-16	11	-4	0	-6	-1	7	-2	21	27	2	-2	-10	-4
Mar		-2	2	6	-0	-13	13	-2	-0	-4	-1	20	15	31	19	21	-1	-6	-2
Apr		-3	7	3	-2	-12	10	-4	-	-4	-1	15	49	19	41	-1	2	-1	-2
May		-1	2	7	1	-8	11	-5	4	-1	-2	14	31	18	47	25	2	-2	-2
Jun		-1	10	9	-1	-7	11	-2	-	-1	-1	19	51	22	34	9	3	2	-1
Jul		-2	11	8	-3	-9	11	-3	-1	-1	-1	26	39	37	22	16	4	3	2
Aug		-4	12	4	-3	-9	13	-5	-6	-1	-	3	38	-1	7	3	2	3	2
Sep		-2	9	8	-1	-11	12	-1	1	-3	-2	15	51	21	21	5	4	4	4

INDUSTRIAL BUSINESS CLIMATE
Percentage balances



CONSTRUCTION BUSINESS CLIMATE
Percentage balances

Sources: Ministerio de Industria, Turismo y Comercio and ECB.
a. Seasonally adjusted.

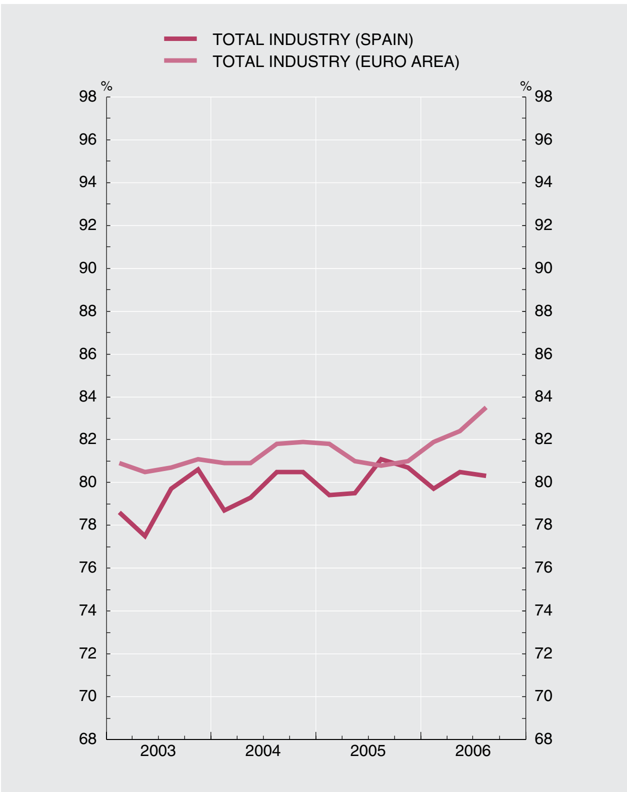
3.6. BUSINESS SURVEY: CAPACITY UTILISATION. SPAIN AND EURO AREA

■ Series depicted in chart.

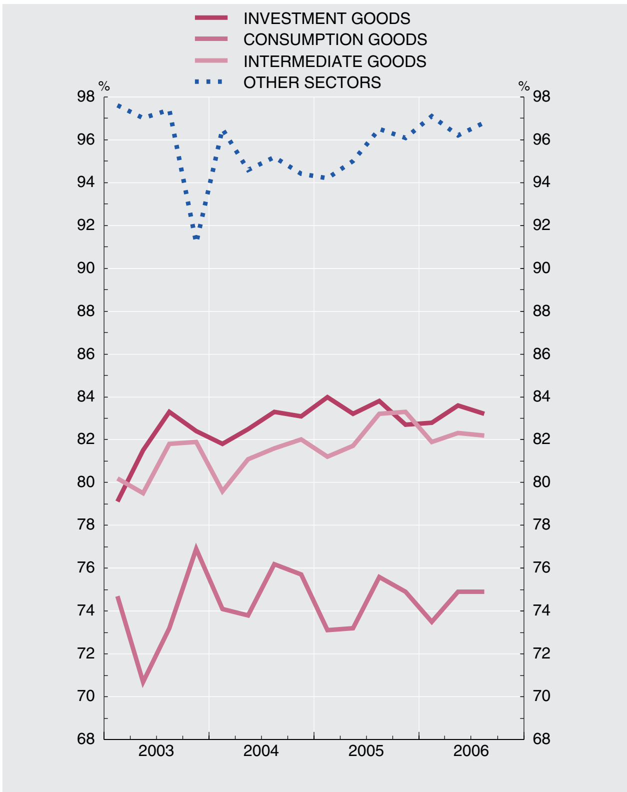
Percentages and percentage balances

	Total industry			Consumer goods			Investment goods			Intermediate goods			Other sectors			Memo-ramdum item: euro area capacity utilisa-tion
	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	
	Over last three months (%)	Forecast (%)	(Per-centage balan-ces)	Over last three months (%)	Forecast (%)	(Per-centage balan-ces)	Over last three months (%)	Forecast (%)	(Per-centage balan-ces)	Over last three months (%)	Forecast (%)	(Per-centage balan-ces)	Over last three months (%)	Forecast (%)	(Per-centage balan-ces)	(%)
	1 ■	2	3	4 ■	5	6	7 ■	8	9	10 ■	11	12	13 ■	14	15	16 ■
03	79.1	80.9	6	73.9	76.7	7	81.6	83.0	7	80.9	82.2	5	95.8	95.6	-1	80.8
04	79.8	81.0	6	75.0	76.6	7	82.7	83.5	6	81.1	82.3	5	95.2	95.2	2	81.4
05	80.2	81.5	5	74.2	76.3	6	83.4	84.3	5	82.4	83.3	4	95.5	95.1	0	81.2
05 *Q1-Q3*	80.0	81.6	4	74.0	76.2	6	83.7	84.8	3	82.0	83.3	4	95.2	96.1	-	81.2
06 *Q1-Q3*	80.2	81.3	5	74.4	76.4	4	83.2	83.4	8	82.1	83.1	5	96.7	97.2	-	82.6
04 *Q1*	78.7	80.2	10	74.1	75.8	13	81.8	82.8	10	79.6	81.4	7	96.5	96.4	-	80.9
Q2	79.3	81.2	6	73.8	76.2	5	82.5	83.8	8	81.1	83.0	7	94.6	94.6	-	80.9
Q3	80.5	81.2	6	76.2	77.5	9	83.3	83.5	4	81.6	82.0	5	95.2	95.5	-	81.8
Q4	80.5	81.3	2	75.7	76.8	2	83.1	84.0	2	82.0	82.6	1	94.4	94.1	6	81.9
05 *Q1*	79.4	81.2	4	73.1	75.9	3	84.0	84.8	4	81.2	82.6	4	94.2	95.0	-	81.8
Q2	79.5	81.7	5	73.2	76.3	6	83.2	85.1	3	81.7	83.4	5	95.0	96.6	-	81.0
Q3	81.1	81.8	5	75.6	76.4	8	83.8	84.4	4	83.2	83.9	5	96.5	96.7	-	80.8
Q4	80.7	81.3	5	74.9	76.7	6	82.7	82.9	8	83.3	83.4	3	96.1	91.9	0	81.0
06 *Q1*	79.7	80.5	9	73.5	75.5	6	82.8	82.6	14	81.9	82.5	9	97.1	97.4	-	81.9
Q2	80.5	82.2	5	74.9	77.9	5	83.6	84.2	7	82.3	83.8	5	96.2	96.5	-	82.4
Q3	80.3	81.1	2	74.9	75.9	1	83.2	83.4	4	82.2	83.0	1	96.8	97.8	-	83.5

CAPACITY UTILISATION. TOTAL INDUSTRY
Percentages



CAPACITY UTILISATION. BY TYPE OF GOOD
Percentages



Sources: Ministerio de Industria, Turismo y Comercio and ECB.

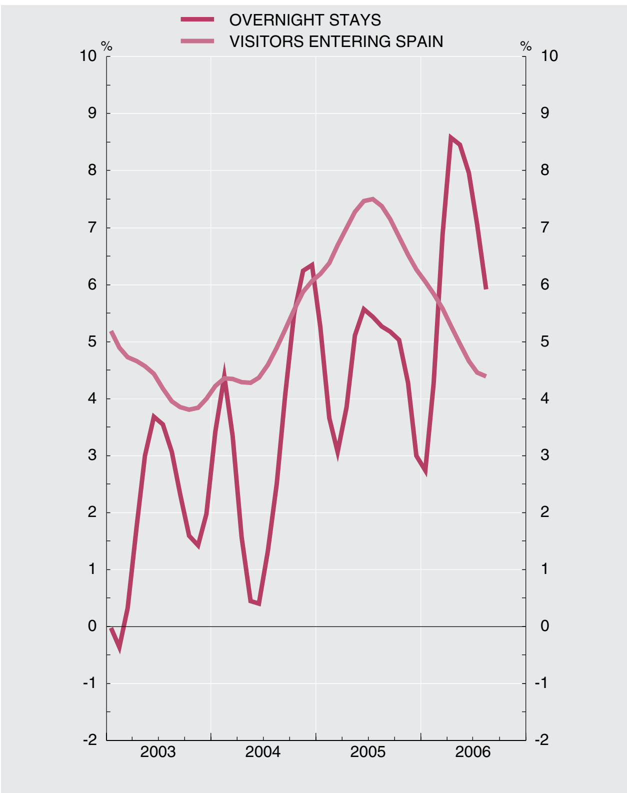
3.7. TOURISM AND TRANSPORT STATISTICS. SPAIN

■ Series depicted in chart.

Annual percentage changes

		Hotel stays (a)		Overnight stays		Visitors entering Spain			Air transport				Maritime transport		Rail transport	
									Passengers							
		Total	Foreig-ners	Total	Foreig-ners	Total	Tourists	Day-trip-pers	Total	Domestic flights	Interna-tional flights	Freight	Passen-gers	Freight	Passen-gers	Freight
		1	2	3 ■	4	5 ■	6	7	8 ■	9	10	11	12	13	14 ■	15
03		3.8	2.1	2.4	0.7	2.9	-2.8	13.6	7.4	8.1	7.0	0.5	-3.3	4.8	1.4	2.1
04		6.9	1.4	2.9	-1.6	4.4	3.1	6.6	8.0	9.8	6.8	9.1	10.6	6.8	-1.5	-2.1
05	P	5.7	5.2	4.7	3.2	7.4	6.5	9.0	9.2	13.6	6.2	-3.0	-1.1	9.0	4.3	-2.2
05 *J-A*	P	5.8	4.0	4.6	2.1	7.7	6.6	9.3	9.1	13.6	6.0	-2.0	-1.2	10.9	4.6	-7.6
06 *J-A*	P	6.7	8.0	7.1	8.2	4.0	4.9	2.6	-41.7	-38.6	-44.0	-41.5	-55.9	-36.0	1.9	-23.0
05 *May*	P	8.5	3.8	8.2	2.5	7.5	5.4	11.4	11.2	17.8	6.8	-6.9	-11.1	7.1	5.3	-3.5
Jun	P	6.8	8.0	5.3	3.9	11.1	8.4	16.5	8.8	13.7	5.6	-3.4	-4.4	11.4	3.7	-4.8
Jul	P	7.8	7.8	6.5	4.3	10.8	8.4	15.5	11.9	17.5	8.5	-6.9	6.4	6.6	2.5	-10.6
Aug	P	4.7	4.6	4.0	3.2	6.5	6.9	6.0	8.7	14.9	5.0	-5.1	-2.2	7.6	5.7	2.5
Sep	P	6.5	9.0	5.4	5.3	10.9	8.3	16.1	10.6	16.4	7.0	-5.0	12.4	3.7	3.8	4.5
Oct	P	3.5	5.4	5.5	6.9	4.9	4.6	5.4	8.3	14.7	4.4	-1.2	-16.0	5.4	2.0	31.3
Nov	P	9.0	9.9	7.1	7.2	5.7	7.7	3.1	10.7	12.5	9.1	-3.1	-1.7	5.3	3.2	-2.4
Dec	P	3.8	7.9	0.8	2.9	5.0	2.8	7.5	9.0	10.4	7.8	-10.5	0.5	7.1	6.4	8.8
06 *Jan*	P	3.3	0.9	-0.3	-1.2	3.6	-0.1	7.9	7.7	12.5	3.8	-1.5	-2.7	3.6	6.3	5.5
Feb	P	5.6	1.9	1.8	-1.7	6.4	2.0	12.2	5.4	7.5	3.7	-10.1	14.8	5.4	6.4	5.5
Mar	P	2.0	8.1	-1.0	6.4	1.1	0.0	2.7	3.1	6.9	-0.0	-5.4	-20.2	7.9	4.6	5.5
Apr	P	21.8	19.8	24.3	17.5	15.5	17.7	12.2	15.1	9.5	19.6	-16.2	37.8	4.3	-6.5	-22.1
May	P	5.2	9.3	6.3	9.8	6.9	6.9	6.8	6.9	5.4	8.0	-6.3	-2.4	5.2	1.7	7.9
Jun	P	7.4	11.3	10.3	13.5	0.6	5.5	-8.3	...	...	...	...	...	...	0.4	-0.2
Jul	P	4.5	4.9	7.9	9.3	-0.4	3.0	-6.7	...	...	...	...	...	...	1.0	...
Aug	P	4.5	4.8	4.4	4.7	2.9	3.3	2.3	...	...	...	...	...	...	2.0	...

TOURISM
Trend obtained with TRAMO-SEATS



TRANSPORT
Trend obtained with TRAMO-SEATS

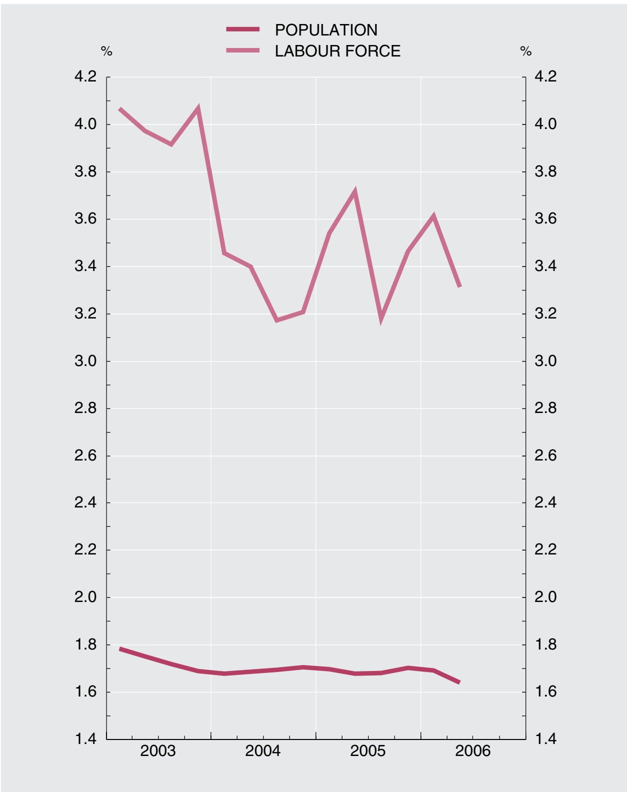
Sources: INE and Instituto de Estudios Turísticos, Estadística de Movimientos Turísticos en Frontera.
Note: The underlying series for this indicator are in Table 23.15 of the BE Boletín estadístico .
a. From January 2003, the information for Galicia is based on total figures for hotel stays and overnight stays for the month. The directory of hotels has been reviewed thoroughly. Since January 2006, the directories have been update and the information-collection period extended to every day of the month

4.1. LABOUR FORCE. SPAIN

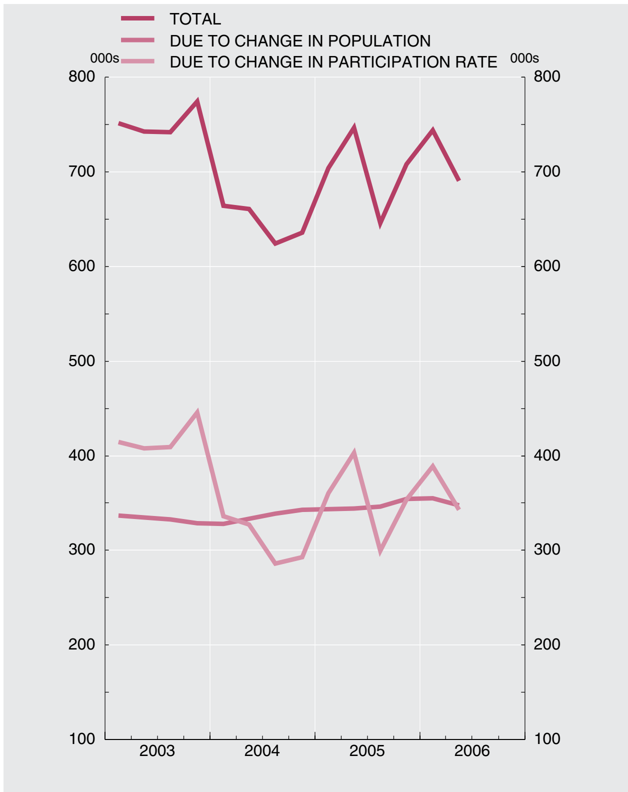
■ Series depicted in chart. *Thousands and annual percentage changes*

	Population over 16 years of age: Thousands	Population over 16 years of age: Annual change	Population over 16 years of age: 4-quarter % change	Participation rate (%) (a)	Labour force: Thousands (a)	Labour force: Annual change (b): Total	Labour force: Annual change (b): Due to change in population over 16 years of age	Labour force: Annual change (b): Due to change in partici- pation rate	Labour force: 4-quarter % change
	1	2	3 ■	4	5	6 ■	7 ■	8 ■	9 ■
03 M	35 215	601	1.7	55.48	19 538	753	333	419	4.0
04 M	35 811	596	1.7	56.36	20 184	646	336	311	3.3
05 M	36 416	605	1.7	57.35	20 886	701	347	354	3.5
05 *Q1-Q2* M	36 261	602	1.7	57.13	20 716	1 451	688	763	3.6
06 *Q1-Q2* M	36 866	605	1.7	58.14	21 433	1 435	703	732	3.5
03 *Q4*	35 434	588	1.7	55.91	19 812	775	329	446	4.1
04 *Q1*	35 583	587	1.7	55.89	19 888	664	328	336	3.5
Q2	35 735	593	1.7	56.23	20 093	661	333	327	3.4
Q3	35 887	598	1.7	56.60	20 310	624	339	286	3.2
Q4	36 038	604	1.7	56.74	20 447	636	343	293	3.2
05 *Q1*	36 188	604	1.7	56.90	20 592	704	344	360	3.5
Q2	36 335	600	1.7	57.35	20 840	747	344	403	3.7
Q3	36 490	603	1.7	57.43	20 956	646	346	300	3.2
Q4	36 652	614	1.7	57.72	21 156	708	354	354	3.5
06 *Q1*	36 800	613	1.7	57.98	21 336	744	355	389	3.6
Q2	36 931	597	1.6	58.30	21 530	691	348	343	3.3

LABOUR FORCE SURVEY
Annual percentage change



LABOUR FORCE
Annual changes



Source: INE (Labour Force Survey: 2005 methodology).
a. the new definition of unemployment applies from 2001 Q1 onwards, entailing a break in the series. (See www.ine.es).
b. Col.7 = (col.5/col.1)x annual change in col.1. Col. 8 = (annual change in col.4/100) x col.1(t-4).
Note: As a result of the change in the population base (2001 Census), all the series in this table have been revised as from 1996. In addition, since 2005 Q1 the new obligatory variables referred to in Regulation (EC) 2257/2003 (on the adaptation of the list of labour force survey characteristics) have been included, a centralised procedure for telephone interviews has been set in place and the questionnaire has been modified. Thus, in 2005 Q1, there is a break in the series of some variables. For further information, see www.ine.es.

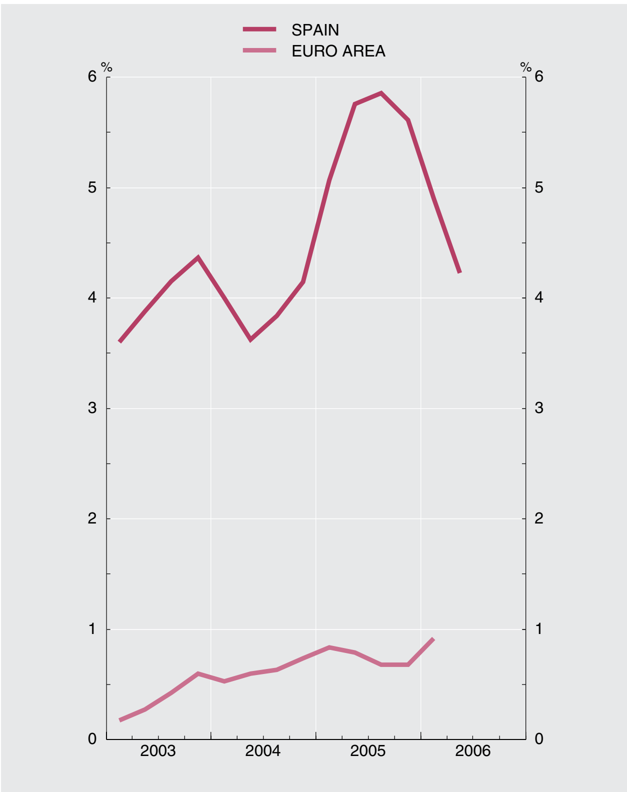
4.2. EMPLOYMENT AND WAGE-EARNERS. SPAIN AND EURO AREA

■ Series depicted in chart.

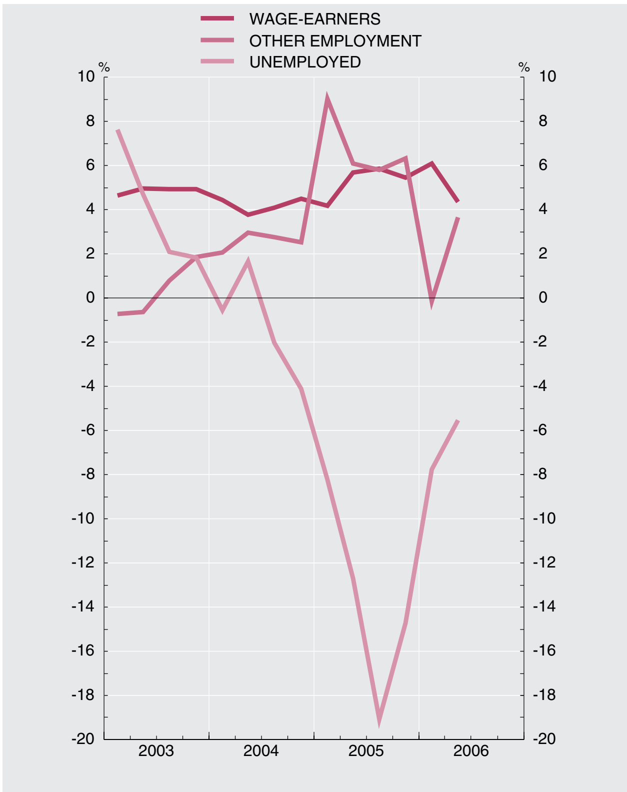
Thousands and annual percentage changes

	Employment									Unemployment			Unem-ployment rate (a)	Memorandum item: euro area	
	Total			Wage-earners			Other								
	Thousands	Annual change	4-quarter % change	Thousands	Annual change	4-quarter % change	Thousands	Annual change	4-quarter % change	Thousands (a)	Annual change	4-quarter % change		Employ-ment 4-quarter % change	Unem-ployment rate
	1	2	3 ■	4	5	6 ■	7	8	9 ■	10	11	12 ■	13	14	15
03 M	17 296	666	4.0	14 127	656	4.9	3 169	10	0.3	2 242	87	4.0	11.48	0.4	8.74
04 M	17 971	675	3.9	14 721	593	4.2	3 250	82	2.6	2 214	-29	-1.3	10.97	0.6	8.88
05 M	18 973	1 002	5.6	15 502	781	5.3	3 471	221	6.8	1 913	-301	-13.6	9.16	0.7	8.60
05 *Q1-Q2* M	18 694	961	5.4	15 209	716	4.9	3 485	245	7.5	2 022	-235	-10.4	9.76	0.8	8.75
06 *Q1-Q2* M	19 547	853	4.6	16 000	792	5.2	3 546	61	1.8	1 886	-135	-6.7	8.80	...	8.01
03 *Q4*	17 560	734	4.4	14 375	676	4.9	3 185	59	1.9	2 252	40	1.8	11.37	0.6	8.86
04 *Q1*	17 600	677	4.0	14 375	612	4.4	3 225	65	2.1	2 287	-12	-0.5	11.50	0.5	8.89
Q2	17 866	625	3.6	14 609	531	3.8	3 256	93	3.0	2 227	36	1.6	11.08	0.6	8.89
Q3	18 129	670	3.8	14 876	583	4.1	3 253	87	2.7	2 181	-45	-2.0	10.74	0.6	8.90
Q4	18 288	728	4.1	15 022	648	4.5	3 266	81	2.5	2 159	-93	-4.1	10.56	0.7	8.81
05 *Q1*	18 493	892	5.1	14 977	602	4.2	3 516	291	9.0	2 099	-188	-8.2	10.19	0.8	8.79
Q2	18 895	1 029	5.8	15 440	831	5.7	3 455	198	6.1	1 945	-282	-12.7	9.33	0.8	8.72
Q3	19 191	1 062	5.9	15 750	874	5.9	3 442	188	5.8	1 765	-416	-19.1	8.42	0.7	8.52
Q4	19 314	1 026	5.6	15 842	819	5.5	3 473	207	6.3	1 841	-318	-14.7	8.70	0.7	8.38
06 *Q1*	19 400	907	4.9	15 889	912	6.1	3 511	-5	-0.1	1 936	-163	-7.8	9.07	0.9	8.13
Q2	19 693	798	4.2	16 112	671	4.3	3 582	127	3.7	1 837	-108	-5.5	8.53	...	7.90

EMPLOYMENT
Annual percentage changes



LABOUR FORCE: COMPONENTS
Annual percentage changes



Sources: INE (Labour Force Survey: 2005 methodology), and ECB.
a. the new definition of unemployment applies from 2001 Q1 onwards, entailing a break in the series. (See www.ine.es).
Note: As a result of the change in the population base (2001 Census), all the series in this table have been revised as from 1996. In addition, since 2005 Q1 the new obligatory variables referred to in Regulation (EC) 2257/2003 (on the adaptation of the list of labour force survey characteristics) have been included, a centralised procedure for telephone interviews has been set in place and the questionnaire has been modified. Thus, in 2005 Q1, there is a break in the series of some variables. For further information, see www.ine.es.

4.3. EMPLOYMENT BY BRANCH OF ACTIVITY. SPAIN (a)

■ Series depicted in chart.

Annual percentage changes

	Total			Agriculture			Industry			Construction			Services			Memorandum item: employment in		
	Employ-ment	Wage-earners	Propor-tion of tempora ry em-ploy-ment	Employ-ment	Wage-earners	Propor-tion of tempora ry em-ploy-ment	Employ-ment	Wage-earners	Propor-tion of tempora ry em-ploy-ment	Employ-ment	Wage-earners	Propor-tion of tempora ry em-ploy-ment	Employ-ment	Wage-earners	Propor-tion of tempora-ry em-ployment	Branches other than agricul-ture	Branches other than agri-culture excluding general govern-ment	Services exclu-ding general govern-ment
	1	2	3 ■	4	5	6	7 ■	8	9 ■	10	11	12 ■	13 ■	14	15 ■	16	17	18
03 M	4.0	4.9	31.8	-0.4	3.7	60.6	0.3	-0.0	23.0	6.1	7.5	57.5	5.1	6.0	28.2	4.3	4.2	5.3
04 M	3.9	4.2	32.4	-0.2	3.9	62.1	0.3	1.0	22.7	7.2	6.4	58.1	4.7	4.8	29.0	4.2	4.2	4.9
05 M	5.6	5.3	33.3	1.2	1.7	62.5	2.1	0.5	24.3	4.6	3.3	55.8	7.1	7.3	30.3	5.8	...	...
05 *Q1-Q2* M	5.4	4.9	2.2	-0.4	-2.9	-0.9	2.3	0.8	6.9	4.8	3.6	-3.8	6.9	6.9	4.3	6.1	...	...
06 *Q1-Q2* M	4.6	5.2	4.0	-3.1	4.2	-2.6	0.6	0.9	2.2	7.6	7.9	2.1	5.7	6.0	5.1	4.6	...	...
03 *Q4*	4.4	4.9	32.1	4.0	12.7	61.9	-1.9	-2.1	22.8	6.5	7.1	57.4	5.9	6.5	28.6	4.4	4.5	6.6
04 *Q1*	4.0	4.4	31.6	2.6	8.4	63.7	-1.1	-0.5	22.3	5.8	5.5	56.9	5.3	5.6	28.0	4.1	4.2	5.9
Q2	3.6	3.8	32.1	-0.5	1.9	61.0	-0.1	0.6	22.2	5.5	4.1	58.2	4.7	4.8	28.6	3.9	4.1	5.3
Q3	3.8	4.1	33.1	0.2	7.5	60.3	-0.1	0.6	23.3	7.7	6.5	58.9	4.6	4.6	29.8	4.0	4.1	4.8
Q4	4.1	4.5	32.9	-3.1	-1.7	63.5	2.6	3.3	23.1	9.8	9.4	58.3	4.2	4.3	29.4	4.6	4.4	3.7
05 *Q1*	5.1	4.2	31.9	-1.4	-8.5	61.7	2.6	0.9	23.0	5.1	3.4	54.7	6.4	6.0	28.9	5.5	...	...
Q2	5.8	5.7	33.3	0.7	3.3	61.9	2.0	0.7	24.6	4.5	3.7	56.0	7.5	7.7	30.1	6.1	...	...
Q3	5.9	5.9	34.4	2.9	6.4	63.6	2.7	1.0	24.7	5.0	3.3	56.4	7.1	7.8	31.7	6.0	...	...
Q4	5.6	5.5	33.8	2.7	6.3	62.8	1.3	-0.5	24.9	3.9	2.7	56.1	7.4	7.7	30.7	5.8	...	...
06 *Q1*	4.9	6.1	33.3	-3.2	8.1	61.3	0.5	0.7	23.7	7.3	8.2	56.2	6.3	7.2	30.4	5.4	...	...
Q2	4.2	4.3	34.4	-3.0	0.4	59.1	0.7	1.0	24.9	7.8	7.6	56.8	5.0	4.9	31.6	4.6	...	...

EMPLOYMENT
Annual percentage changes

TEMPORARY EMPLOYMENT
Percentages

Source: INE (Labour Force Survey: 2005 methodology).
a. Branches of activity in accordance with NACE-93.
Notes: The underlying series of this indicator are in Tables 24.4 and 24.6 of the BE Boletín estadístico.
As a result of the change in the population base (2001 Census), all the series in this table have been revised as from 1996. In addition, since 2005 Q1 the new obligatory variables referred to in Regulation (EC) 2257/2003 (on the adaptation of the list of labour force survey characteristics) have been included, a centralised procedure for telephone interviews has been set in place and the questionnaire has been modified. Thus, in 2005 Q1, there is a break in the series of some variables. For further information, see www.ine.es.

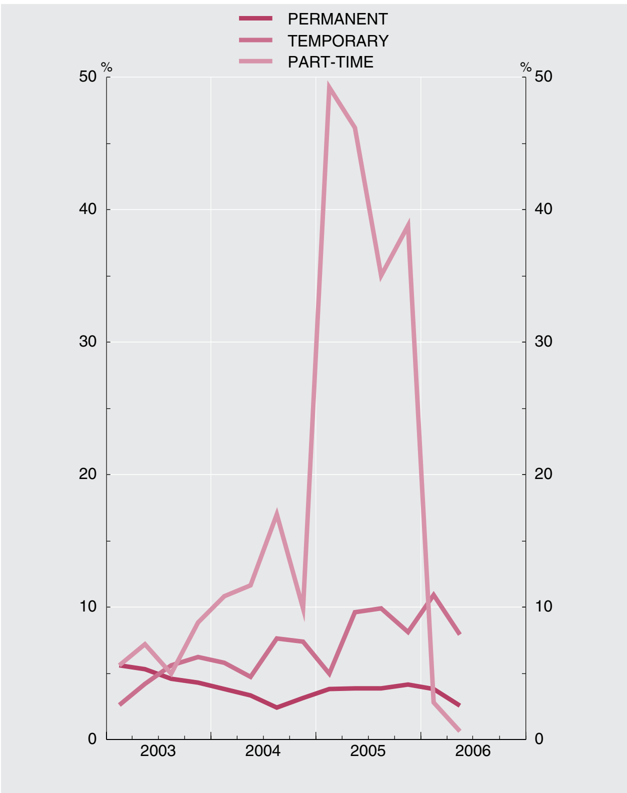
4.4. WAGE-EARNERS BY TYPE OF CONTRACT AND UNEMPLOYMENT BY DURATION. SPAIN. (a)

■ Series depicted in chart.

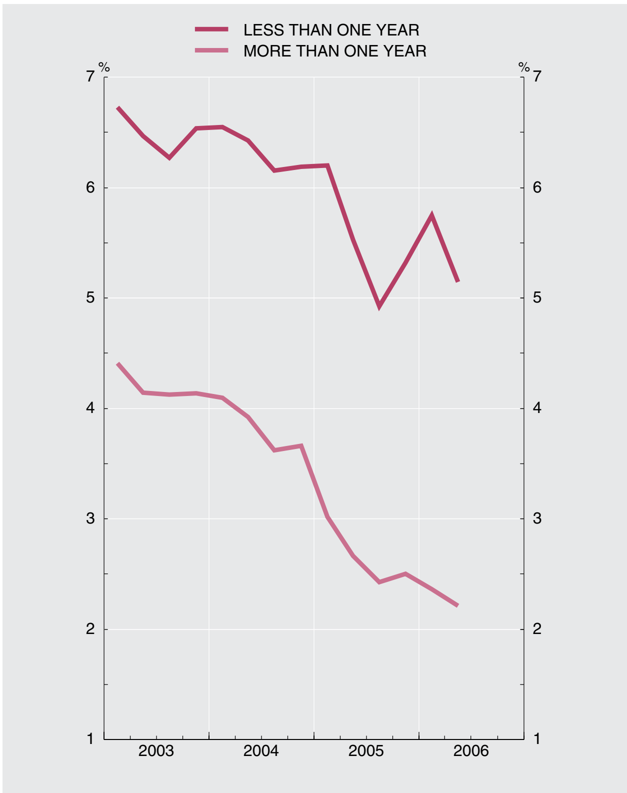
Thousands, annual percentage changes and %

	Wage-earners										Unemployment						
	By type of contract					By duration of working day					By duration				% of unemployed that would accept a job (a)		
	Permanent		Temporary			Full-time		Part-time			Less than one year		More than one year				
	Annual change Thousands	4-quarter % change	Annual change Thousands	4-quarter % change	Proportion of temporary employment	Annual change Thousands	4-quarter % change	Annual change Thousands	4-quarter % change	As % for wage earners	Unemployment rate (a)	4-quarter % change	Unemployment rate (a)	4-quarter % change	Entailing a change of residence	Whith a lower wage	Requiring fever skills
	1	2 ■	3	4 ■	5	6	7	8	9 ■	10	11 ■	12	13 ■	14	15	16	17
03 M	455	4.9	201	4.7	31.77	581	4.7	75	6.7	8.44	6.50	4.9	4.20	3.0	19.99	42.30	47.61
04 M	306	3.2	288	6.4	32.44	447	3.5	147	12.3	9.10	6.33	0.6	3.82	-6.0	18.20	42.19	47.33
05 M	390	3.9	392	8.2	33.32	215	1.6	566	42.2	12.30	5.49	-10.2	2.65	-28.3	...	...	...
05 *Q1-Q2* M	378	3.8	338	7.3	32.57	206	1.6	631	47.7	12.85	5.86	-6.4	2.84	-26.6	...	...	...
06 *Q1-Q2* M	328	3.2	464	9.4	33.86	659	4.9	33	1.7	12.42	5.45	-3.9	2.29	-16.6	...	...	...
03 *Q4*	405	4.3	271	6.2	32.06	574	4.6	101	8.9	8.66	6.54	3.7	4.14	-1.7	19.34	43.87	49.23
04 *Q1*	362	3.8	250	5.8	31.63	485	3.9	127	10.8	9.00	6.55	0.7	4.09	-3.9	17.99	42.10	47.98
Q2	320	3.3	211	4.7	32.07	390	3.0	141	11.6	9.26	6.43	2.8	3.92	-2.1	18.77	42.48	47.89
Q3	234	2.4	349	7.6	33.13	388	2.9	195	17.0	9.03	6.15	1.2	3.62	-9.5	18.25	41.60	46.07
Q4	308	3.2	340	7.4	32.94	524	4.0	123	9.9	9.11	6.19	-2.4	3.66	-8.6	17.78	42.57	47.38
05 *Q1*	375	3.8	227	5.0	31.88	-36	-0.3	637	49.3	12.89	6.20	-2.0	3.02	-23.7	...	...	...
Q2	381	3.8	449	9.6	33.26	206	1.6	625	46.2	12.81	5.53	-10.8	2.66	-29.5	...	...	...
Q3	385	3.9	489	9.9	34.39	403	3.0	471	35.1	11.52	4.92	-17.4	2.43	-30.8	...	...	...
Q4	417	4.1	402	8.1	33.77	289	2.1	531	38.8	11.98	5.32	-11.0	2.50	-29.4	...	...	...
06 *Q1*	390	3.8	522	10.9	33.33	858	6.6	54	2.8	12.49	5.75	-3.9	2.36	-18.8	...	...	...
Q2	265	2.6	406	7.9	34.39	659	4.9	13	0.6	12.35	5.14	-3.8	2.21	-14.2	...	...	...

WAGE-EARNERS
Annual percentage changes



UNEMPLOYMENT
Unemployment rate



Source: INE (Labour Force Survey: 2005 methodology).
a. the new definition of unemployment applies from 2001 Q1 onwards, entailing a break in the series. (See www.ine.es).
Note: As a result of the change in the population base (2001 Census), all the series in this table have been revised as from 1996. In addition, since 2005 Q1 the new obligatory variables referred to in Regulation (EC) 2257/2003 (on the adaptation of the list of labour force survey characteristics) have been included, a centralised procedure for telephone interviews has been set in place and the questionnaire has been modified. Thus, in 2005 Q1, there is a break in the series of some variables. For further information, see www.ine.es.

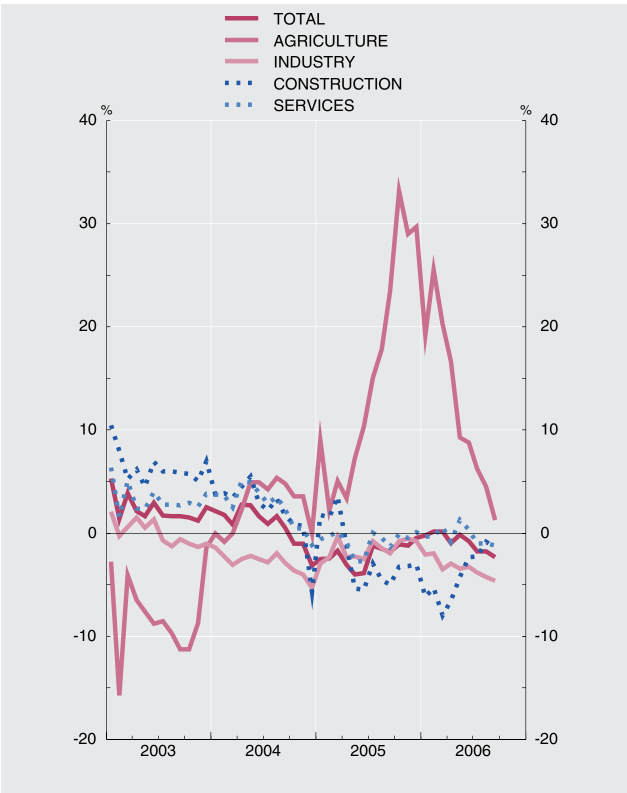
4.5. REGISTERED UNEMPLOYMENT BY BRANCH OF ACTIVITY. CONTRACTS AND PLACEMENTS. SPAIN

■ Series depicted in chart.

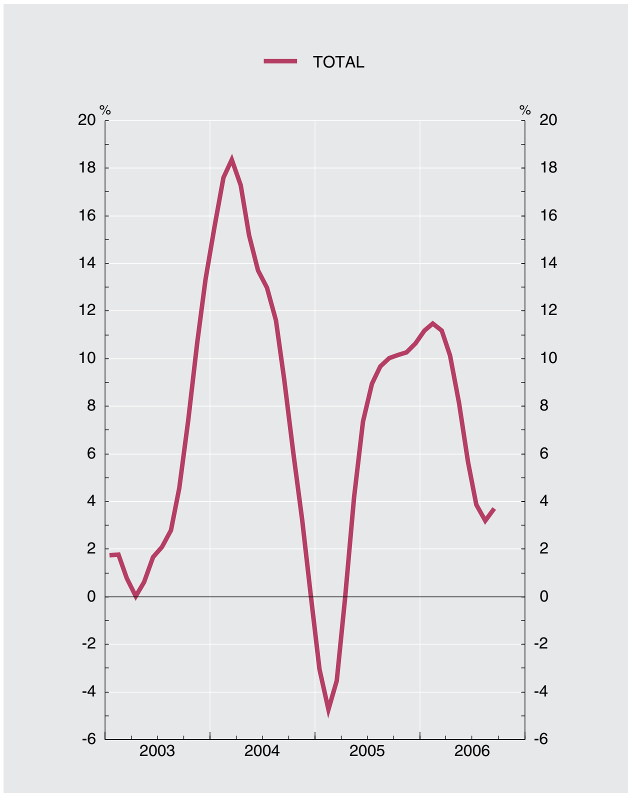
Thousands, annual percentage changes and %

		Registered unemployment										Contracts					Placements	
		Total			First time job-seekers	Previously employed						Total		Percentage of total			Total	
						12-month % change												
								Branches other than agriculture										
		Thousands	Annual change Thousands	12 month % change	12 month % change	Total	Agriculture	Total	Industry	Construction	Services	Thousands	12 month % change	Permanent	Part time	Temporary	Thousands	12 month % change
		1	2	3 ■	4	5	6 ■	7	8 ■	9 ■	10 ■	11	12	13	14	15	16	17 ■
03	M	2 097	47	2.3	-0.5	2.7	-8.2	3.1	-0.0	6.4	3.3	1 222	3.4	8.67	21.21	91.33	1 193	4.2
04	M	2 114	17	0.8	-5.0	1.7	2.7	1.6	-2.9	2.2	2.7	1 363	11.5	8.67	22.71	91.33	1 336	12.0
05	M	2 070	-44	-2.1	-12.5	-0.6	15.2	-1.1	-1.6	-2.2	-0.8	1 430	5.0	9.03	23.34	90.97	1 391	4.1
05 *J-S*	M	2 065	-52	-2.5	-13.4	-0.9	10.2	-1.2	-1.9	-1.9	-1.0	1 403	3.4	9.12	22.63	90.88	1 365	2.4
06 *J-S*	M	2 048	-17	-0.8	-0.4	-0.9	12.2	-1.3	-3.3	-4.2	-0.3	1 518	8.2	10.79	22.78	89.21	1 462	7.1
05 *Aug*		2 019	-31	-1.5	-7.7	-0.7	17.9	-1.2	-1.4	-4.5	-0.5	1 298	15.4	7.09	21.77	92.91	1 271	14.4
Sep		2 013	-37	-1.8	-6.1	-1.2	23.5	-1.9	-2.0	-5.0	-1.3	1 618	9.6	8.58	24.53	91.42	1 612	11.6
Oct		2 053	-23	-1.1	-11.3	0.3	33.2	-0.6	-0.7	-3.3	-0.1	1 637	11.2	9.05	27.18	90.95	1 612	12.4
Nov		2 096	-26	-1.2	-10.1	0.0	29.0	-0.8	-0.5	-3.2	-0.5	1 569	8.5	9.10	25.24	90.90	1 502	6.2
Dec		2 103	-10	-0.5	-6.8	0.4	29.7	-0.5	-0.7	-3.0	0.1	1 330	8.7	8.16	23.95	91.84	1 295	9.5
06 *Jan*		2 172	-5	-0.2	4.9	-0.8	19.2	-1.4	-2.1	-6.2	-0.3	1 473	14.6	10.85	21.25	89.15	1 418	12.9
Feb		2 169	4	0.2	5.9	-0.5	25.6	-1.2	-1.9	-5.3	-0.3	1 367	11.1	11.75	21.83	88.25	1 313	11.7
Mar		2 149	4	0.2	6.5	-0.6	20.3	-1.2	-3.5	-7.9	0.6	1 556	19.0	11.33	22.42	88.67	1 495	19.8
Apr		2 076	-20	-1.0	2.5	-1.4	16.7	-1.9	-3.0	-6.5	-0.8	1 304	-1.4	11.17	22.60	88.83	1 269	-0.6
May		2 005	-3	-0.1	-1.6	0.0	9.3	-0.3	-3.5	-4.3	1.3	1 638	14.5	10.19	22.60	89.81	1 595	16.0
Jun		1 960	-15	-0.8	-4.3	-0.3	8.8	-0.6	-3.2	-2.3	0.3	1 656	5.7	9.21	22.94	90.79	1 591	2.0
Jul		1 955	-34	-1.7	-4.4	-1.4	6.3	-1.7	-3.8	-2.3	-1.0	1 671	6.4	10.07	24.30	89.93	1 595	5.4
Aug		1 984	-35	-1.8	-5.5	-1.3	4.5	-1.5	-4.3	-0.8	-0.9	1 323	1.9	10.58	22.17	89.42	1 252	-1.5
Sep		1 966	-47	-2.3	-7.2	-1.7	1.3	-1.8	-4.6	-1.4	-1.2	1 675	3.5	11.98	24.92	88.02	1 629	1.0

REGISTERED UNEMPLOYMENT
Annual percentage changes



PLACEMENTS
Annual percentage changes (Trend obtained with TRAMO-SEATS)



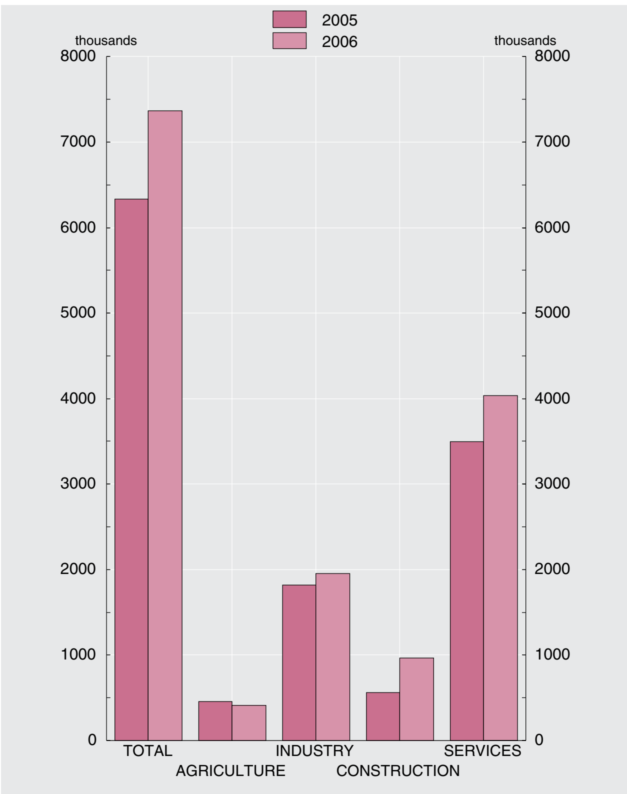
Source: Instituto de Empleo Servicio Público de Empleo Estatal (INEM).
Note: The underlying series for this indicator are in Tables 24.16 and 24.17 of the BE Boletín estadístico.

4.6. COLLECTIVE BARGAINING AGREEMENTS

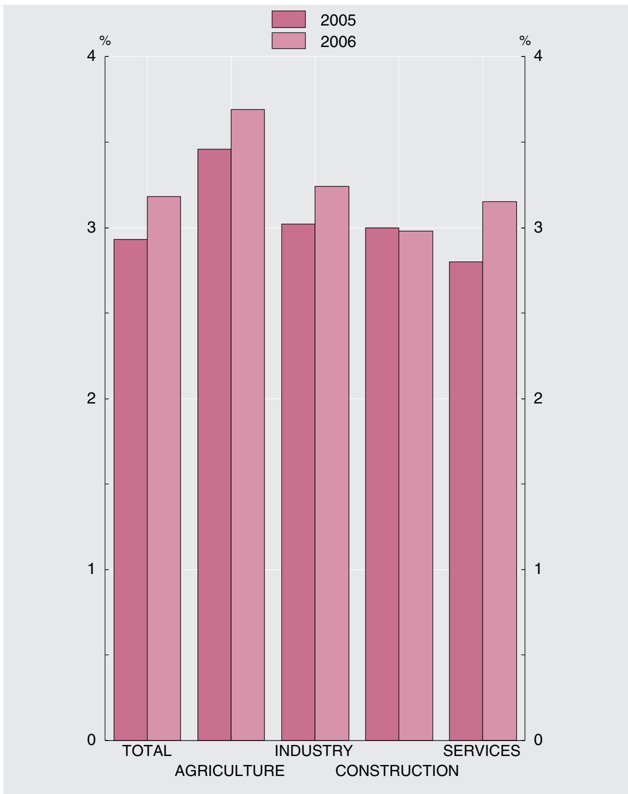
■ Series depicted in chart. *Thousands and %*

	As per month economic effects come into force(a)		As per month recorded														
			Employees affected (a)								Average wage settlement (%)						
	Em- ployees affec- ted	Average wage settle- ment	Automa- tic adjust- ment	Newly- signed agree- ments	Total	Annual change	Agricul- ture	Indus- try	Construc- tion	Services	Auto- matic adjust- ment	Newly signed agree- ments	Total	Agricul- ture	Indus- try	Construc- tion	Services
	1	2	3	4	5 ■	6	7 ■	8 ■	9 ■	10 ■	11	12	13 ■	14 ■	15 ■	16 ■	17 ■
03	9 995	3.68	5 482	2 665	8 147	339	711	2 421	848	4 166	3.49	3.53	3.50	3.59	3.21	4.75	3.41
04	10 194	3.60	5 207	2 594	7 801	-347	629	2 351	1 046	3 774	2.93	3.04	2.96	3.53	2.96	3.43	2.75
05	10 235	4.01	5 581	2 800	8 381	580	568	2 418	1 095	4 300	2.87	3.20	2.98	3.38	3.00	2.93	2.93
05 *Mar*	9 472	4.03	4 581	181	4 762	651	410	1 565	283	2 503	2.82	3.63	2.85	3.38	2.95	3.00	2.69
Apr	9 800	4.01	4 805	189	4 994	488	410	1 650	309	2 625	2.85	3.61	2.88	3.38	3.00	3.05	2.70
May	9 952	4.00	4 919	633	5 553	813	454	1 719	523	2 856	2.87	3.37	2.92	3.46	3.02	2.95	2.78
Jun	9 996	4.00	4 989	650	5 639	580	454	1 729	523	2 932	2.86	3.36	2.92	3.46	3.01	2.95	2.77
Jul	10 005	4.00	5 178	740	5 918	325	456	1 773	532	3 157	2.85	3.32	2.90	3.46	3.02	2.95	2.75
Aug	10 005	4.00	5 324	1 010	6 334	361	456	1 817	562	3 499	2.87	3.27	2.93	3.46	3.02	3.00	2.80
Sep	10 122	4.00	5 324	1 382	6 706	-42	456	2 104	562	3 584	2.87	3.09	2.91	3.46	2.96	3.00	2.80
Oct	10 235	4.01	5 457	1 862	7 319	303	491	2 207	742	3 879	2.86	3.08	2.92	3.44	2.97	2.92	2.82
Nov	10 235	4.01	5 539	2 384	7 923	457	491	2 345	969	4 117	2.86	3.14	2.95	3.44	2.98	2.92	2.88
Dec	10 235	4.01	5 581	2 800	8 381	580	568	2 418	1 095	4 300	2.87	3.20	2.98	3.38	3.00	2.93	2.93
06 *Jan*	6 938	3.15	3 708	1	3 709	440	336	1 057	483	1 833	2.79	2.62	2.79	3.55	2.65	2.85	2.71
Feb	6 958	3.15	4 774	57	4 832	840	361	1 593	495	2 383	3.04	3.16	3.04	3.59	3.21	2.91	2.88
Mar	7 010	3.15	5 158	69	5 227	465	402	1 653	501	2 672	3.07	3.22	3.07	3.68	3.21	2.92	2.93
Apr	7 238	3.16	5 792	580	6 372	1 378	405	1 753	921	3 293	3.11	3.00	3.10	3.68	3.22	2.90	3.02
May	7 353	3.18	5 792	626	6 418	865	406	1 759	930	3 323	3.11	2.98	3.10	3.68	3.23	2.89	3.02
Jun	7 361	3.18	6 296	751	7 047	1 407	406	1 853	948	3 840	3.16	3.01	3.15	3.68	3.21	2.93	3.11
Jul	7 363	3.18	6 305	1 019	7 325	1 406	408	1 942	969	4 006	3.16	3.24	3.18	3.68	3.23	2.98	3.14
Aug	7 363	3.18	6 309	1 058	7 367	1 033	411	1 952	969	4 035	3.16	3.27	3.18	3.69	3.24	2.98	3.15

EMPLOYEES AFFECTED
January-aug



AVERAGE WAGE SETTLEMENT
January-aug



Source: Ministerio de Trabajo y Asuntos Sociales (MTAS), Estadística de Convenios Colectivos de Trabajo. Avance mensual.
a. Cumulative data.

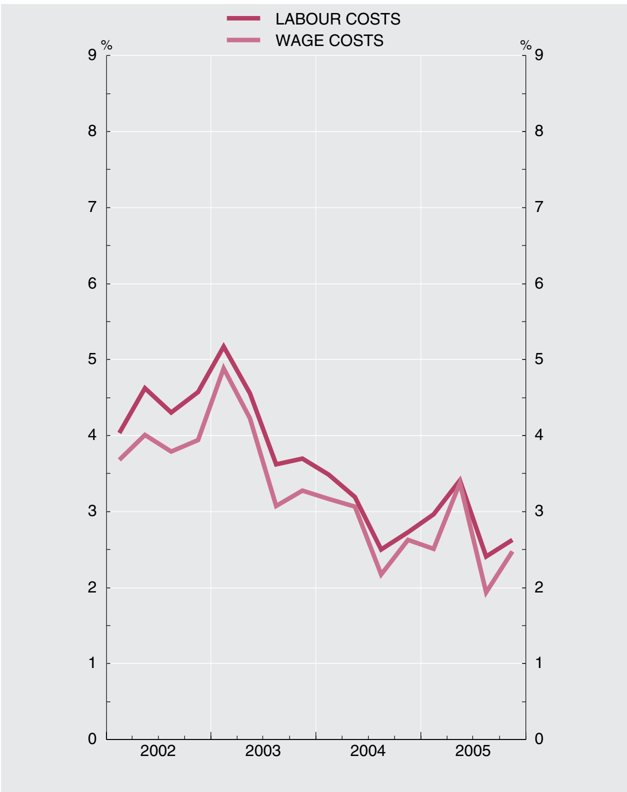
4.7. QUARTERLY LABOUR COSTS SURVEY

■ Series depicted in chart.

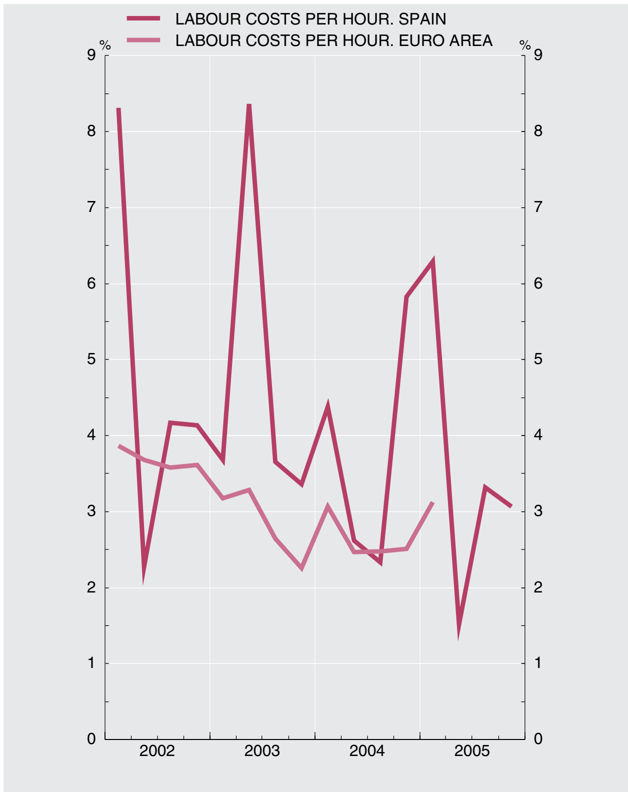
Annual percentage change

	Labour costs					Wage costs					Other costs per worker and month	memorandum item: euro area total hourly labour costs (a)
	Monthly earnings				Per hour worked	Monthly earnings				Per hour worked		
	Total	Industry	Construction	Services		Total	Industry	Construction	Services			
	1 ■	2	3	4	5 ■	6 ■	7	8	9	10	11	12 ■
03 M	4.2	4.7	6.3	3.8	4.7	3.8	4.4	5.0	3.5	4.3	5.4	2.8
04 M	3.0	3.4	5.2	2.6	3.8	2.8	3.3	4.2	2.5	3.6	3.6	2.6
05 M	2.9	3.1	2.8	3.1	3.5	2.6	2.7	2.3	2.9	3.2	3.6	...
05 *Q1-Q2* M	3.2	3.6	3.2	3.3	3.9	3.0	3.1	2.9	3.2	3.6	3.9	...
06 *Q1-Q2* M	3.5	4.0	4.1	3.5	4.0	3.0	3.4	3.4	3.2	3.6	4.7	...
03 *Q4*	3.7	3.9	6.3	3.3	3.4	3.3	3.7	5.1	3.0	3.0	5.0	2.3
04 *Q1*	3.5	4.3	6.0	2.9	4.4	3.2	4.0	5.2	2.7	4.1	4.4	3.1
Q2	3.2	2.7	5.5	3.2	2.6	3.1	2.9	4.1	3.2	2.5	3.5	2.5
Q3	2.5	3.2	5.5	1.9	2.3	2.2	3.3	4.6	1.6	2.0	3.4	2.5
Q4	2.7	3.4	4.0	2.4	5.8	2.6	3.3	3.1	2.5	5.7	3.0	2.5
05 *Q1*	3.0	3.6	3.2	2.9	6.3	2.5	3.2	2.4	2.5	5.8	4.2	3.1
Q2	3.4	3.7	3.3	3.6	1.5	3.4	3.1	3.3	3.8	1.5	3.5	...
Q3	2.4	2.1	2.2	2.9	3.3	1.9	1.5	1.3	2.6	2.8	3.7	...
Q4	2.6	3.2	2.6	2.8	3.1	2.5	3.0	2.0	2.8	2.9	3.1	...
06 *Q1*	3.4	4.5	4.3	3.2	0.3	3.0	3.8	3.8	3.0	-	4.4	...
Q2	3.5	3.5	3.9	3.8	7.6	3.1	3.1	3.1	3.4	7.1	4.9	...

PER WORKER AND MONTH
Annual percentage change



PER HOUR WORKED
Annual percentage change



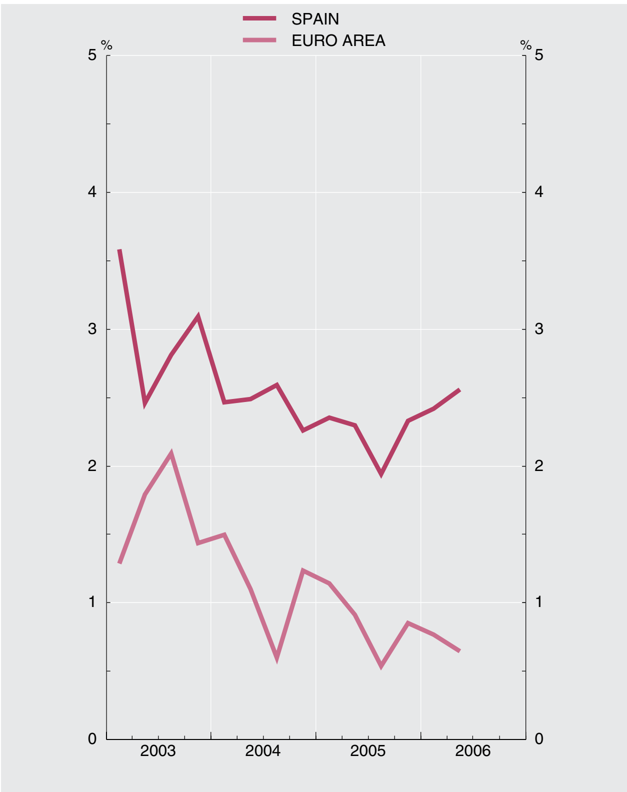
Sources: INE (Quarterly labour costs survey) and Eurostat.
Note: The underlying series for this indicator are in Tables 24.25, 24.26 and 24.27 of de BE Boletín estadístico.
a. Whole economy, excluding the agriculture, public administration, education and health sectors

4.8. UNIT LABOUR COSTS. SPAIN AND EURO AREA (a)

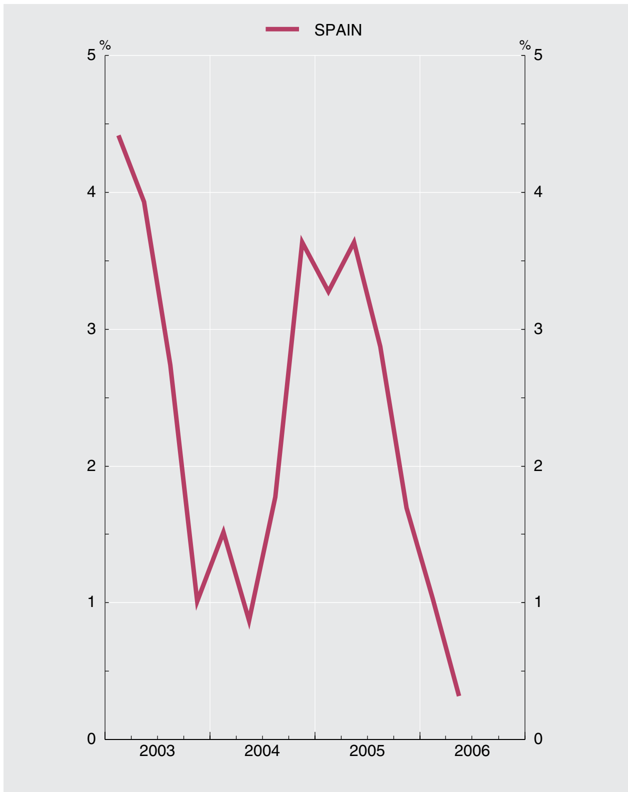
■ Series depicted in chart. *Annual percentage changes*

		Whole-economy unit labour costs		Compensation per employee		Productivity						Memorandum item: unit labour costs in manufacturing	
								Output		Employment			
		Spain	Euro area	Spain (b)	Euro area	Spain	Euro area	Spain	Euro area	Spain (b)	Euro area	Spain (c)	Euro area
		1 ■	2 ■	3	4	5	6	7	8	9	10	11 ■	12
03	P	3.0	1.7	3.6	2.0	0.6	0.3	3.0	0.8	2.4	0.4	3.0	...
04	P	2.5	1.1	3.1	2.1	0.6	1.0	3.2	1.7	2.6	0.6	1.9	...
05	P	2.2	0.9	2.6	1.6	0.4	0.7	3.5	1.5	3.1	0.7	2.9	...
03 *Q3*	P	2.8	2.1	3.3	2.2	0.5	0.1	3.1	0.6	2.6	0.4	2.7	...
Q4	P	3.1	1.4	3.3	1.7	0.2	0.3	3.0	1.0	2.8	0.6	1.0	...
04 *Q1*	P	2.5	1.5	2.8	2.4	0.3	0.9	3.2	1.6	2.8	0.5	1.5	...
Q2	P	2.5	1.1	3.3	2.4	0.8	1.3	3.2	2.0	2.4	0.6	0.9	...
Q3	P	2.6	0.6	3.3	1.6	0.7	1.0	3.3	1.7	2.5	0.6	1.8	...
Q4	P	2.3	1.2	2.8	2.0	0.5	0.7	3.4	1.5	2.8	0.7	3.6	...
05 *Q1*	P	2.4	1.1	2.8	1.5	0.5	0.3	3.4	1.2	2.9	0.8	3.3	...
Q2	P	2.3	0.9	2.7	1.4	0.4	0.5	3.5	1.3	3.1	0.8	3.6	...
Q3	P	1.9	0.5	2.2	1.5	0.3	0.9	3.6	1.7	3.3	0.7	2.9	...
Q4	P	2.3	0.9	2.7	1.9	0.4	1.0	3.6	1.8	3.2	0.7	1.7	...
06 *Q1*	P	2.4	0.8	2.9	1.9	0.4	1.1	3.6	2.2	3.2	0.9	1.0	...
Q2	P	2.6	0.6	3.2	2.1	0.6	1.4	3.7	2.7	3.1	...	0.3	...

UNIT LABOUR COSTS: TOTAL
Annual percentage changes



UNIT LABOUR COSTS: MANUFACTURING
Annual percentage changes



Sources: INE (Quarterly National Accounts of Spain. Base year 2000) and ECB.
a. Spain: prepared in accordance with ESA95. SEASONALLY- AND WORKING-DAY-ADJUSTED SERIES (see economic bulletin April 2002).
b. Full-time equivalent employment.
c. Industry.

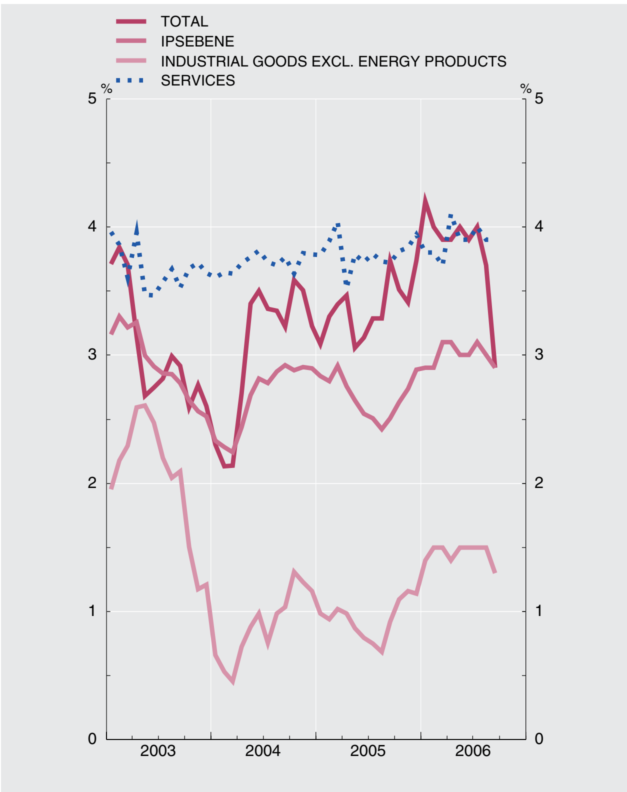
5.1. CONSUMER PRICE INDEX. SPAIN (2001=100) (a)

■ Series depicted in chart.

Indices and annual percentage changes

	Total (100%)				Annual percentage change (12-month % change)						Memorandum item:prices for agricultural products (2000=100)	
	Original series	Month-on-month % change	12-month % change (b)	Cumulative % change during year (c)	Unprocessed food	Processed food	Industrial goods excl. energy products (e)	Energy	Services	IPSEBENE (d)	Original series	12-month % change
	1	2	3 ■	4	5 ■	6 ■	7 ■	8 ■	9 ■	10 ■	11	12
03 M	106.7	_	3.0	2.6	6.0	3.0	2.0	1.4	3.7	2.9	105.8	5.5
04 M	109.9	_	3.0	3.2	4.6	3.6	0.9	4.9	3.7	2.7	106.8	0.9
05 M	113.6	_	3.4	3.7	3.3	3.4	0.9	9.6	3.8	2.7	109.9	2.9
05 *J-S* M	113.0	0.3	3.3	1.1	3.0	3.5	0.9	9.4	3.8	2.7	112.9	4.2
06 *J-S* M	117.3	0.2	3.8	1.2	4.2	3.8	1.5	10.9	3.9	3.0	...	...
05 *Jun*	114.0	0.2	3.1	2.1	3.4	3.2	0.8	8.2	3.7	2.5	106.9	-11.9
Jul	113.3	-0.6	3.3	1.5	2.1	3.0	0.7	11.4	3.8	2.5	102.9	-5.1
Aug	113.8	0.4	3.3	1.9	2.7	2.8	0.7	11.5	3.7	2.4	102.3	9.2
Sep	114.5	0.6	3.7	2.5	3.4	2.8	0.9	15.0	3.7	2.5	99.5	6.7
Oct	115.4	0.8	3.5	3.4	3.6	2.9	1.1	11.2	3.8	2.6	99.6	-0.8
Nov	115.6	0.2	3.4	3.5	3.6	3.2	1.2	9.3	3.8	2.7	106.9	2.0
Dec	115.9	0.2	3.7	3.7	5.2	3.8	1.1	9.9	3.9	2.9	113.6	2.1
06 *Jan*	115.4	-0.4	4.2	-0.4	5.3	3.7	1.4	14.8	3.8	2.9	119.9	4.0
Feb	115.5	-	4.0	-0.4	4.5	3.4	1.5	13.3	3.8	2.9	121.4	0.8
Mar	116.3	0.7	3.9	0.3	3.3	4.5	1.5	11.8	3.7	3.1	113.6	-10.2
Apr	117.9	1.4	3.9	1.8	2.1	3.9	1.4	12.2	4.1	3.1	112.8	-8.1
May	118.3	0.4	4.0	2.1	2.4	3.9	1.5	14.4	3.9	3.0	115.8	-3.6
Jun	118.5	0.2	3.9	2.3	3.9	3.9	1.5	12.0	3.9	3.0	113.3	6.0
Jul	117.8	-0.6	4.0	1.7	5.4	4.0	1.5	10.1	4.0	3.1	103.6	0.7
Aug	118.0	0.2	3.7	1.9	5.4	3.6	1.5	8.2	3.9	3.0	...	...
Sep	117.9	-0.2	2.9	1.7	5.6	3.5	1.3	0.9	3.9	2.9	...	...

CONSUMER PRICE INDEX. TOTAL AND COMPONENTS
Annual percentage changes



CONSUMER PRICE INDEX. COMPONENTS
Annual percentage changes

Sources: INE, Ministerio de Agricultura, Pesca y Alimentación and BE.
Note: The underlying series for this indicator are in Tables 25.2 and 25.8 of the BE Boletín estadístico.
a. There is a break in January 2002 owing to the 2001 re-basing. There is no solution to this via the habitual legal links. Consequently, for the year 2002, the official rates of change cannot be obtained from the indices. The detailed methodological notes can be consulted on the INE Internet site (www.ine.es).
b. For annual periods: average growth for each year on the previous year. c. For annual periods: December-on-December growth rate.
d. Index of non-energy processed goods and service prices. e. Official INE series from January 2002.

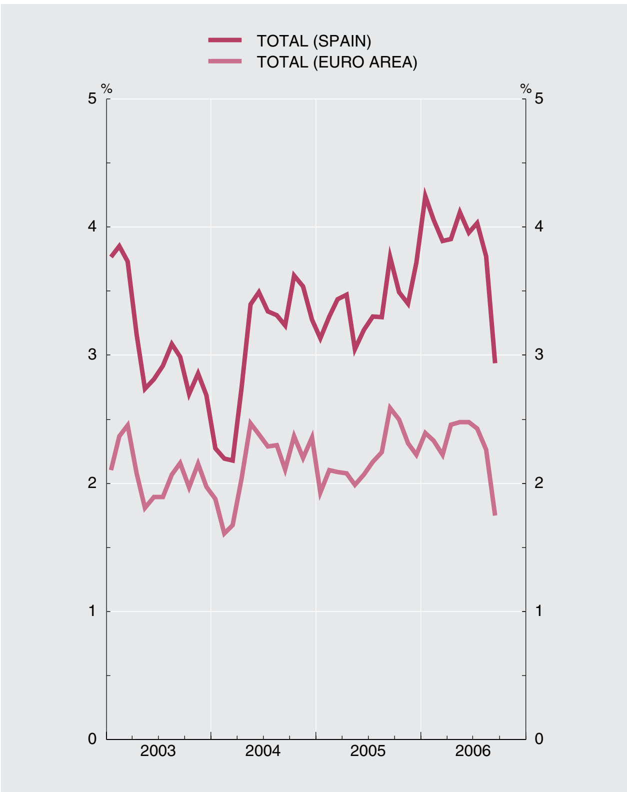
5.2. HARMONISED INDEX OF CONSUMER PRICES. SPAIN AND EURO AREA (2005=100) (a)

■ Series depicted in chart.

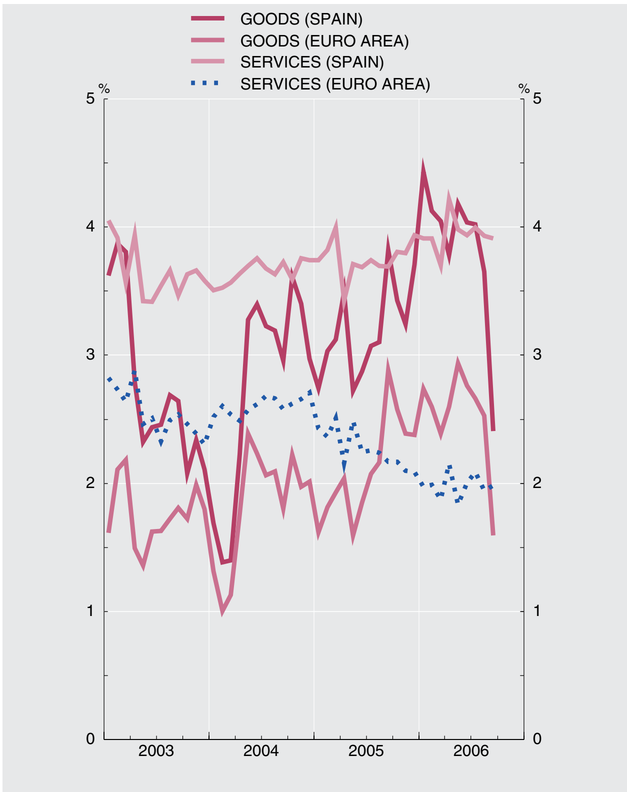
Annual percentage changes

		Total		Goods														Services	
						Food						Industrial							
						Total		Processed		Unprocessed				Non-energy		Energy			
		Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area
		1 ■	2 ■	3 ■	4 ■	5	6	7	8	9	10	11	12	13	14	15	16	17 ■	18 ■
03	M	3.1	2.1	2.8	1.8	4.0	2.8	3.5	3.3	4.6	2.1	2.0	1.2	2.2	0.8	1.3	3.0	3.7	2.5
04	M	3.1	2.1	2.7	1.8	3.9	2.3	4.2	3.4	3.7	0.6	2.0	1.6	1.0	0.8	4.8	4.5	3.7	2.6
05	M	3.4	2.2	3.2	2.1	3.4	1.6	3.5	2.0	3.3	0.8	3.1	2.4	1.0	0.3	9.7	10.1	3.8	2.3
05 *J-S*	M	3.3	2.1	3.1	2.0	3.3	1.4	3.4	1.9	3.2	0.7	3.0	2.3	1.0	0.2	9.5	9.7	3.7	2.3
06 *J-S*	M P	3.9	2.3	3.8	2.5	4.0	2.2	4.2	2.1	3.7	2.3	3.8	2.7	1.5	0.6	10.7	9.9	3.9	2.0
05 *Jun*		3.2	2.1	2.9	1.8	3.2	1.1	3.1	1.5	3.4	0.5	2.6	2.2	0.9	0.2	8.3	9.4	3.7	2.2
Jul		3.3	2.2	3.1	2.1	2.7	1.1	2.9	1.6	2.4	0.3	3.4	2.6	0.8	-	11.5	11.7	3.7	2.3
Aug		3.3	2.2	3.1	2.2	2.7	1.4	2.8	1.7	2.7	1.0	3.4	2.5	0.8	-	11.6	11.5	3.7	2.2
Sep		3.8	2.6	3.8	2.9	3.0	1.8	2.9	2.3	3.1	1.0	4.4	3.4	1.0	0.2	15.1	15.0	3.7	2.2
Oct		3.5	2.5	3.4	2.6	3.2	1.9	3.0	2.4	3.3	1.1	3.6	2.9	1.2	0.3	11.3	12.1	3.8	2.2
Nov		3.4	2.3	3.2	2.4	3.4	2.2	3.5	2.6	3.2	1.5	3.1	2.5	1.2	0.4	9.3	10.0	3.8	2.1
Dec		3.7	2.2	3.7	2.4	4.3	1.7	4.2	1.8	4.4	1.5	3.3	2.7	1.2	0.4	10.0	11.2	3.9	2.1
06 *Jan*		4.2	2.4	4.4	2.7	4.3	1.9	4.1	1.9	4.4	2.0	4.6	3.1	1.4	0.2	14.8	13.6	3.9	2.0
Feb		4.1	2.3	4.1	2.6	3.8	1.8	3.7	1.9	3.9	1.7	4.4	3.0	1.5	0.3	13.4	12.5	3.9	2.0
Mar		3.9	2.2	4.0	2.4	4.1	1.6	5.1	2.3	3.1	0.6	4.0	2.8	1.6	0.6	11.8	10.5	3.7	1.9
Apr		3.9	2.5	3.8	2.6	3.4	1.8	4.4	2.2	2.3	1.2	4.1	3.0	1.5	0.7	12.2	11.0	4.2	2.2
May		4.1	2.5	4.2	2.9	3.5	2.0	4.3	2.2	2.6	1.5	4.6	3.4	1.6	0.7	14.3	12.9	4.0	1.8
Jun		4.0	2.5	4.0	2.8	3.9	2.2	4.3	2.2	3.6	2.1	4.1	3.1	1.6	0.7	12.0	11.0	3.9	2.0
Jul		4.0	2.4	4.0	2.7	4.5	2.7	4.5	2.3	4.5	3.2	3.7	2.7	1.6	0.6	10.0	9.5	4.0	2.1
Aug		3.8	2.3	3.7	2.5	4.2	2.9	4.0	2.2	4.5	3.9	3.3	2.4	1.7	0.6	8.2	8.1	3.9	1.9
Sep	P	2.9	1.7	2.4	1.6	4.2	2.9	3.8	1.8	4.7	4.6	1.2	1.0	1.5	0.8	0.9	1.5	3.9	2.0

HARMONISED INDEX OF CONSUMER PRICES. TOTAL
Annual percentage changes



HARMONISED INDEX OF CONSUMER PRICES. COMPONENTS
Annual percentage changes



Source: Eurostat.

a. Compliance with the Regulation on the treatment of price reductions is now complete with the inclusion of sales prices in the Italian and Spanish HICP. The Spanish HICP has included a new basket of goods and services since January 2001. In accordance with the related regulations,the series for the year 2001 have been revised. More detailed methodological notes can be consulted on the Eurostat Internet site (www.europa.eu.int).

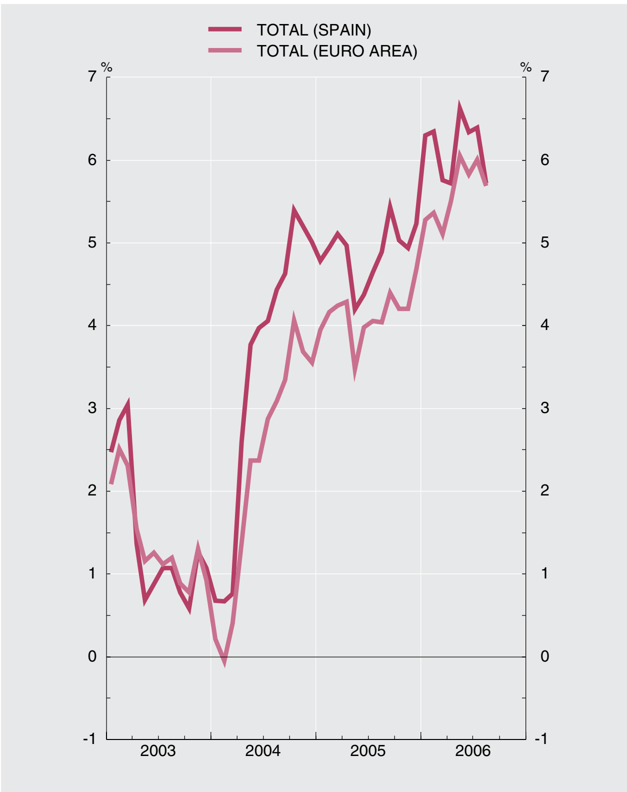
5.3. PRODUCER PRICE INDEX. SPAIN AND EURO AREA (a)

■ Series depicted in chart.

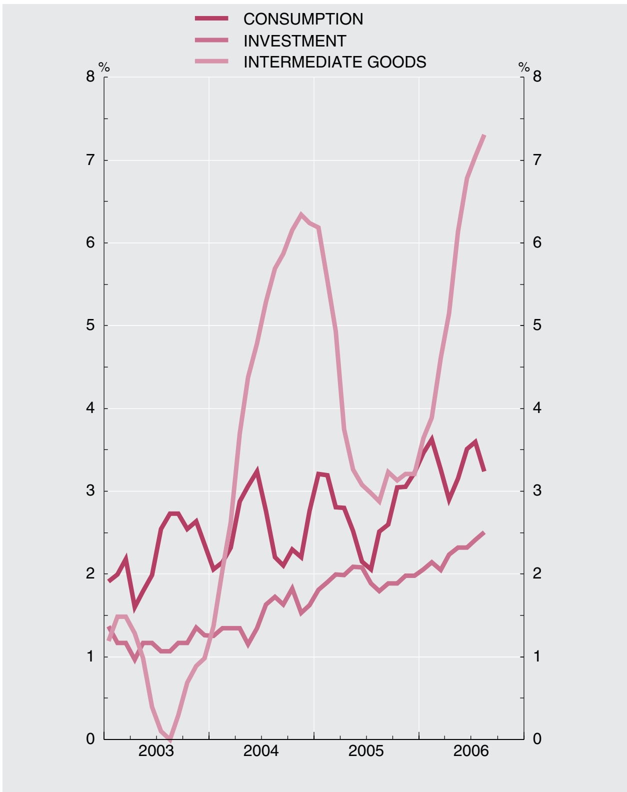
Annual percentage changes

		Total (100%)			Consumption (32.1 %)		Investment (18.3 %)		Intermediate (31.6 %)		Energy (18.0%)		Memorandum item: euro area				
		Original series	Month-on-month % change	12-month % change	Month-on-month % change	12-month % change	Month-on-month % change	12-month % change	Month-on-month % change	12-month % change	Month-on-month % change	12-month % change	Total 12-month % change	Consumption 12-month % change	Investment 12-month % change	Intermediate 12-month % change	Energy 12-month % change
		1	2	3 ■	4	5 ■	6	7 ■	8	9 ■	10	11	12 ■	13	14	15	16
03	M P	103.9	_	1.4	_	2.3	_	1.2	_	0.8	_	1.3	1.4	1.1	0.3	0.8	3.8
04	M P	107.4	_	3.4	_	2.5	_	1.5	_	4.5	_	5.3	2.3	1.3	0.7	3.5	3.9
05	M P	112.7	_	4.9	_	2.8	_	1.9	_	3.8	_	14.0	4.1	1.1	1.3	2.9	13.4
05 *J-A*	M P	111.6	_	4.7	_	2.7	_	1.9	_	4.1	_	13.0	4.0	1.0	1.5	3.5	12.1
06 *J-A*	M P	118.5	_	6.1	_	3.3	_	2.3	_	5.6	_	16.0	5.6	1.7	1.2	4.1	17.1
05 *May*	P	111.8	-0.1	4.2	0.1	2.5	0.1	2.1	0.1	3.3	-0.8	11.0	3.5	0.9	1.5	3.0	9.7
Jun	P	112.1	0.3	4.4	-0.1	2.2	0.2	2.1	-0.2	3.1	1.9	13.5	4.0	0.8	1.4	2.6	13.4
Jul	P	112.7	0.5	4.6	0.1	2.1	-	1.9	0.1	3.0	2.7	15.7	4.1	0.7	1.2	1.9	15.1
Aug	P	113.6	0.8	4.9	0.3	2.5	-	1.8	0.2	2.9	3.3	16.4	4.0	0.9	1.1	1.7	15.2
Sep	P	114.5	0.8	5.4	0.2	2.6	0.1	1.9	0.7	3.2	2.5	17.9	4.4	1.1	1.2	1.6	16.6
Oct	P	114.9	0.3	5.0	0.3	3.0	0.2	1.9	0.4	3.1	0.7	15.2	4.2	1.3	1.2	1.6	15.3
Nov	P	114.7	-0.2	4.9	-0.1	3.1	0.1	2.0	0.4	3.2	-1.3	14.7	4.2	1.4	1.0	1.8	14.7
Dec	P	114.7	-	5.2	0.4	3.2	0.1	2.0	-	3.2	-1.3	15.6	4.7	1.3	1.0	1.9	17.0
06 *Jan*	P	116.4	1.5	6.3	1.0	3.5	0.6	2.1	1.2	3.6	3.8	20.6	5.3	1.5	1.0	2.0	19.8
Feb	P	117.3	0.8	6.3	0.6	3.6	0.5	2.1	0.8	3.9	1.1	20.1	5.4	1.5	1.0	2.3	19.7
Mar	P	117.6	0.3	5.8	-	3.3	0.1	2.0	0.9	4.6	0.2	16.4	5.1	1.5	1.1	2.6	17.6
Apr	P	118.3	0.6	5.7	-	2.9	0.3	2.2	0.5	5.1	1.7	15.4	5.5	1.6	1.2	3.4	17.7
May	P	119.2	0.8	6.6	0.3	3.2	0.2	2.3	1.0	6.1	1.3	17.8	6.1	1.7	1.1	4.6	18.7
Jun	P	119.2	-	6.3	0.3	3.5	0.2	2.3	0.4	6.8	-0.8	14.6	5.8	1.8	1.3	5.3	16.0
Jul	P	119.9	0.6	6.4	0.2	3.6	0.1	2.4	0.3	7.0	2.0	13.9	6.0	2.0	1.5	6.2	14.9
Aug	P	120.1	0.2	5.7	-0.1	3.2	0.1	2.5	0.4	7.3	-0.1	10.2	5.7	1.9	1.6	6.5	12.7

PRODUCER PRICE INDEX. TOTAL
Annual percentage changes



PRODUCER PRICE INDEX. COMPONENTS
Annual percentage changes



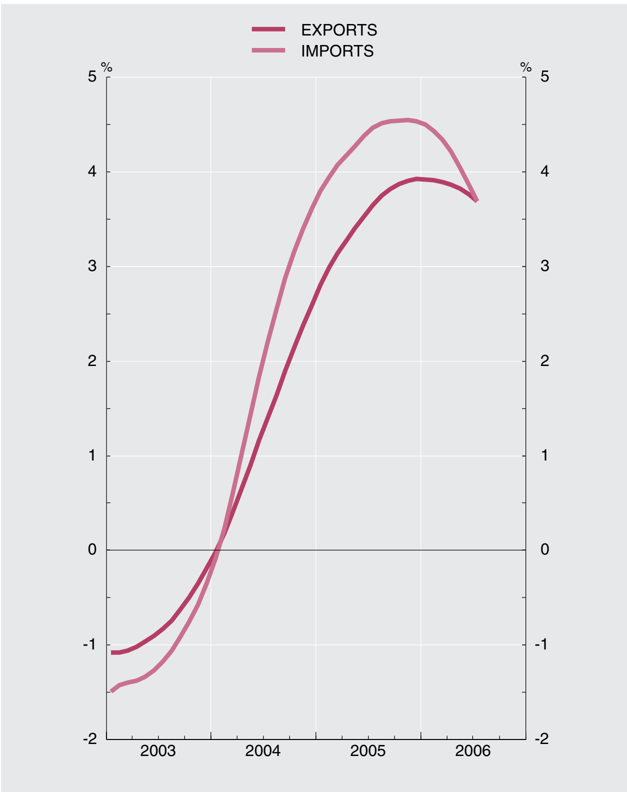
Sources: INE and ECB.
Note: The underlying series for this indicator, for Spain, are in Table 25.3 of the BE Boletín estadístico.
a. Spain: 2000=100; euro area: 2000=100.

5.4. UNIT VALUE INDICES FOR SPANISH FOREIGN TRADE

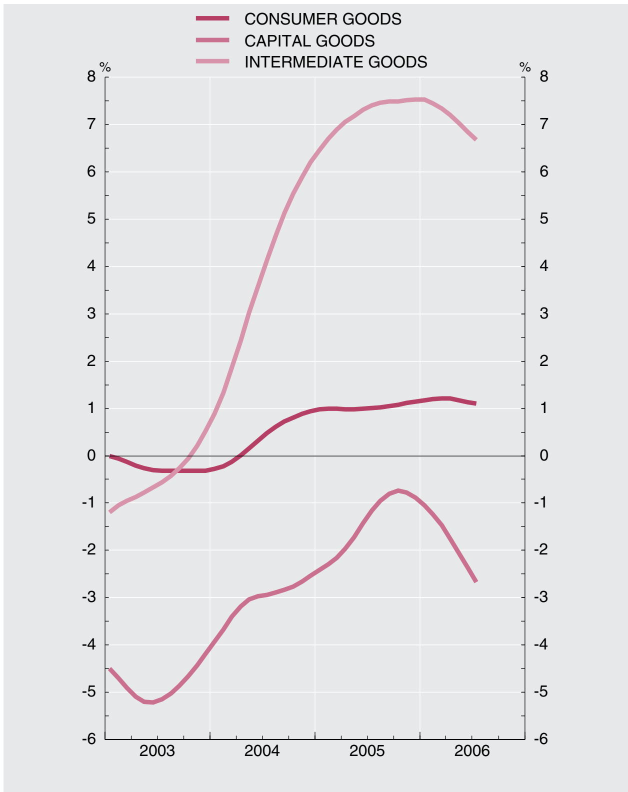
■ Series depicted in chart. *Annual percentage changes*

	Exports/dispatches						Imports/arrivals					
	Total	Consumer goods	Capital goods	Intermediate goods			Total	Consumer goods	Capital goods	Intermediate goods		
				Total	Energy	Non-energy				Total	Energy	Non-energy
	1 ■	2	3	4	5	6	7 ■	8 ■	9 ■	10 ■	11	12
03	-1,5	0,0	-9,6	-1,2	-1,7	-1,1	-1,3	-0,1	-7,3	-0,7	0,7	-1,1
04	1,0	-0,0	-0,6	2,1	12,3	1,6	2,4	0,5	-2,0	4,5	11,2	3,3
05	4,7	1,9	6,3	6,6	34,1	5,0	5,1	1,1	1,0	8,1	26,2	3,5
05 *J-J*	4,3	1,6	4,6	6,4	35,6	5,0	5,0	1,3	-2,3	8,5	26,5	4,5
06 *J-J*	4,8	3,3	4,6	6,1	23,7	5,1	4,9	0,7	-1,4	8,4	30,6	2,4
05 *Feb*	5,4	4,2	6,9	6,1	40,8	4,6	5,4	1,0	-1,9	9,3	23,2	6,5
Mar	4,8	4,4	2,8	5,4	25,1	4,4	5,3	2,6	-7,6	9,7	27,8	5,6
Apr	2,7	-1,2	1,0	6,2	36,6	4,7	4,6	0,9	-7,5	9,1	32,8	4,2
May	3,3	-1,1	7,5	6,2	38,5	4,6	0,9	-3,2	-6,5	4,7	20,0	1,6
Jun	3,2	-0,3	-0,9	7,0	41,0	5,2	5,3	3,6	-1,3	7,7	26,3	3,5
Jul	5,7	2,2	15,6	6,3	32,7	4,9	8,2	0,6	10,4	11,7	38,6	5,1
Aug	6,1	3,9	3,8	8,2	48,4	5,1	6,1	-0,2	-0,4	11,0	26,8	4,5
Sep	5,4	0,6	11,5	8,4	33,8	6,9	4,3	-0,6	4,2	7,0	29,5	0,7
Oct	4,2	1,2	8,2	6,0	24,0	4,8	4,8	0,8	14,0	5,3	16,2	1,8
Nov	4,3	2,7	8,3	4,6	26,1	3,2	3,8	3,3	-0,8	5,6	22,5	0,8
Dec	6,2	3,6	11,8	6,5	27,2	5,3	7,1	0,9	10,2	8,9	33,5	3,2
06 *Jan*	4,2	1,6	9,4	5,8	24,8	4,7	5,6	-6,5	-5,1	15,2	44,0	7,3
Feb	3,3	0,7	4,7	5,1	29,3	3,5	6,6	2,5	3,2	9,2	36,9	1,9
Mar	5,0	2,1	0,6	8,1	33,2	6,7	6,0	2,7	7,5	7,2	27,2	1,9
Apr	4,8	1,9	6,8	6,6	25,0	5,4	7,4	3,2	-4,2	11,7	30,5	5,8
May	4,5	5,0	1,0	4,9	16,0	4,3	6,1	4,2	-0,6	8,2	35,1	1,0
Jun	5,3	3,3	10,3	5,6	15,3	5,5	1,7	-1,5	-3,2	4,2	24,7	-0,3
Jul	6,1	8,2	-0,3	6,2	22,4	5,5	1,1	0,5	-7,3	3,1	16,3	-0,5

EXPORT AND IMPORT UNIT VALUE INDICES (a)



IMPORT UNIT VALUE INDICES BY PRODUCT GROUP (a)



Sources: ME and BE.
Note: The underlying series for this indicator are in the Tables 17.6 and 17.7 of the Boletín Estadístico.
a. Annual percentage changes (trend obtained with TRAMO-SEATS).

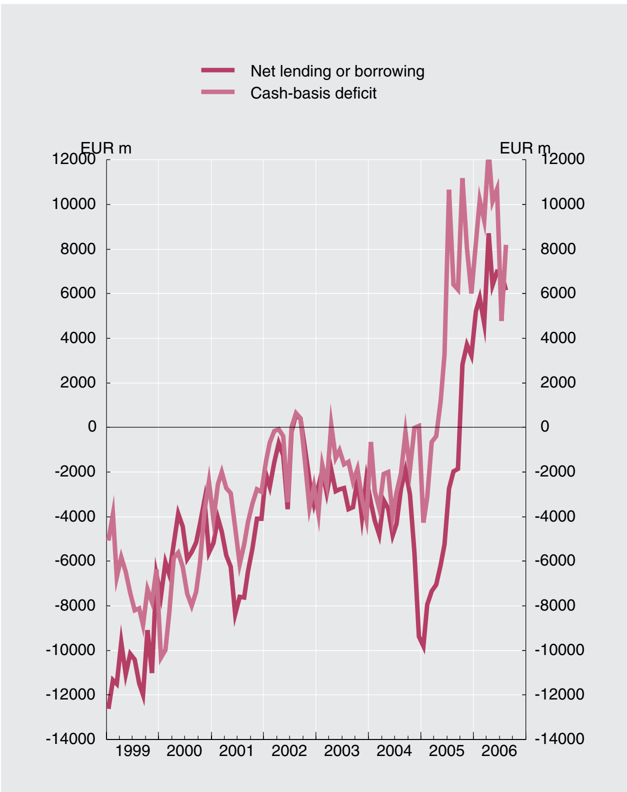
6.1. STATE RESOURCES ANS USES ACCORDING TO THE NACIONAL ACCOUNTS (A). SPAIN

■ Series depicted in chart.

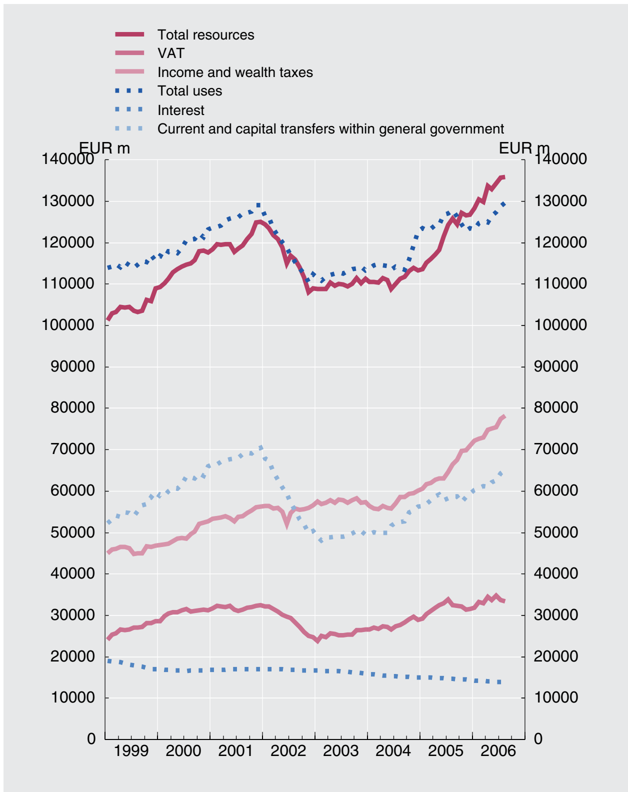
EUR millions

		Net lending (+) or borrowing (-)	Current and capital resources						Current and capital uses						Memorandum item: cash-basis deficit		
			Total	Value added tax (VAT)	Other taxes on products and imports	Interest and other income on property	Income and wealth taxes	Other	Total	Compensation of employees	Interest	Current and capital transfers within general government	Investment grants and other capital transfers	Other	Cash-basis deficit	Revenue	Expenditure
		1=2-8 ■	2=3 a 7 ■	3 ■	4	5	6 ■	7	8=9 a13 ■	9	10 ■	11 ■	12	13	14=15-16 ■	15	16
99		-6 585	109 009	28 574	16 408	5 877	46 886	11 264	115 594	17 363	16 959	57 721	3 034	20 517	-6 354	110 370	116 724
00		-5 627	117 598	31 262	17 171	5 316	52 671	11 178	123 225	15 806	16 809	65 992	3 633	20 985	-2 431	118 693	121 124
01		-4 104	124 992	32 433	17 838	7 022	56 312	11 387	129 096	16 067	17 030	70 539	3 297	22 163	-2 884	125 193	128 077
02		-3 428	108 942	24 701	11 431	5 414	56 616	10 780	112 370	16 978	16 666	50 348	3 244	25 134	-2 626	108 456	111 082
03	P	-2 274	111 319	26 539	10 918	5 029	57 415	11 418	113 350	17 670	15 900	49 406	2 695	27 679	-4 132	109 655	113 787
04	A	-9 390	113 330	28 950	10 991	4 714	60 059	8 616	122 720	15 619	15 053	56 347	7 419	28 282	59	114 793	114 734
05	A	3 231	126 811	31 542	11 069	4 661	70 987	8 552	123 580	16 466	14 343	59 404	3 539	29 828	6 022	128 777	122 755
05 *J-A*	A	7 669	81 936	21 874	7 200	2 129	43 476	7 257	74 267	10 020	9 663	36 459	1 194	16 931	2 408	83 046	80 637
06 *J-A*	A	10 578	90 959	23 789	7 226	2 847	50 722	6 375	80 381	10 746	9 226	42 096	1 234	17 079	4 578	88 879	84 301
05 *Oct*	A	11 907	21 828	5 697	1 070	257	13 883	921	9 921	1 234	1 197	5 746	161	1 583	10 622	21 550	10 927
Nov	A	-5 144	6 515	671	595	1 160	3 365	724	11 659	1 258	1 156	6 197	442	2 606	-3 012	6 127	9 140
Dec	A	-11 640	9 275	313	953	914	5 783	1 312	20 915	2 203	1 182	6 796	1 622	9 112	-5 187	9 006	14 194
06 *Jan*	A	2 024	9 612	-349	821	246	8 392	502	7 588	1 143	1 215	4 345	10	875	-4 557	10 255	14 812
Feb	A	8 833	18 865	13 536	922	214	3 456	737	10 032	1 232	1 053	5 059	83	2 605	8 720	18 115	9 395
Mar	A	-6 273	3 993	892	928	681	2 139	-647	10 266	1 510	1 174	5 324	367	1 891	-3 920	4 889	8 809
Apr	A	13 312	22 248	7 796	836	756	12 426	434	8 936	1 185	1 149	4 723	112	1 767	13 248	22 204	8 956
May	A	-7 527	2 705	14	797	184	687	1 023	10 232	1 427	1 162	5 461	196	1 986	-5 890	2 643	8 532
Jun	A	-7 811	5 077	476	1 097	247	510	2 747	12 888	2 195	1 132	5 327	235	3 999	-6 449	3 209	9 657
Jul	A	8 115	19 046	4 628	948	239	12 537	694	10 931	906	1 162	6 723	144	1 996	4 171	19 184	15 013
Aug	A	-95	9 413	-3 204	877	280	10 575	885	9 508	1 148	1 179	5 134	87	1 960	-746	8 380	9 127

STATE. NET LENDING OR BORROWING AND CASH-BASIS DEFICIT
(Lastest 12 months)



STATE. RESOURCES AND USES ACCORDING TO THE NATIONAL ACCOUNTS
(Latest 12 months)



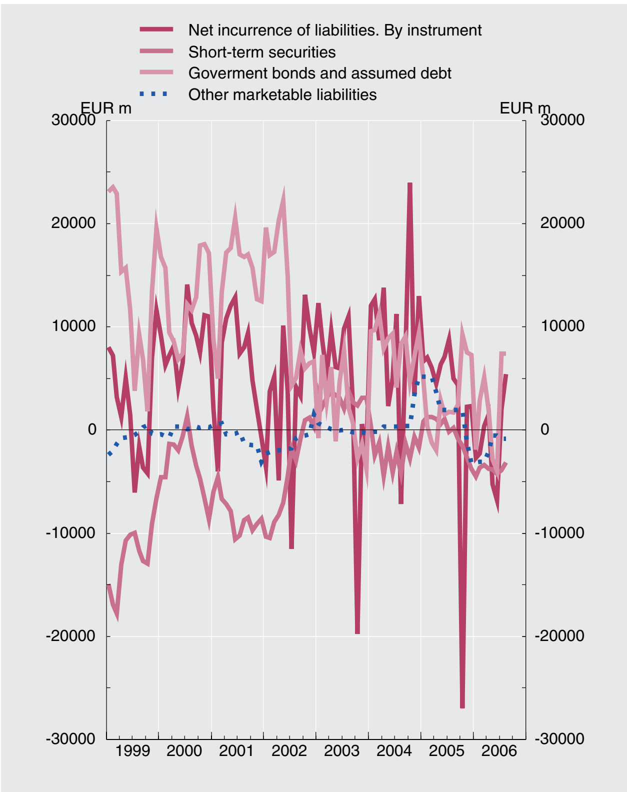
Source: Ministerio de Economía y Hacienda (IGAE).
a. Except in interest rate swaps, where the EDP criterion in followed. That is to say, the net outcome of these transactions is considered to be interest and not financial transactions (the ESA 95 criterion), whereby they influence the calculation of net lending or borrowing.

6.2. STATE FINANCIAL TRANSACTIONS (A). SPAIN

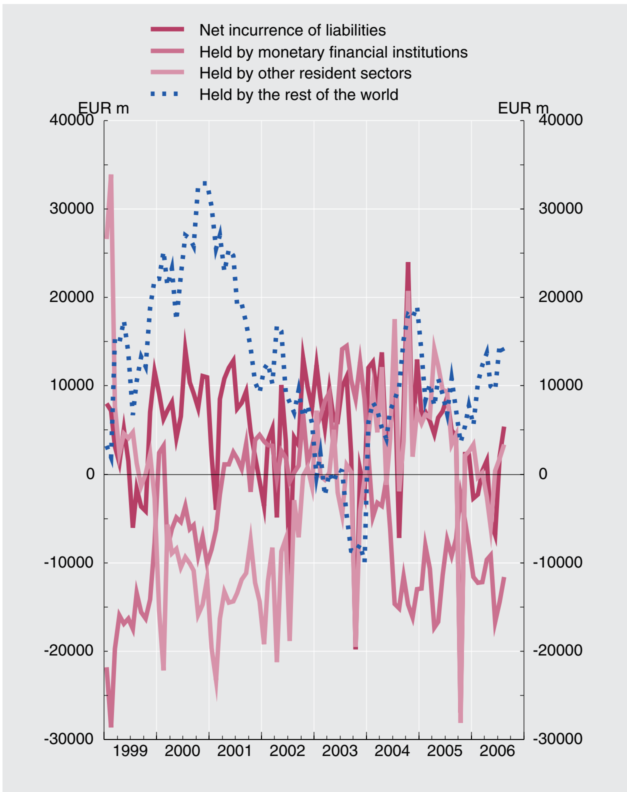
■ Series depicted in chart. *EUR millions*

		Net lending (+) or net borrowing(-)	Net acquisition of financial assets: Of which: Total	Net acquisition of financial assets: Of which: Deposits at the Banco de España	Net incurrence of liabilities: Total	Net incurrence of liabilities: Of which: In currencies other than the peseta/euro	By instrument: Short-term securities	By instrument: Goverment bonds and assumed debt	By instrument: Banco de España loans	By instrument: Other marketable liabilities (b)	By instrument: Other accounts payable	By counterpart sector: Held by resident sectors: Total	By counterpart sector: Held by resident sectors: Monetary financial institutions	By counterpart sector: Held by resident sectors: Other resident sectors	By counterpart sector: Rest of the world	Net incurrence of liabilities (excluding other accounts payable)
		1	2	3	4 ■	5	6 ■	7 ■	8	9 ■	10	11	12 ■	13 ■	14 ■	15
99		-6 585	5 015	4 574	11 600	209	-6 629	19 592	-499	-446	-418	-10 426	-7 734	-2 692	22 026	12 018
00		-5 627	5 368	5 690	10 995	1 162	-8 683	17 127	-499	283	2 767	-21 929	-10 117	-11 812	32 924	8 228
01		-4 104	-4 848	-20 141	-744	803	-8 616	12 521	-499	-3 101	-1 049	-9 950	4 424	-14 374	9 206	305
02		-3 428	4 115	-95	7 543	-888	346	6 655	-486	1 488	-459	1 754	3 148	-1 394	5 790	8 002
03	P	-2 274	-4 221	0	-1 947	-135	3 146	-3 761	-486	-281	-566	8 028	8 524	-496	-9 975	-1 381
04	A	-9 390	3 633	-0	13 023	-1 600	-1 688	9 416	-486	5 204	577	-5 952	-12 978	7 026	18 975	12 446
05	A	3 231	5 541	0	2 310	-1 910	-3 771	7 276	-486	-3 180	2 471	-5 469	-8 026	2 557	7 779	-161
05 *J-A*	A	7 669	-810	0	-8 479	-1 645	-2 556	-3 565	-	-2 897	539	-10 706	-11 232	526	2 227	-9 018
06 *J-A*	A	10 578	5 186	-200	-5 392	1 189	-1 912	-3 438	-	-545	502	-13 536	-14 840	1 304	8 144	-5 894
05 *Oct*	A	11 907	-17 217	-0	-29 124	8	-2 257	-1 014	-	2	-25 856	-28 106	-1 062	-27 044	-1 018	-3 268
Nov	A	-5 144	21 559	-0	26 703	9	1 786	3 704	-	-9	21 223	24 953	519	24 434	1 750	5 480
Dec	A	-11 640	-6 596	1	5 044	-254	-2 568	2 189	-486	-227	6 137	2 854	-1 630	4 484	2 190	-1 092
06 *Jan*	A	2 024	-3 898	-1	-5 922	12	1 991	-11 363	-	-4	3 454	-8 032	-7 765	-267	2 110	-9 376
Feb	A	8 833	6 730	1	-2 103	4	-2 436	3 695	-	-1	-3 361	-4 803	-1 824	-2 979	2 700	1 258
Mar	A	-6 273	-754	-1	5 519	7	2 009	3 669	-	-26	-133	4 019	1 384	2 635	1 500	5 652
Apr	A	13 312	12 912	3 250	-400	-166	-2 991	-1 170	-	-140	3 901	-1 873	-3 086	1 213	1 473	-4 301
May	A	-7 527	-9 596	-3 250	-2 069	12	1 920	-589	-	-158	-3 242	-329	225	-554	-1 740	1 172
Jun	A	-7 811	-6 897	-200	914	12	-2 790	2 591	-	45	1 067	1 314	-1 874	3 188	-400	-153
Jul	A	8 115	9 740	-0	1 625	1 298	1 976	-1 310	-	-288	1 247	-436	-1 084	648	2 061	378
Aug	A	-95	-3 050	1	-2 955	11	-1 591	1 039	-	28	-2 431	-3 395	-815	-2 580	440	-524

STATE. NET INCURRENCE OF LIABILITIES. BY INSTRUMENT (Latest 12 months)



STATE. NET INCURRENCE OF LIABILITIES. BY COUNTERPART SECTOR (Latest 12 months)



Source: BE.

a. Except in interest rate swaps, where the EDP criterion in followed. That is to say, the net outcome of these transactions is considered to be interest and not financial transactions (the ESA 95 criterion), whereby they influence the calculation of net lending or borrowing.

b.Includes other loans, non-negotiable securities, coined money and Caja General de Depósitos (General Deposit Fund).

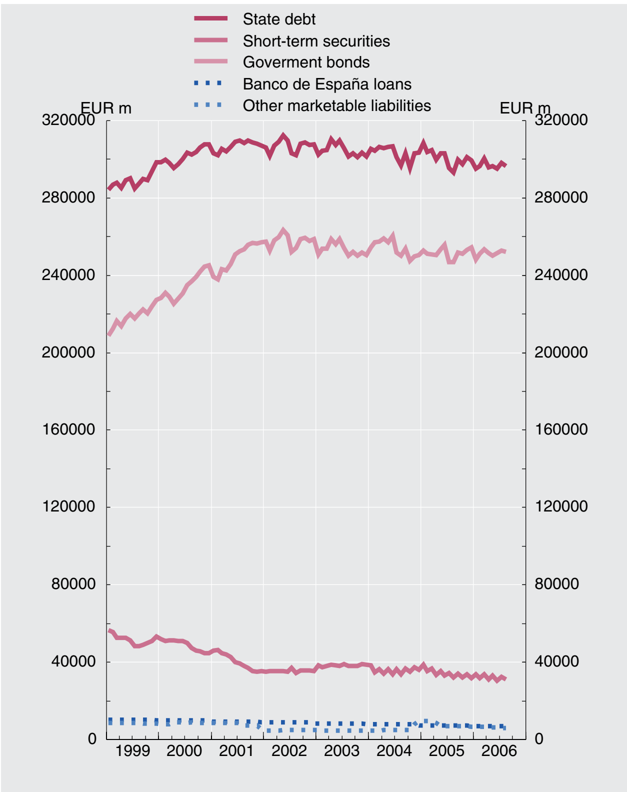
6.3. STATE: LIABILITIES OUTSTANDING. SPAIN

■ Series depicted in chart.

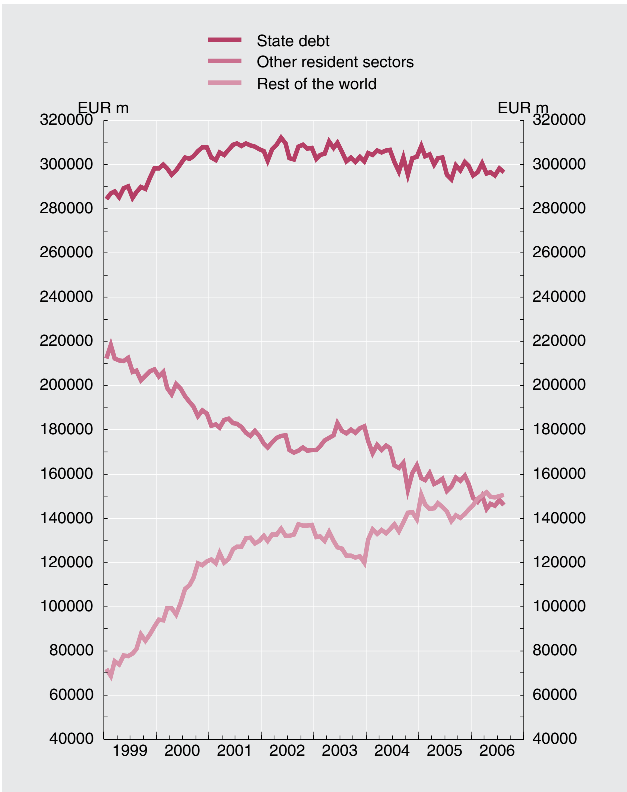
EUR millions

		Liabilities outstanding (excluding other accounts payable)										Memorandum item:	
		State debt according to the methodology of the excessive deficit procedure	of which	By instrument				By counterpart sector				Deposits at the Banco de España	Guarantees given (contingent liabilities). Outstanding level
			In currencies other than the peseta/ euro	Short-term securities	Government bonds and assumed debt	Banco de España loans	Other marketable liabilities (a)	Held by resident sectors			Rest of the world		
								Total	General government	Other resident sectors			
		1 ■	2	3 ■	4 ■	5 ■	6 ■	7	8	9 ■	10 ■	11	12
95		232 754	19 362	71 070	132 463	11 050	18 171	180 408	385	180 023	52 731	9 379	6 059
96		263 972	20 434	81 084	152 302	10 814	19 772	210 497	529	209 969	54 003	15 195	8 185
97		274 176	23 270	71 730	180 566	10 578	11 303	211 538	445	211 093	63 083	9 829	7 251
98		284 161	30 048	59 939	205 189	10 341	8 691	215 207	305	214 902	69 258	10 273	6 412
99		298 384	7 189	53 142	227 157	9 843	8 243	207 465	150	207 315	91 070	14 846	5 310
00		307 726	8 197	44 575	245 255	9 344	8 552	188 488	1 187	187 301	120 424	20 536	5 430
01		306 895	7 611	35 413	257 192	8 845	5 445	179 123	2 018	177 105	129 791	395	5 460
02		307 610	5 823	35 459	258 877	8 359	4 914	177 561	6 831	170 730	136 880	300	6 819
03	P	301 476	5 105	38 702	250 337	7 873	4 564	192 399	10 952	181 447	120 029	300	6 821
04	A	303 540	3 267	35 996	250 410	7 388	9 746	182 967	19 127	163 840	139 700	300	7 186
05 *Sep*	A	299 801	2 458	33 917	251 670	7 388	6 827	181 490	23 060	158 430	141 371	300	6 360
Oct	A	297 383	2 416	31 976	251 195	7 388	6 824	179 852	22 782	157 070	140 313	300	6 348
Nov	A	301 223	2 401	33 752	253 268	7 388	6 816	182 537	23 352	159 185	142 039	300	7 102
Dec	A	299 444	2 154	31 614	254 341	6 902	6 588	178 398	22 944	155 454	143 990	300	6 020
06 *Jan*	A	295 182	2 114	33 602	248 100	6 902	6 579	171 045	21 942	149 103	146 079	299	5 898
Feb	A	296 377	2 156	31 656	251 237	6 902	6 582	169 034	21 481	147 554	148 823	300	731
Mar	A	300 488	2 097	33 670	253 363	6 902	6 553	172 365	22 195	150 170	150 317	300	5 902
Apr	A	295 942	1 926	31 064	251 568	6 902	6 408	166 165	21 836	144 329	151 612	3 550	5 768
May	A	296 368	1 920	32 988	250 229	6 902	6 250	168 353	21 836	146 517	149 851	300	5 739
Jun	A	295 155	1 696	30 589	251 370	6 902	6 294	167 585	21 854	145 731	149 424	100	5 743
Jul	A	298 238	1 683	32 469	252 861	6 902	6 006	170 287	22 111	148 176	150 061	100	5 675
Aug	A	296 377	1 648	31 175	252 267	6 902	6 034	168 294	22 412	145 883	150 495	100	5 658

STATE. LIABILITIES OUTSTANDING
By instrument



STATE. LIABILITIES OUTSTANDING
By counterpart sector



Source: BE.

a. Includes other loans, non-negotiable securities, coined money and Caja General de Depósitos (General Deposit Fund).

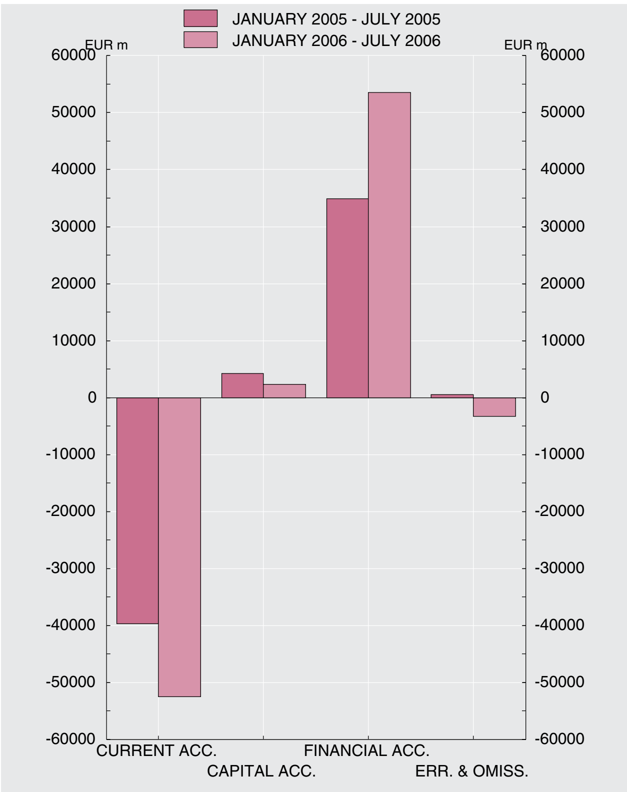
7.1. THE SPANISH BALANCE OF PAYMENTS VIS-à-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD. CURRENT ACCOUNT

■ Series depicted in chart.

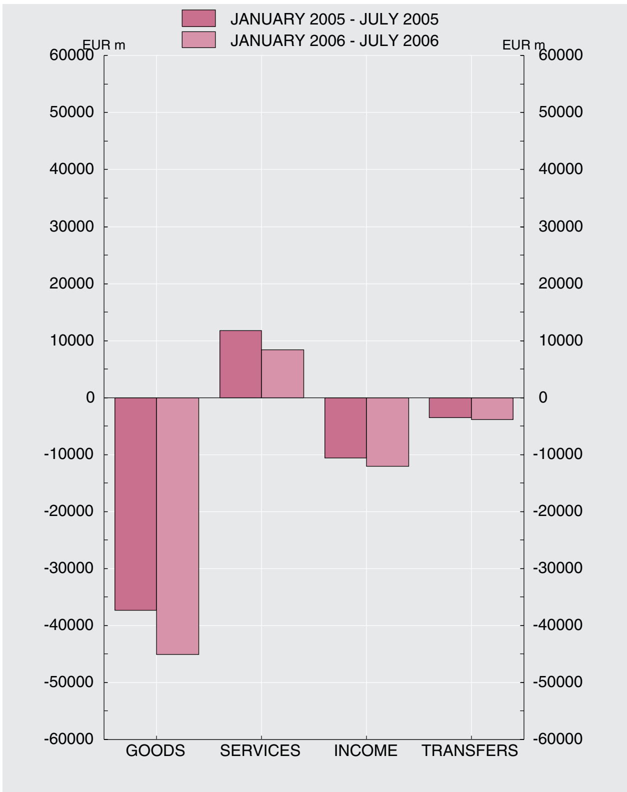
EUR millions

		Current account (a)													Capital account	Current account plus capital account	Financial account	Errors and omis-sion
		Total (balance)	Goods			Services					Income			Current trans-fers (bal-ance)	(bal-ance)		(balance) (b)	
			Balance	Receipts	Payments	Balance	Receipts		Payments		Balance	Receipts	Pay-ments					
							Total	Of which: Tourism and travel	Total	Of which: Tourism and travel								
		1=2+5+10+13 ■	2=3-4 ■	3	4	5=6-8 ■	6	7	8	9	10=11-12 ■	11	12	13 ■	14 ■	15=1+14	16 ■	17=-(15+16) ■
03		-27 476	-39 839	139 754	179 593	23 301	65 689	35 047	42 388	8 010	-10 396	24 061	34 456	-543	8 165	-19 311	17 826	1 486
04		-44 164	-53 660	148 967	202 627	21 753	69 355	36 376	47 602	9 772	-12 139	27 299	39 439	-117	8 428	-35 736	34 851	885
05	P	-66 627	-68 969	156 375	225 344	22 635	75 410	38 495	52 776	12 125	-17 208	31 312	48 520	-3 084	7 972	-58 655	59 551	-897
05 *J-J*	P	-39 683	-37 350	90 686	128 035	11 752	41 177	20 204	29 424	6 495	-10 583	15 868	26 451	-3 502	4 276	-35 407	34 888	519
06 *J-J*	P	-52 505	-45 042	100 973	146 015	8 414	43 945	19 959	35 531	7 270	-12 007	20 490	32 497	-3 870	2 372	-50 132	53 472	-3 340
05 *Apr*	P	-5 437	-5 777	13 657	19 434	950	5 004	2 106	4 054	719	-455	3 292	3 748	-155	308	-5 128	5 238	-110
May	P	-5 398	-5 632	13 565	19 197	2 121	6 072	2 997	3 951	793	-1 697	2 166	3 863	-190	974	-4 424	4 223	201
Jun	P	-6 241	-5 833	13 824	19 657	1 972	6 501	3 228	4 528	1 159	-2 184	2 176	4 360	-196	1 383	-4 858	4 234	623
Jul	P	-4 602	-5 429	13 022	18 451	3 192	8 227	4 802	5 034	1 174	-2 015	2 418	4 433	-350	497	-4 106	3 737	369
Aug	P	-4 651	-6 522	10 090	16 612	3 614	8 174	5 096	4 560	1 302	-1 370	4 073	5 443	-372	726	-3 925	3 977	-52
Sep	P	-5 830	-6 222	13 772	19 995	2 981	7 769	4 767	4 787	1 172	-1 828	2 671	4 499	-761	460	-5 370	7 672	-2 301
Oct	P	-4 764	-5 931	13 448	19 379	2 563	7 120	4 017	4 557	1 163	-1 150	2 362	3 512	-246	279	-4 485	5 333	-848
Nov	P	-4 643	-6 491	14 860	21 350	1 364	5 984	2 709	4 620	1 050	-890	2 923	3 814	1 374	359	-4 283	3 735	549
Dec	P	-7 056	-6 454	13 519	19 973	360	5 187	1 701	4 827	942	-1 386	3 415	4 801	424	1 871	-5 185	3 947	1 238
06 *Jan*	P	-6 774	-5 916	12 923	18 839	123	5 147	2 111	5 023	1 109	-387	3 374	3 760	-595	330	-6 444	6 755	-311
Feb	P	-8 378	-5 759	14 202	19 961	193	5 087	2 003	4 894	939	-1 443	1 809	3 252	-1 369	320	-8 058	9 156	-1 098
Mar	P	-9 348	-7 107	15 658	22 765	773	6 180	2 418	5 407	1 087	-2 424	2 402	4 826	-590	121	-9 227	10 051	-824
Apr	P	-7 595	-6 207	13 335	19 542	961	5 380	2 258	4 419	759	-1 800	2 342	4 142	-549	208	-7 387	6 046	1 341
May	P	-5 707	-6 745	15 679	22 424	1 776	6 599	2 946	4 823	836	-404	4 398	4 802	-334	625	-5 082	5 838	-757
Jun	P	-6 797	-6 834	15 403	22 237	1 552	6 990	3 374	5 438	1 240	-1 849	3 122	4 970	334	220	-6 577	6 682	-105
Jul	P	-7 906	-6 475	13 773	20 248	3 036	8 562	4 850	5 526	1 301	-3 700	3 044	6 744	-767	548	-7 358	8 944	-1 586

SUMMARY



CURRENT ACCOUNT



Sources: BE. Data compiled in accordance with the IMF Balance of Payments Manual (5th edition).

a. A positive sign for the current and capital account balances indicates a surplus (receipts greater than payments) and, thus, a Spanish net loan abroad (increase in the creditor position or decrease in the debtor position).

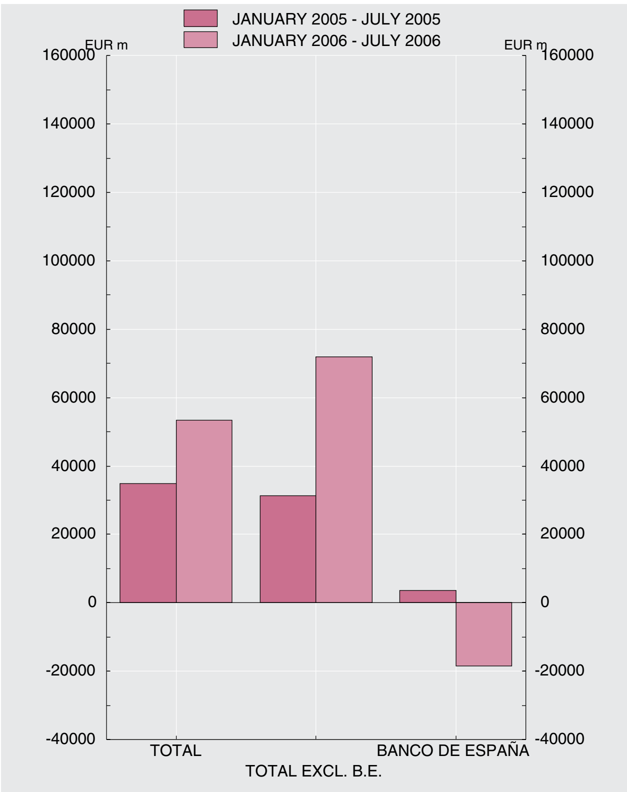
b. A positive sign for the financial account balance (the net change in liabilities exceeds the net change in financial assets) means a net credit inflow, i.e. a net foreign loan to Spain (increase in the debtor position or decrease in the creditor position).

7.2. THE SPANISH BALANCE OF PAYMENTS VIS-à-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD. FINANCIAL ACCOUNT (a)

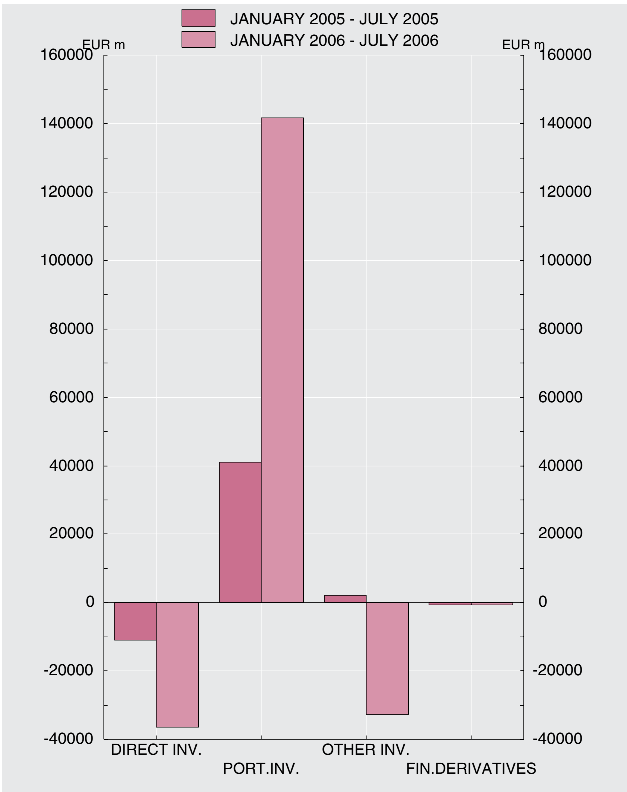
■ Series depicted in chart. *EUR millions*

			Total, excluding Banco de España											Banco de España			
				Direct investment			Portfolio investment			Other investment (d)							
		Financial account (NCL-NCA)	Total (NCL-NCA)	Balance (NCL-NCA)	Spanish invest-ment abroad (NCA)	Foreign invest-ment in Spain (NCL) (b)	Balance (NCL-NCA)	Spanish invest-ment abroad (NCA)	Foreign invest-ment in Spain (NCL) (c)	Balance (NCL-NCA)	Spanish invest-ment abroad (NCA)	Foreign invest-ment in Spain (NCL)	Net finan-cial deriva-tives (NCL-NCA)	Balance (NCL-NCA)	Re-serves (e)	Claims with the Euro-system (e)	Other net assets (NCL-NCA)
		1=2+13 ■	2=3+6+9+12 ■	3=5-4 ■	4	5	6=8-7 ■	7	8	9=11-10 ■	10	11	12 ■	13=14+15+16 ■	14	15	16
03		17 826	16 251	-2 568	25 445	22 877	-26 592	65 634	39 042	48 845	15 876	64 722	-3 435	1 575	13 626	4 382	-16 433
04		34 851	48 861	-28 809	48 750	19 941	85 808	26 946	112 754	-8 212	28 419	20 207	74	-14 010	5 147	-13 760	-5 397
05	P	59 551	61 812	-12 693	31 177	18 484	57 890	78 714	136 605	16 599	46 258	62 857	16	-2 261	1 439	14 855	-18 555
05 *J-J*	P	34 888	31 295	-11 027	17 908	6 881	41 058	38 064	79 122	2 036	32 658	34 694	-772	3 593	1 816	16 000	-14 223
06 *J-J*	P	53 472	71 879	-36 517	44 545	8 028	141 797	-461	141 336	-32 699	39 487	6 788	-701	-18 407	240	-17 058	-1 590
05 *Apr*	P	5 238	6 024	-1 198	1 732	534	3 817	2 061	5 878	4 321	4 771	9 092	-915	-786	189	1 021	-1 996
May	P	4 223	-734	-334	1 339	1 005	8 593	1 123	9 715	-8 873	5 221	-3 652	-119	4 956	-39	6 595	-1 600
Jun	P	4 234	10 613	-4 291	3 291	-1 001	14 020	12 127	26 147	-445	2 853	2 408	1 330	-6 379	8	-4 430	-1 956
Jul	P	3 737	-851	110	1 185	1 295	-12 894	14 717	1 823	11 533	2 494	14 027	399	4 588	109	6 086	-1 606
Aug	P	3 977	492	304	625	929	-13 296	8 479	-4 817	13 995	-14 251	-257	-510	3 486	3	4 913	-1 431
Sep	P	7 672	18 950	-331	2 860	2 529	25 795	-1 808	23 988	-6 433	13 261	6 827	-82	-11 278	-100	-10 184	-994
Oct	P	5 333	6 522	987	1 252	2 239	3 078	6 285	9 363	1 562	6 572	8 134	896	-1 190	-71	-986	-133
Nov	P	3 735	-103	4 548	2 622	7 170	-8 569	23 580	15 011	3 088	6 465	9 553	830	3 838	-463	4 286	15
Dec	P	3 947	4 657	-7 173	5 908	-1 265	9 824	4 113	13 938	2 352	1 554	3 905	-346	-710	253	826	-1 789
06 *Jan*	P	6 755	17 245	-334	2 107	1 773	15 477	6 077	21 554	2 908	1 501	4 409	-806	-10 490	45	-9 761	-773
Feb	P	9 156	8 135	-24 546	26 092	1 546	19 632	5 407	25 039	12 695	12 877	25 572	355	1 021	-24	962	83
Mar	P	10 051	11 063	-2 366	2 154	-212	10 017	10 777	20 795	2 416	2 853	5 269	995	-1 012	-233	-952	173
Apr	P	6 046	9 239	-1 281	2 664	1 384	11 461	-2 192	9 270	-1 206	7 499	6 292	265	-3 193	440	-3 502	-131
May	P	5 838	3 857	-2 642	3 900	1 258	38 540	-16 995	21 545	-30 727	7 018	-23 709	-1 315	1 982	171	2 240	-429
Jun	P	6 682	10 967	-4 801	4 231	-570	26 465	-2 501	23 964	-11 080	2 677	-8 404	383	-4 285	-270	-4 148	134
Jul	P	8 944	11 374	-547	3 396	2 849	20 204	-1 035	19 169	-7 704	5 063	-2 642	-579	-2 430	113	-1 897	-646

FINANCIAL ACCOUNT (NCL-NCA)



FINANCIAL ACCOUNT, EXCLUDING BANCO DE ESPAÑA. Breakdown. (NCL-NCA)



Sources: BE. Data compiled in accordance with the IMF Balance of Payments Manual (5th edition).

a. Changes in assets (NCA) and changes in liabilities (NCL) are both net of repayments. A positive (negative) sign in NCA columns indicates an outflow (inflow) of foreign financing. A positive (negative) sign in NCL columns implies an inflow (outflow) of foreign financing.

b. This does not include direct investment in quoted shares, but does include portfolio investment in unquoted shares.

c. This includes direct investment in quoted shares, but does not include portfolio investment in unquoted shares. d. Mainly, loans, deposits and repos.

e. A positive (negative) sign indicates a decrease (increase) in the reserves and/or claims of the BE with the Eurosystem.

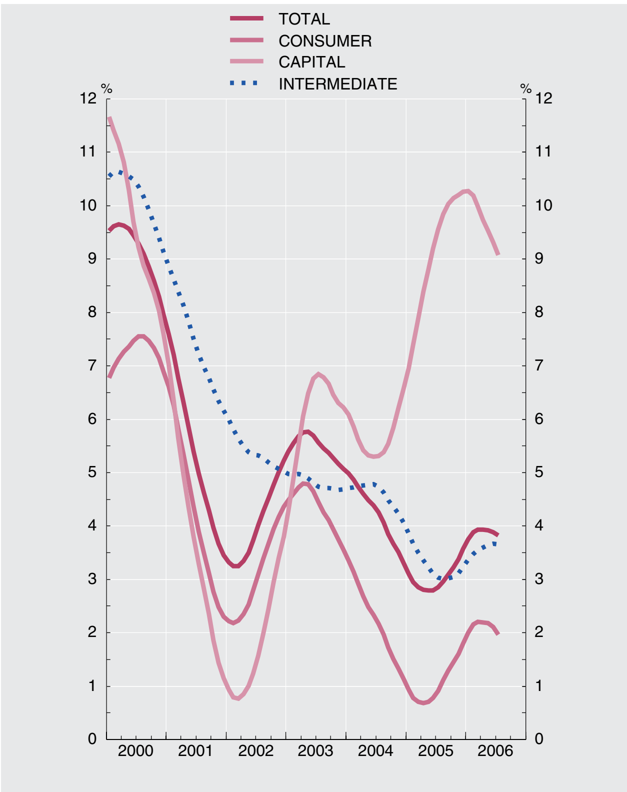
7.3. SPANISH FOREIGN TRADE WITH OTHER EURO AREA COUNTRIES AND WITH THE REST OF THE WORLD EXPORT AND DISPATCHES

■ Series depicted in chart.

Eur millions and annual percentage changes

	Total: EUR millions (1)	Total: Nominal (2)	Total: Deflated (a) (3) ■	By product (deflated data) (a): Consumer (4) ■	By product: Capital (5) ■	By product: Intermediate: Total (6) ■	By product: Intermediate: Energy (7)	By product: Intermediate: Non-energy (8)	By geographical area (nominal data): EU 25: Total (9)	EU 25 of which: EU 15 (10)	EU 25 of which: Euro area (11) ■	OECD: Total (12) ■	OECD of which: United States (13) ■	OPEC (14)	Other American countries (15)	Newly industrialised countries (16) ■
01	129 771	4.5	4.2	3.7	-1.4	5.7	-22.8	7.5	6.3	6.0	5.1	4.5	-6.6	8.3	-6.1	-6.6
02	133 268	2.7	3.7	3.9	-3.5	4.8	4.7	4.7	2.6	2.1	1.2	3.3	2.4	10.1	-19.8	5.7
03	138 119	3.6	5.2	4.2	11.9	4.8	24.7	3.9	4.4	4.5	5.2	3.8	-1.7	-5.4	2.2	-23.4
04	146 925	6.4	5.3	2.2	13.1	6.6	10.2	6.4	4.9	5.1	5.2	5.9	2.0	12.2	3.3	4.7
05	141 077	-4.0	-8.2	-9.3	-6.3	-7.8	-16.9	-7.2	-6.5	-6.7	-6.9	-5.2	0.9	2.7	2.8	5.7
05 *Jun*	13 581	3.8	0.5	-3.3	15.6	0.4	-3.5	0.6	-0.3	-1.1	-1.2	4.6	7.3	1.1	-0.8	3.2
Jul	12 800	-0.6	-6.0	-8.0	-2.8	-5.0	-12.6	-4.6	-5.3	-5.9	-7.7	-3.0	4.4	11.6	-3.9	19.6
Aug	9 920	11.6	5.2	6.1	22.1	2.2	-0.3	2.4	7.3	6.8	3.2	9.1	17.8	11.1	20.9	12.1
Sep	13 516	11.7	5.9	6.1	16.1	4.2	-0.1	4.5	7.8	7.0	5.3	9.7	27.1	25.9	21.9	12.0
Oct	13 216	1.6	-2.4	0.6	-11.2	-3.4	-4.1	-3.4	0.4	-0.1	-0.5	2.4	11.3	-14.7	-11.1	24.0
Nov	14 593	5.9	1.5	-1.9	25.0	0.1	-1.8	0.2	-1.2	-1.4	-1.6	1.7	6.1	25.7	82.5	53.5
Dec	13 291	7.6	1.3	-2.5	19.9	0.4	-12.1	1.1	5.1	5.3	3.9	6.1	-4.0	-33.0	62.9	13.3
06 *Jan*	12 753	17.0	12.2	8.7	56.4	8.3	-1.6	8.9	7.6	7.3	5.0	13.1	52.6	6.6	102.4	4.0
Feb	13 992	15.2	11.6	14.1	31.8	6.5	29.9	5.6	9.2	8.6	8.8	11.1	32.8	58.6	45.9	60.6
Mar	15 450	19.9	14.2	15.3	37.4	9.6	12.2	9.5	12.0	11.7	10.5	16.3	46.0	20.5	63.5	41.8
Apr	13 161	-1.8	-6.3	-10.1	0.3	-4.6	-4.5	-4.6	-5.7	-6.3	-6.9	-1.3	11.7	-35.5	26.2	27.3
May	15 472	16.3	11.2	11.3	20.6	9.5	4.6	9.7	12.7	12.2	11.0	14.4	41.6	-2.0	103.0	36.0
Jun	15 192	11.9	6.2	9.2	-14.3	9.0	-10.7	10.0	13.1	12.9	12.2	9.7	24.0	24.7	39.7	14.6
Jul	13 597	6.2	0.1	-2.8	8.3	0.4	-13.8	1.1	7.2	6.6	9.1	6.5	15.6	-14.4	32.4	-9.0

BY PRODUCT
Annual percentage changes (trend obtained with TRAMO-SEATS method)



BY GEOGRAPHICAL AREA
Annual percentage changes (trend obtained with TRAMO-SEATS method)

Sources: ME y BE.
Note: The underlying series for this indicator are in Tables 17.4 and 17.5 of the Boletín estadístico.
The monthly series are provisional data, while the annual series are the final foreign trade data.
a. Series deflated by unit value indices.

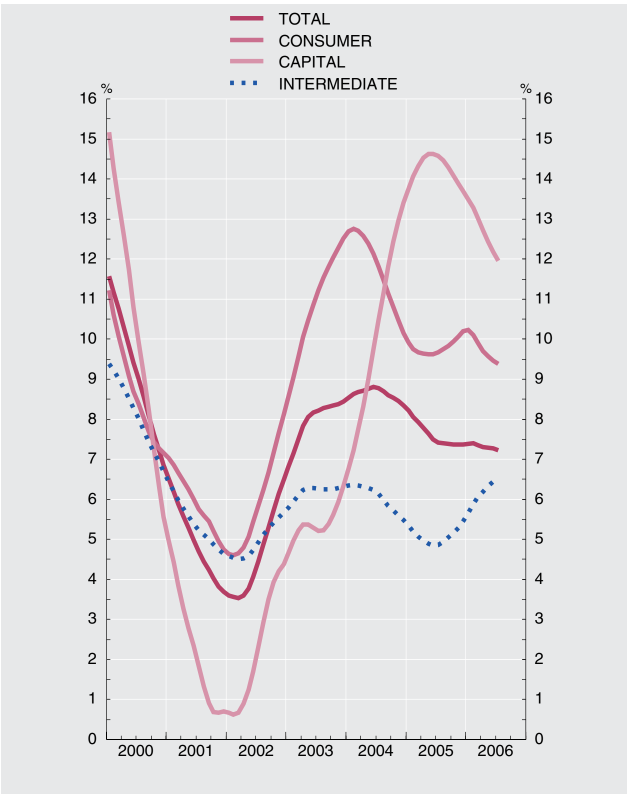
7.4. SPANISH FOREIGN TRADE WITH OTHER EURO AREA COUNTRIES AND WITH THE REST OF THE WORLD IMPORTS AND ARRIVALS

■ Series depicted in chart.

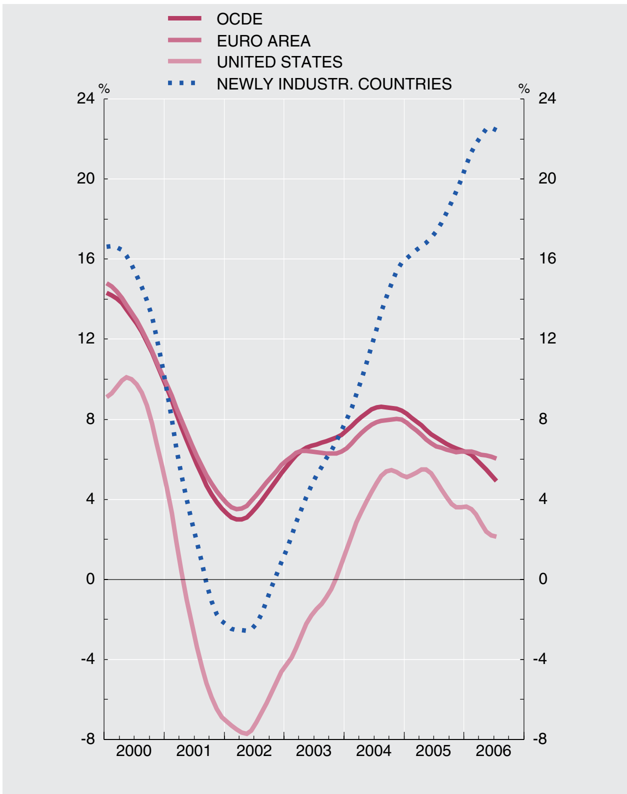
Eur millions and annual percentage changes

	Total: EUR millions 1	Total: Nom-inal 2	Total: De-flated (a) 3 ■	By product (deflated data) (a): Con-sumer 4 ■	By product: Capital 5 ■	By product: Intermediate: Total 6 ■	Intermediate: Energy 7	Intermediate: Non-energy 8	By geographical area (nominal data): EU 25: Total 9	EU 25 of which: EU 15 10	EU 25 of which: Euro area 11 ■	OECD: Total 12 ■	OECD of which: United States 13 ■	OPEC 14	Other Amer-ican coun-tries 15	Newly industri-alised coun-tries 16 ■
01	173 210	2.2	3.4	6.4	-2.0	3.2	-1.0	4.3	3.5	3.0	3.8	2.6	-10.1	-8.1	3.7	-2.2
02	175 268	1.2	4.3	5.0	-5.4	5.9	5.6	5.9	1.6	1.3	1.9	0.9	-8.5	-11.0	5.7	2.4
03	185 114	5.6	7.1	9.6	12.9	4.8	1.0	5.7	5.9	5.4	5.3	5.8	-4.8	1.9	12.9	1.1
04	208 411	12.6	9.9	13.5	14.4	7.3	10.6	6.5	9.8	9.5	10.1	11.3	9.3	12.8	7.9	14.6
05	212 047	1.7	-3.1	-1.3	6.3	-5.8	2.1	-7.8	-4.3	-4.5	-4.6	-3.8	-9.7	27.0	18.3	2.1
05 *Jun*	20 152	8.5	3.0	3.5	29.8	-1.9	5.9	-3.5	3.5	3.2	4.4	5.8	18.8	28.3	9.1	6.8
Jul	18 927	5.4	-2.6	4.4	-8.0	-4.8	-1.5	-5.6	-2.8	-3.3	-3.8	-1.3	7.7	25.8	12.9	17.8
Aug	17 112	20.0	13.1	10.5	44.3	9.5	27.6	4.3	10.6	10.0	11.7	11.2	7.6	48.5	32.1	0.2
Sep	20 622	12.1	7.6	9.0	17.0	5.1	9.4	4.1	6.5	6.0	6.7	6.8	-4.7	59.1	-15.4	22.3
Oct	19 855	7.9	3.0	6.8	-4.0	2.4	17.2	-0.7	0.8	-0.6	-0.2	1.9	-8.5	30.5	45.1	13.4
Nov	21 886	12.4	8.3	7.7	47.9	1.1	12.8	-1.4	3.6	2.9	3.0	3.3	-18.2	39.9	149.1	35.5
Dec	20 472	10.4	3.1	11.5	-11.9	3.7	-4.9	5.9	6.0	4.8	2.8	5.7	5.9	43.7	49.7	-15.3
06 *Jan*	19 337	19.5	13.1	40.4	20.8	-0.2	1.8	-0.8	13.8	13.2	13.8	13.3	18.2	44.3	50.1	49.5
Feb	20 497	18.9	11.6	9.3	10.0	12.8	13.5	12.6	10.7	8.0	8.9	12.4	16.9	54.1	38.5	43.3
Mar	23 477	21.5	14.7	14.4	2.8	17.3	13.2	18.4	14.7	12.5	13.4	16.7	39.8	47.3	57.0	26.6
Apr	20 045	0.6	-6.4	-4.6	-12.6	-5.9	2.3	-7.7	-2.6	-3.6	-3.0	-4.2	-5.8	26.2	-13.9	5.9
May	23 000	16.9	10.1	11.1	1.2	11.4	17.7	10.0	11.5	9.9	8.5	10.8	-20.0	36.2	55.5	47.1
Jun	22 877	13.5	11.6	10.9	-2.8	14.9	4.7	17.2	11.4	10.5	11.6	8.4	-22.6	52.3	11.8	46.7
Jul	20 774	9.8	8.5	3.4	12.3	10.3	4.8	11.6	7.7	7.4	8.0	7.5	37.8	30.3	4.8	21.7

BY PRODUCTS
Annual percentage changes (trend obtained with TRAMO SEATS method)



BY GEOGRAPHICAL AREA
Annual percentage changes (trend obtained with TRAMO-SEATS method)



Sources: ME y BE.
Note: The underlying series for this indicator are in Tables 17.2 and 17.3 of the Boletín estadístico.
The monthly series are provisional data, while the annual series are the final foreign trade data.
a. Series deflated by unit value indices .

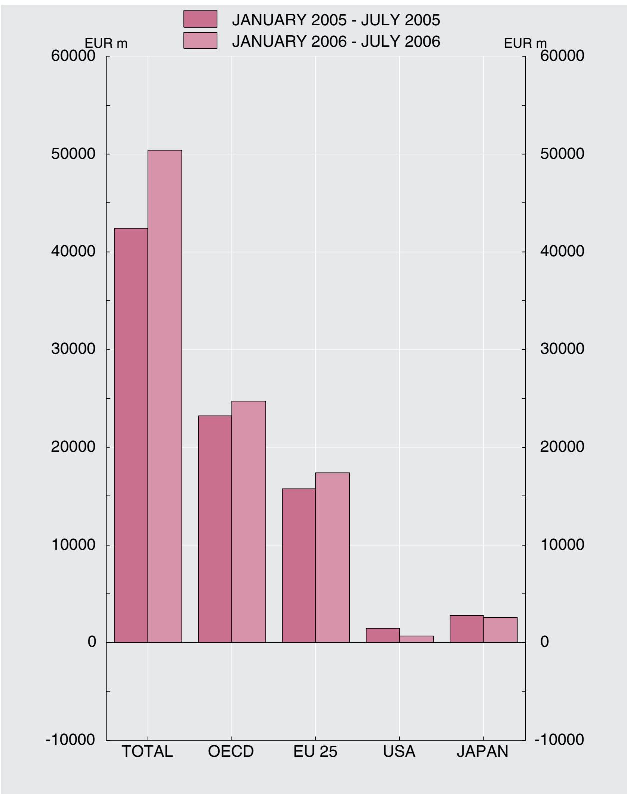
7.5. SPANISH FOREIGN TRADE WITH OTHER EURO AREA COUNTRIES AND WITH THE REST OF THE WORLD. TRADE BALANCE. GEOGRAPHICAL DISTRIBUTION

■ Series depicted in chart.

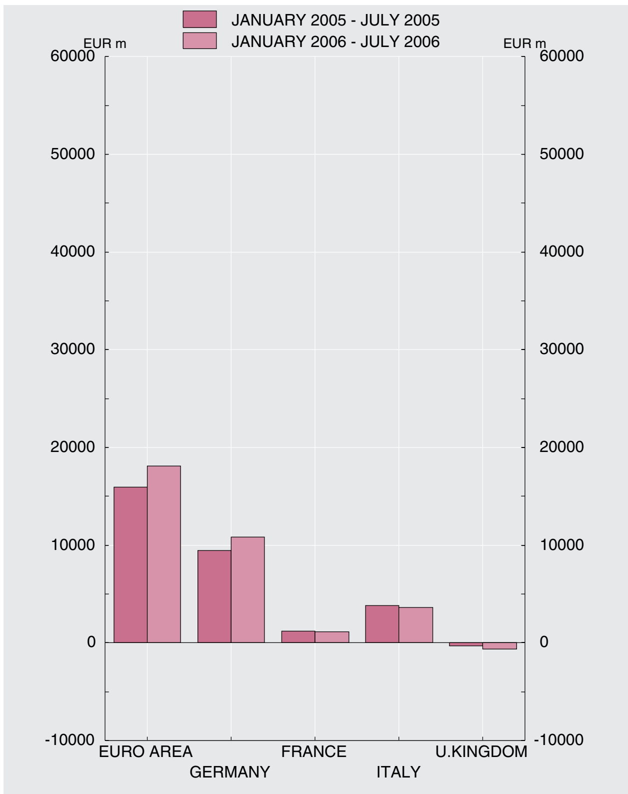
EUR millions

	World total ■	European Union (EU 25): Total ■	EU 15: Total	Euro area: Total ■	Euro area of which: Germany ■	France ■	Italy ■	United Kingdom ■	Other EU 15 members	OECD: Total ■	OECD of which: United States of América ■	Japan ■	OPEC	Other American countries	Newly industrialised countries
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
01	-43 439	-17 290	-17 987	-17 474	-11 539	-3 683	-4 283	-462	-51	-26 363	-2 219	-3 159	-9 501	420	-2 176
02	-42 000	-16 612	-17 543	-18 385	-12 970	-3 436	-3 312	1 430	-587	-24 004	-1 416	-3 224	-7 771	-897	-2 176
03	-46 995	-19 048	-19 322	-19 450	-13 731	-3 239	-3 517	1 035	-907	-27 616	-1 170	-3 855	-8 187	-1 467	-2 600
04	-61 486	-25 907	-25 478	-25 473	-16 282	-3 353	-5 671	472	-476	-36 990	-1 692	-4 583	-9 253	-1 784	-3 104
05	-70 969	-27 203	-26 617	-26 349	-15 039	-2 551	-6 466	-254	-14	-37 357	-912	-4 379	-12 678	-2 801	-3 123
05 *J-J*	-42 401	-15 859	-15 718	-15 916	-9 429	-1 186	-3 825	305	-107	-23 223	-1 473	-2 791	-6 692	-1 772	-1 910
06 *J-J*	-50 390	-18 322	-17 362	-18 121	-10 833	-1 111	-3 603	626	132	-24 705	-678	-2 605	-10 306	-1 511	-2 642
05 *Jun*	-6 571	-2 898	-2 842	-2 855	-1 573	-321	-466	78	-65	-3 842	-279	-373	-973	-284	-301
Jul	-6 128	-2 442	-2 424	-2 585	-1 379	-157	-704	129	32	-3 190	-64	-368	-1 057	-227	-257
Aug	-7 192	-2 645	-2 604	-2 613	-1 253	-530	-574	-52	61	-3 543	-141	-291	-1 358	-255	-212
Sep	-7 106	-2 365	-2 349	-2 469	-1 404	-376	-494	70	50	-3 296	-55	-394	-1 609	-226	-307
Oct	-6 639	-2 673	-2 494	-2 472	-1 378	-239	-586	-54	33	-3 516	29	-373	-1 060	-395	-302
Nov	-7 293	-2 780	-2 707	-2 567	-1 363	-267	-674	-193	53	-3 767	-93	-443	-1 294	-528	-386
Dec	-7 182	-3 700	-3 551	-3 282	-1 451	-589	-841	-246	-23	-4 590	11	-424	-1 275	96	-311
06 *Jan*	-6 584	-2 113	-2 057	-2 336	-1 197	-189	-363	252	28	-3 001	-63	-330	-1 386	-170	-432
Feb	-6 504	-2 087	-1 904	-2 097	-1 593	195	-583	251	-59	-3 106	-140	-365	-1 288	-179	-310
Mar	-8 027	-3 066	-2 876	-2 958	-1 800	-220	-623	132	-50	-4 208	-146	-413	-1 641	-302	-339
Apr	-6 884	-2 729	-2 571	-2 495	-1 394	-177	-461	-138	62	-3 386	-179	-307	-1 479	-162	-286
May	-7 528	-2 591	-2 356	-2 382	-1 692	-21	-417	-46	71	-3 450	32	-432	-1 404	-372	-441
Jun	-7 685	-3 060	-2 923	-3 136	-1 594	-597	-475	194	19	-4 015	28	-421	-1 560	-207	-476
Jul	-7 177	-2 676	-2 675	-2 716	-1 563	-101	-680	-19	60	-3 540	-209	-336	-1 549	-118	-359

CUMULATIVE TRADE DEFICIT



CUMULATIVE TRADE DEFICIT



Source: ME.
Note: The underlying series for this indicator are in Tables 17.3 and 17.5 of the Boletín Estadístico.
The monthly series are provisional data, while the annual series are the final foreign trade data.

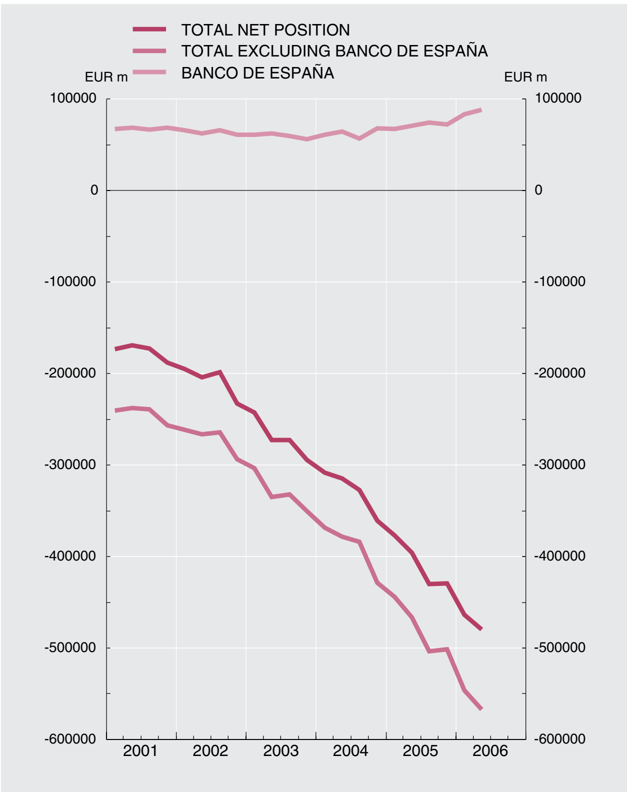
7.6. SPANISH INTERNATIONAL INVESTMENT POSITION VIS-à-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD SUMMARY

■ Series depicted in chart.

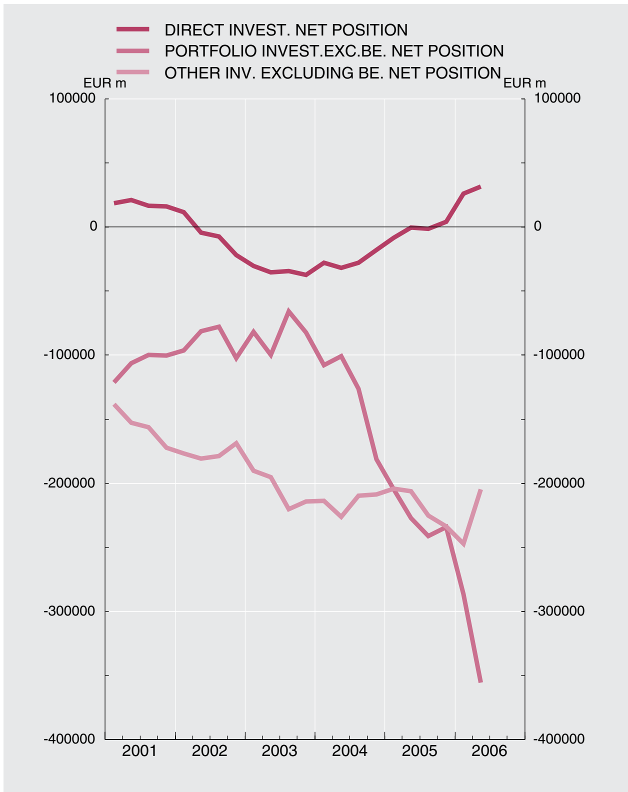
End-of-period stocks in EUR billions

		Net international investment position (assets-liabil.)	Total excluding Banco de España										Banco de España			
			Net position excluding Banco de España (assets - liabil.)	Direct investment			Portfolio investment			Other investment			Banco de España net position (assets-liabil.)	Reserves	Assets vis-à-vis the Euro-system	Other net assets (assets-liabil.)
				Net position (assets-liabil.)	Spanish investment abroad (assets)	Foreign investment in Spain (liabil.)	Net position (assets-liabil.)	Spanish investment abroad (assets)	Foreign investment in Spain (liabil.)	Net position (assets-liabil.)	Spanish investment abroad (assets)	Foreign investment in Spain (liabil.)				
		1=2+12 ■	2=3+6+9 ■	3=4-5 ■	4	5	6=7-8 ■	7	8	9=10-11 ■	10	11	12=13a15 ■	13	14	15
98		-160.5	-213.1	-44.5	63.5	108.0	-136.4	73.1	209.5	-32.2	161.5	193.7	52.5	52.1	-	0.4
99		-165.2	-239.0	-7.3	117.5	124.8	-141.0	127.4	268.4	-90.7	152.8	243.5	73.7	37.3	36.0	0.4
00		-160.1	-244.1	12.2	180.2	168.0	-117.0	193.7	310.7	-139.3	166.4	305.8	84.0	38.2	45.3	0.4
01		-188.0	-256.4	16.3	217.5	201.1	-100.4	232.6	333.1	-172.3	172.5	344.8	68.5	38.9	29.2	0.4
02	R	-232.9	-293.6	-22.1	223.1	245.2	-102.6	256.8	359.4	-168.9	197.4	366.3	60.6	38.4	22.7	-0.4
03 *Q2*		-272.6	-335.1	-35.5	222.9	258.4	-104.6	287.3	391.9	-195.1	194.7	389.8	62.4	31.3	26.8	4.3
Q3		-272.6	-332.4	-34.3	229.5	263.8	-77.9	309.6	387.4	-220.2	193.2	413.4	59.8	25.4	22.2	12.1
Q4		-294.1	-350.2	-37.4	231.6	268.9	-98.6	319.8	418.4	-214.2	204.0	418.1	56.1	21.2	18.3	16.6
04 *Q1*		-308.3	-368.8	-27.7	242.0	269.8	-127.4	332.8	460.2	-213.6	210.9	424.5	60.5	17.6	23.1	19.9
Q2		-314.3	-378.6	-32.0	247.6	279.7	-120.5	347.9	468.4	-226.1	222.1	448.2	64.2	16.2	27.9	20.0
Q3		-327.3	-384.1	-28.0	254.4	282.4	-146.2	344.4	490.5	-209.9	229.7	439.7	56.8	15.9	20.5	20.4
Q4		-360.6	-428.7	-17.6	272.5	290.1	-202.1	359.3	561.4	-208.9	222.4	431.3	68.1	14.5	31.9	21.7
05 *Q1*		-376.6	-443.9	-8.6	287.2	295.8	-231.1	366.5	597.7	-204.2	240.7	444.9	67.3	13.3	25.2	28.8
Q2		-395.8	-466.2	-0.6	297.9	298.5	-259.5	390.8	650.3	-206.1	256.8	462.9	70.4	13.7	22.0	34.7
Q3		-429.9	-503.8	-1.3	301.6	302.9	-277.3	417.7	695.0	-225.2	256.6	481.8	74.0	14.0	21.2	38.7
Q4		-429.3	-501.5	4.2	315.9	311.7	-272.0	454.7	726.7	-233.7	270.3	504.0	72.2	14.6	17.1	40.5
06 *Q1*		-463.3	-546.3	26.0	345.8	319.8	-325.3	476.6	802.0	-247.0	287.1	534.1	83.0	15.4	26.8	40.8
Q2		-479.6	-567.4	31.7	352.4	320.7	-394.4	445.5	839.9	-204.7	301.0	505.7	87.8	14.6	32.2	41.0

INTERNATIONAL INVESTMENT POSITION



COMPONENTS OF THE POSITION



Source: BE.
Note: As from December 2002, portfolio investment data have been calculated using a new information system (see Banco de España Circular 2/2001 and note on changes introduced in the economic indicators). The incorporation of the new data under the heading 'shares and mutual funds' of other resident sectors entails a very significant break in the time series, both in the financial assets and the liabilities, so that the series have been revised back to 1992. This methodological change introduced by the new system also affects the rest of the headings, to some extent, but the effect does not justify a complete revision of the series.

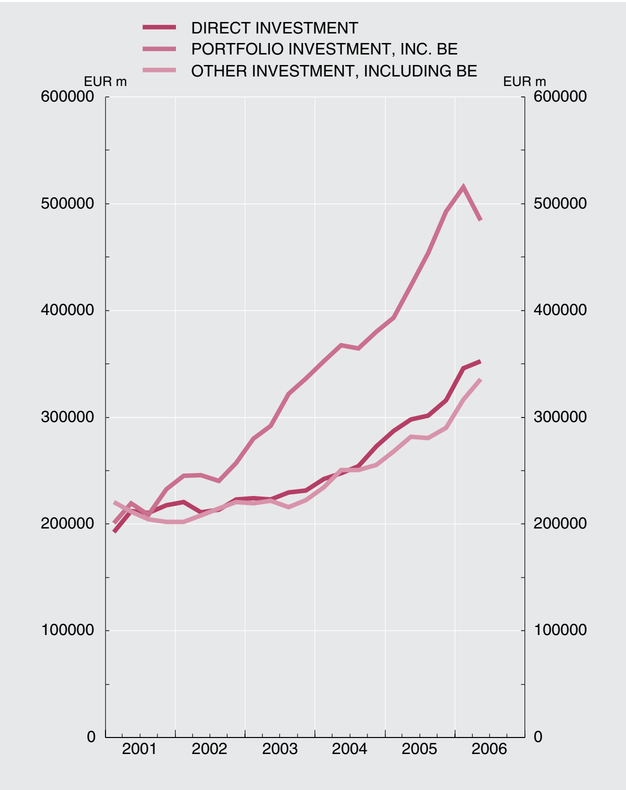
7.7. SPANISH INTERNATIONAL INVESTMENT POSITION VIS-à-VIS OTHER EURO AREA RESIDENTES AND THE REST OF THE WORLD BREAKDOWN BY INVESTMENT

■ Series depicted in chart.

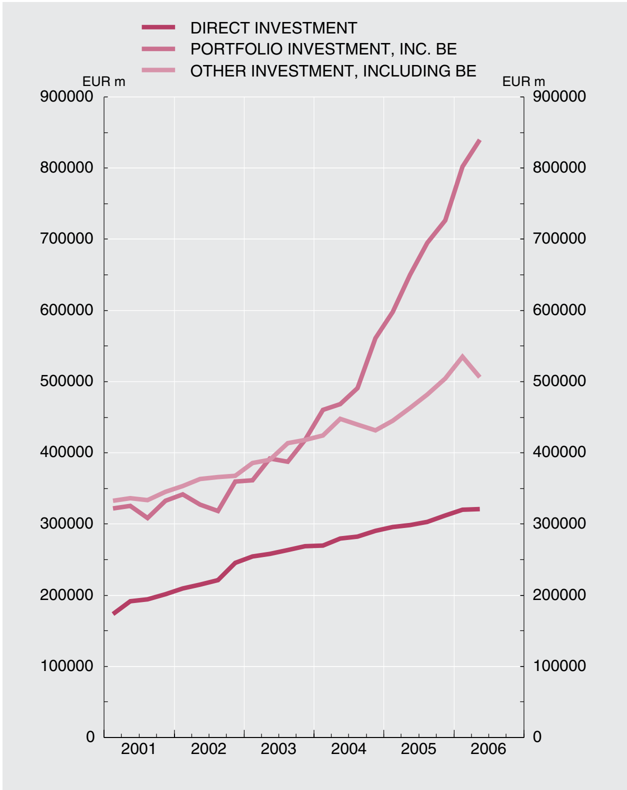
End-of-period stocks in EUR millions

	Direct investment				Portfolio investment, including Banco de España				Other investment, including Banco de España	
	Spanish investment abroad		Foreign investment in Spain		Spanish investment abroad		Foreign investment in Spain		Spanish investment abroad	Foreign investment in Spain
	Shares and other equities	Intercompany debt transactions	Shares and other equities	Intercompany debt transactions	Shares and mutual funds	Debt securities	Shares and mutual funds	Debt securities		
	1	2	3	4	5	6	7	8	9 ■	10 ■
98	57 849	5 690	90 760	17 284	20 250	52 876	116 698	92 841	162 001	193 708
99	110 031	7 469	106 535	18 251	42 282	85 105	145 948	122 443	189 266	243 489
00	167 151	13 095	142 844	25 182	83 918	109 764	147 521	163 138	212 159	305 778
01	197 233	20 231	164 360	36 768	74 596	158 052	144 151	188 925	202 099	344 845
02 R	206 268	16 815	194 711	50 456	50 712	206 581	116 967	242 432	220 483	367 646
03 *Q2*	205 551	17 399	207 551	50 851	51 401	240 717	133 812	258 086	221 881	390 621
Q3	213 679	15 798	210 597	53 203	56 847	264 746	130 593	256 851	215 885	413 722
Q4	217 086	14 477	207 096	61 828	62 677	273 344	147 878	270 550	222 670	418 202
04 *Q1*	225 194	16 833	208 256	61 519	70 575	281 731	153 501	306 722	234 377	424 549
Q2	230 136	17 510	214 813	64 839	75 270	292 225	149 108	319 292	250 473	448 152
Q3	234 813	19 624	218 183	64 231	71 014	293 161	150 702	339 837	250 827	439 658
Q4	254 696	17 791	223 215	66 917	78 053	302 067	183 210	378 218	255 181	431 348
05 *Q1*	267 094	20 127	225 510	70 304	79 829	313 129	184 792	412 862	268 200	444 867
Q2	278 081	19 833	229 405	69 112	83 676	339 216	178 505	471 746	281 431	462 938
Q3	280 936	20 680	230 683	72 258	93 654	360 151	204 333	490 672	280 483	481 856
Q4	294 618	21 250	239 784	71 868	104 154	388 447	197 346	529 316	290 091	504 122
06 *Q1*	324 650	21 157	241 956	77 845	119 353	395 944	214 643	587 324	316 570	534 607
Q2	328 401	24 020	243 830	76 908	123 224	361 143	206 545	633 400	335 674	505 980

SPANISH INVESTMENT ABROAD



FOREIGN INVESTMENT IN SPAIN



Source: BE.
Note: See footnote to Indicator 7.6

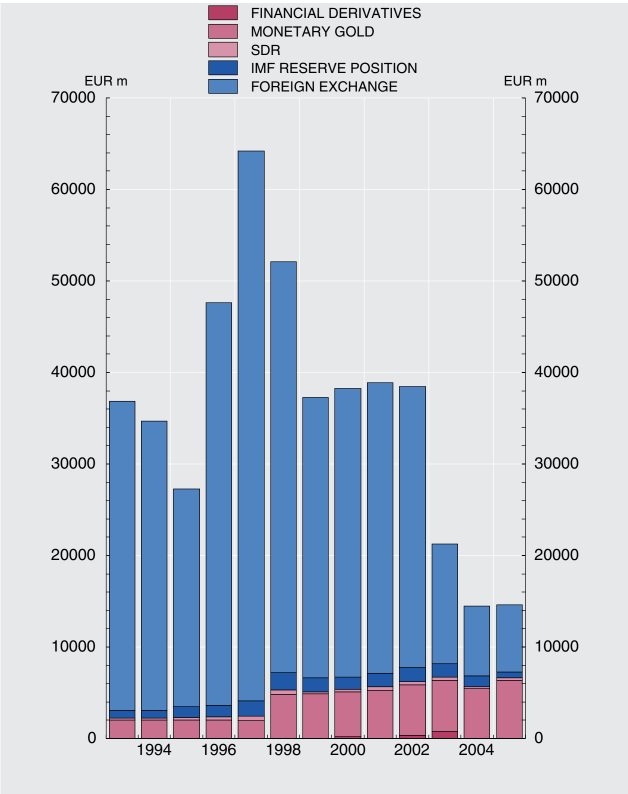
7.8. SPANISH RESERVE ASSETS

■ Series depicted in chart.

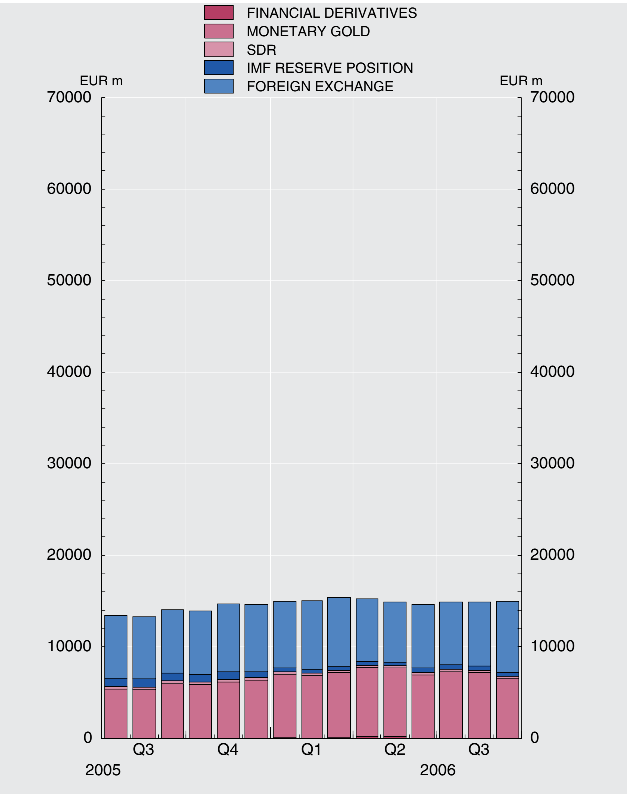
End-of-period stocks in EUR millions

	Reserve assets						Memorandum item: gold
	Total	Foreign exchange	Reserve position in the IMF	SDRs	Monetary gold	Financial derivatives	Millions of troy ounces
	1	2 ■	3 ■	4 ■	5 ■	6	7
01	38 865	31 727	1 503	398	5 301	-63	16.8
02	38 431	30 695	1 518	337	5 500	382	16.8
03	21 229	13 073	1 476	328	5 559	793	16.8
04	14 505	7 680	1 156	244	5 411	15	16.8
05 *Apr*	13 276	6 439	1 000	256	5 667	-87	16.8
May	13 356	6 782	1 022	262	5 577	-286	16.6
Jun	13 672	6 895	989	269	5 846	-327	16.2
Jul	13 409	6 827	918	270	5 726	-332	16.2
Aug	13 260	6 784	882	274	5 610	-290	15.9
Sep	14 032	6 896	839	275	6 236	-214	15.9
Oct	13 893	6 894	820	275	5 959	-55	15.2
Nov	14 694	7 423	825	281	6 238	-72	14.8
Dec	14 601	7 306	636	281	6 400	-21	14.7
06 *Jan*	14 970	7 254	432	279	6 904	102	14.7
Feb	15 005	7 443	437	261	6 878	-15	14.7
Mar	15 377	7 544	405	258	7 101	69	14.7
Apr	15 255	6 851	399	254	7 537	214	14.7
May	14 910	6 575	395	253	7 472	217	14.7
Jun	14 605	6 925	474	253	6 950	3	14.7
Jul	14 918	6 896	469	255	7 295	3	14.7
Aug	14 915	7 018	468	256	7 155	18	14.7
Sep	14 972	7 746	410	258	6 586	-27	13.9

RESERVE ASSETS
END-OF-YEAR POSITIONS



RESERVE ASSETS
END-OF-MONTH POSITIONS



Source: BE.

Note: From January 1999 the assets denominated in euro and other currencies vis-à-vis residents of other euro area countries are not considered reserve assets. To December 1998, data in pesetas have been converted to euro using the irrevocable euro conversion rate. Since January 1999, all reserve assets are valued at market prices. As of January 2000 reserve assets data have been compiled in accordance with the IMF´s new methodological guidelines published in the document 'Data Template on International Reserves and Foreign Currency Liquidity. Operational Guidelines', October 1999 (http://dsbb.imf.org/guide.htm). Using this new definition, total reserve assets as at 31.12.99 would have been EUR 37835 million instead of the ammount of EUR 37288 million published in this table.

7.9. SPAIN'S EXTERNAL DEBT VIS-À-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD. SUMMARY

End-of-period positions *EUR millions*

	Total	General government						Other monetary financial institutions				
		Total	Short-term		Long-term			Total	Short-term		Long-term	
			Money market instru-ments	Loans	Bonds and notes	Loans	Trade credits		Money market instru-ments	Deposits	Bonds and notes	Deposits
	1	2	3	4	5	6	7	8	9	10	11	12
03 *Q1*	694 062	183 831	2 196	710	168 451	12 474	-	328 247	315	165 842	39 596	122 493
Q2	714 542	188 667	3 069	267	173 146	12 185	-	339 679	323	170 814	44 803	123 739
Q3	742 230	180 683	3 560	1 780	163 164	12 179	-	362 703	353	183 340	49 208	129 801
Q4	772 151	176 501	4 386	335	159 152	12 628	-	374 134	326	187 752	56 363	129 693
04 *Q1*	815 215	192 147	3 676	489	174 928	13 055	-	392 792	361	186 529	72 417	133 485
Q2	856 271	189 040	3 270	428	172 191	13 151	-	425 717	353	207 118	79 569	138 676
Q3	868 750	195 531	3 136	1 755	177 265	13 374	-	423 118	362	198 299	88 484	135 974
Q4	904 325	205 323	2 956	705	184 800	16 863	-	427 328	301	194 245	100 711	132 071
05 *Q1*	954 641	206 611	2 600	1 024	185 261	17 726	-	456 631	467	202 197	121 665	132 301
Q2	1 034 314	215 489	2 268	437	196 053	16 731	-	486 308	577	232 191	135 730	117 810
Q3	1 075 270	214 956	3 168	1 424	193 837	16 527	-	514 123	340	264 976	147 031	101 776
Q4	1 137 322	215 091	2 547	65	195 014	17 465	-	544 853	705	276 510	160 788	106 850
06 *Q1*	1 233 044	216 440	4 699	11	194 300	17 429	-	584 910	907	295 771	189 118	99 115
Q2	1 251 480	215 343	3 687	345	194 061	17 251	-	576 575	2 188	268 475	204 469	101 443

7.9. (CONT.) SPAIN'S EXTERNAL DEBT VIS-À-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD. SUMMARY

End-of-period positions *EUR millions*

	Monetary authority		Other residents sectors								Direct investment		
	Total	Short-term	Total	Short-term			Long-term				Total	Vis-à-vis	
		Deposits		Money market instru-ments	Loans	Other liabilities	Bonds and notes	Loans	Trade credits	Other liabilities		Direct investors	Subsidia-ries
	13	14	15	16	17	18	19	20	21	22	23	24	25
03 *Q1*	798	798	117 787	2 678	19 084	123	31 964	62 955	446	537	63 399	32 831	30 568
Q2	870	870	119 491	2 497	17 701	167	34 248	63 864	437	576	65 836	33 091	32 745
Q3	313	313	126 874	2 418	20 273	168	38 148	64 957	419	491	71 657	33 529	38 128
Q4	92	92	138 025	2 297	19 198	-	48 027	67 707	404	393	83 400	39 453	43 947
04 *Q1*	62	62	146 270	2 321	20 105	359	53 019	69 393	405	669	83 944	36 235	47 710
Q2	1	1	152 686	2 561	18 327	229	61 346	69 195	402	625	88 826	37 125	51 702
Q3	0	0	160 845	3 312	18 685	634	67 278	70 008	392	537	89 255	37 445	51 810
Q4	16	16	176 899	4 043	18 952	1 175	85 408	66 403	413	505	94 759	38 513	56 246
05 *Q1*	0	0	194 487	4 274	20 580	787	98 595	69 030	405	817	96 912	39 800	57 112
Q2	71	71	232 818	3 839	19 958	1 569	133 280	72 974	397	801	99 630	41 705	57 925
Q3	42	42	243 407	3 401	19 386	1 636	142 895	74 943	392	753	102 742	42 823	59 918
Q4	126	126	273 367	3 313	19 321	996	166 949	81 647	388	753	103 885	43 218	60 666
06 *Q1*	462	462	320 119	2 905	19 349	408	195 395	101 315	359	388	111 112	44 712	66 400
Q2	291	291	347 171	4 283	18 088	330	224 712	99 019	352	388	112 100	45 834	66 266

Source: BE.

8.1.a CONSOLIDATED BALANCE SHEET OF THE EUROSYSTEM. NET LENDING TO CREDIT INSTITUTIONS AND ITS COUNTERPARTS

Average of daily data, EUR millions

	Net lending							Counterparts							
	Total	Open market operations				Standing facilities		Autonomous factors					Other liabilities (net) in euro	Actual reserves of credit institutions	Debt certificates
		Main refinancing operations	Longer-term refinancing operations	Fine-tuning and structural reverse operations (net)	Other	Marginal lending facility	Deposit facility	Total	Banknotes	Net liabilities to general government	Gold and net assets in foreign currency	Other (net)			
	1=2+3+4 +5+6-7	2	3	4	5	6	7	8=9+10 -11+12	9	10	11	12	13	14	15
05 *Apr*	366 616	276 523	90 002	-	-1	200	108	223 659	502 026	26 012	287 206	-17 174	-98	143 054	-
May	361 885	271 865	90 000	-	8	93	81	214 859	511 289	10 493	286 876	-20 047	611	146 415	-
Jun	379 967	290 273	90 002	-169	20	145	305	232 941	518 749	24 141	286 606	-23 343	818	146 207	-
Jul	396 451	307 025	90 000	-457	1	67	185	246 362	529 715	27 514	306 173	-4 694	523	149 566	-
Aug	398 523	308 783	89 998	-22	11	18	266	246 736	532 886	24 501	304 931	-5 720	771	151 016	-
Sep	379 522	289 091	89 999	432	9	76	85	226 489	530 079	9 620	304 733	-8 476	1 556	151 477	-
Oct	380 847	291 327	89 999	-405	-7	61	128	227 409	534 411	7 149	315 263	1 112	2 194	151 245	-
Nov	389 195	299 224	90 002	-	1	80	113	234 860	538 109	11 412	313 526	-1 135	2 625	151 709	-
Dec	406 048	317 137	89 211	-341	5	145	109	248 369	558 128	5 237	312 391	-2 605	3 092	154 588	-
06 *Jan*	408 320	316 136	91 835	318	2	109	81	250 562	552 874	12 261	325 172	10 599	3 581	154 177	-
Feb	398 591	296 300	102 017	325	0	62	114	239 384	549 393	9 701	324 915	5 204	2 797	156 410	-
Mar	405 993	295 305	110 886	-113	-0	42	126	244 219	554 137	12 476	324 109	1 715	2 014	159 760	-
Apr	409 990	289 025	120 000	1 300	-18	230	547	246 408	565 593	11 289	336 927	6 453	1 710	161 872	-
May	406 539	286 957	120 002	-500	-0	217	136	241 231	569 873	5 142	336 937	3 153	1 645	163 663	-
Jun	419 914	300 523	120 001	-223	-7	115	495	253 565	575 813	14 272	337 603	1 083	1 476	164 873	-
Jul	449 416	329 739	120 000	-405	-1	359	276	280 132	585 320	34 646	327 983	-11 851	1 783	167 501	-
Aug	436 866	317 587	120 002	-783	4	108	53	267 906	589 612	23 289	327 310	-17 685	3 046	165 915	-
Sep	427 171	307 761	120 002	-548	-2	120	162	254 585	587 088	17 667	326 287	-23 883	4 915	167 670	-

8.1.b BALANCE SHEET OF THE BANCO DE ESPAÑA. NET LENDING TO CREDIT INSTITUTIONS AND ITS COUNTERPARTS

Average of daily data, EUR millions

	Net lending							Counterparts									
	Total	Open market operations				Standing facilities		Autonomous factors					Other liabilities (net) in euro			Actual reserves of credit institutions	Banco de España certificates
		Main refinancing operations	Longer-term refinancing operations	Fine-tuning and structural reverse operations (net)	Other	Marginal lending facility	Deposit facility	Total	Banknotes	Net liabilities to general government	Gold and net assets in foreign currency	Other (net)	Total	Of euro area residents	Rest		
	1=2+3+4 +5+6-7	2	3	4	5	6	7	8=9+10 -11+12	9	10	11	12	13=14+ +15	14	15	16	17
05 *Apr*	29 675	26 863	2 809	-	3	-	0	33 212	71 134	6 329	19 220	-25 030	-18 113	-16 452	-1 662	14 576	-
May	29 050	26 029	3 020	-	2	0	1	33 933	71 959	7 008	19 178	-25 856	-19 224	-16 640	-2 584	14 341	-
Jun	28 526	25 508	3 017	-	6	-	5	35 021	73 124	8 845	18 997	-27 950	-21 561	-18 951	-2 610	15 065	-
Jul	30 823	28 108	2 725	-11	1	-	0	31 762	75 194	5 883	20 121	-29 194	-16 150	-13 372	-2 778	15 211	-
Aug	31 232	28 332	2 902	-	1	-	4	28 673	74 978	3 781	19 996	-30 091	-13 211	-10 398	-2 813	15 770	-
Sep	29 186	26 296	2 890	-	2	-	1	25 857	74 026	4 375	19 927	-32 617	-12 528	-10 124	-2 404	15 857	-
Oct	27 830	25 082	2 762	-8	-5	-	1	28 243	74 576	7 007	20 359	-32 981	-16 551	-14 554	-1 997	16 138	-
Nov	30 344	27 660	2 690	-	-1	0	5	29 321	74 987	8 288	20 102	-33 852	-14 259	-12 459	-1 800	15 282	-
Dec	30 285	27 714	2 599	-28	1	0	1	28 287	78 418	4 987	20 091	-35 027	-14 642	-12 803	-1 839	16 640	-
06 *Jan*	29 043	26 427	2 614	5	-0	-	3	28 602	78 458	5 881	20 570	-35 167	-14 818	-13 117	-1 701	15 259	-
Feb	28 631	25 724	2 906	-	1	3	2	30 723	77 841	8 807	20 573	-35 352	-18 684	-17 199	-1 485	16 591	-
Mar	26 841	23 879	2 967	-	-2	-	4	30 439	78 742	7 948	20 571	-35 680	-20 262	-18 756	-1 506	16 664	-
Apr	24 830	21 809	2 944	95	-17	-	1	31 754	80 819	7 398	20 927	-35 537	-23 536	-21 553	-1 983	16 612	-
May	25 257	22 251	3 022	-20	0	4	1	35 691	80 484	10 052	20 777	-34 068	-27 409	-24 561	-2 848	16 975	-
Jun	23 300	19 898	3 440	-32	-7	-	-	39 354	81 230	11 760	20 839	-32 797	-32 777	-29 058	-3 719	16 722	-
Jul	22 582	19 066	3 622	-67	-2	2	37	38 610	82 952	9 370	19 420	-34 292	-33 138	-29 195	-3 943	17 110	-
Aug	21 380	17 921	3 501	-45	3	-	-	35 048	82 545	7 925	18 369	-37 053	-31 044	-28 013	-3 032	17 376	-
Sep	21 261	17 621	3 677	-38	1	-	-	30 389	81 441	6 162	17 189	-40 025	-27 023	-24 750	-2 273	17 895	-

Sources: ECB for Table 8.1.a and BE for Table 8.1.b.

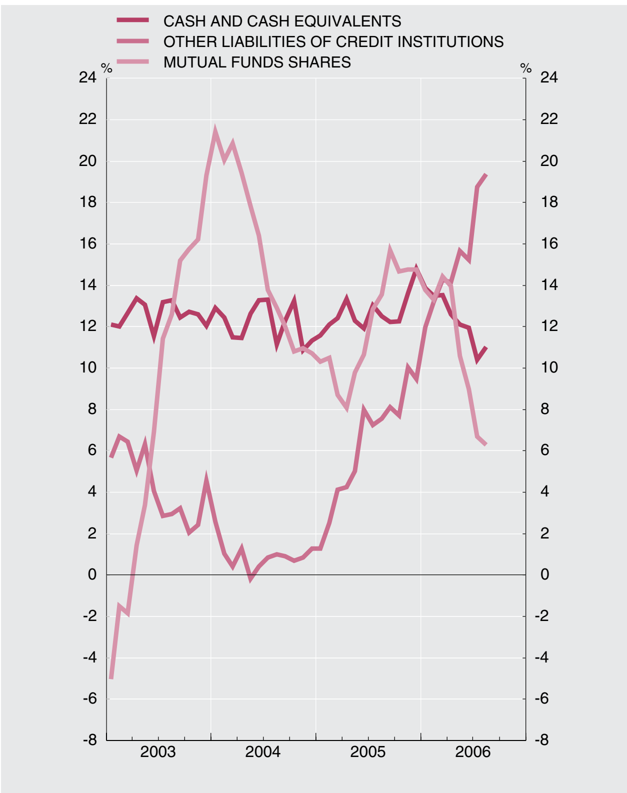
8.2 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES (a) OF NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN

■ Series depicted in chart.

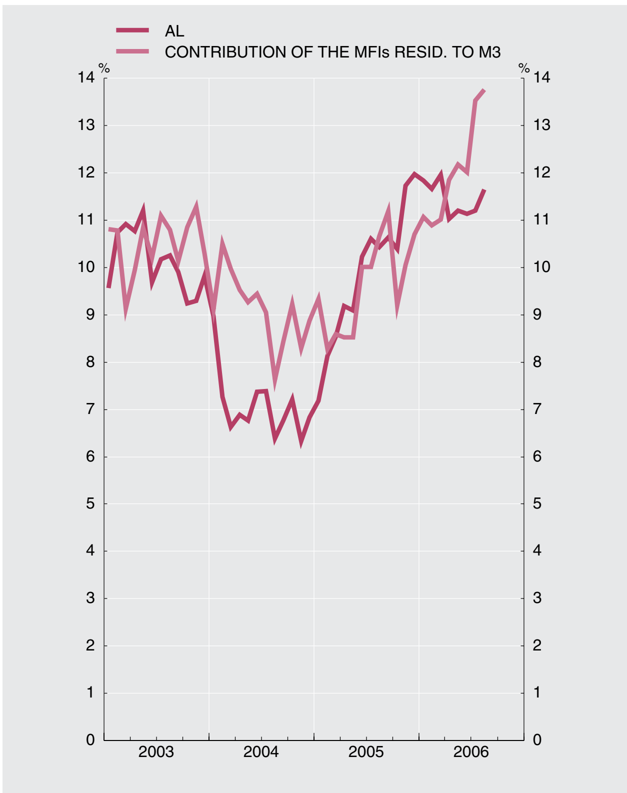
EUR millions and %

	Cash and cash equivalents				Other liabilities of credit institutions					Mutual funds shares				Memorandum items	
	Stocks	12-month % change	12-m. % change		Stocks	12 month % change	12-month % change			Stocks	12-month % change	12-month % change		12-month % change	
			Cash	Deposits (b)			Other deposits (c)	Repos + credit institutions' securities	Deposits in branches abroad			Fixed income in EUR (d)	Other	AL (e)	Contribution of the MFIs resid. to M3
	1	2 ■	3	4	5	6 ■	7	8	9	10	11 ■	12	13	14 ■	15 ■
03	360 691	12.0	20.9	10.3	278 433	4.5	2.2	15.0	-0.7	173 917	19.3	18.5	20.2	9.8	10.3
04	401 569	11.3	19.7	9.5	281 968	1.3	8.4	-21.6	-8.3	192 531	10.7	6.1	16.1	6.8	8.9
05	460 998	14.8	18.0	14.0	308 645	9.5	10.5	6.1	2.1	220 928	14.7	7.6	22.3	12.0	10.7
05 *May*	417 032	12.3	17.8	11.1	286 854	5.0	10.0	-8.5	-23.5	204 088	9.8	8.4	11.3	9.1	8.5
Jun	435 526	11.9	17.8	10.7	293 552	8.0	11.5	-4.0	-5.4	207 056	10.7	9.7	11.7	10.2	10.0
Jul	441 353	13.0	17.4	12.1	290 740	7.2	10.4	-4.8	-3.3	210 831	12.8	10.3	15.6	10.6	10.0
Aug	429 624	12.5	17.6	11.4	295 182	7.6	10.9	-4.3	-5.5	213 414	13.6	10.4	17.0	10.4	10.7
Sep	436 819	12.2	18.7	10.8	294 732	8.1	10.3	2.7	-9.1	216 931	15.7	11.3	20.4	10.6	11.2
Oct	436 967	12.3	17.8	11.0	294 802	7.7	9.5	2.9	-7.5	216 371	14.7	10.5	19.1	10.4	9.2
Nov	446 669	13.6	18.4	12.5	302 500	10.0	10.2	10.6	4.4	219 119	14.7	9.0	20.8	11.7	10.1
Dec	460 998	14.8	18.0	14.0	308 645	9.5	10.5	6.1	2.1	220 928	14.7	7.6	22.3	12.0	10.7
06 *Jan*	451 854	13.9	17.3	13.0	313 656	12.0	10.6	22.0	0.9	221 664	13.8	3.4	24.6	11.8	11.1
Feb	456 730	13.5	17.2	12.6	318 583	13.2	11.1	26.4	5.0	224 802	13.3	0.1	26.8	11.7	10.9
Mar	464 215	13.5	17.6	12.6	325 587	14.3	12.9	28.2	-11.4	228 120	14.4	-1.0	29.9	12.0	11.0
Apr	464 202	12.6	16.8	11.6	326 446	14.1	12.8	25.0	-2.7	228 294	14.0	-4.1	32.5	11.0	11.9
May	467 463	12.1	15.5	11.3	331 733	15.6	13.5	31.7	-3.4	225 687	10.6	-4.8	26.3	11.2	12.2
Jun	487 505	11.9	15.1	11.2	338 208	15.2	13.9	29.3	-10.3	225 637	9.0	-3.6	21.9	11.1	12.0
Jul P	487 208	10.4	12.6	9.9	345 211	18.7	16.9	35.0	-4.1	224 929	6.7	-6.1	19.6	11.2	13.5
Aug P	477 018	11.0	11.9	10.8	352 310	19.4	17.9	33.4	-3.3	226 828	6.3	-7.0	19.9	11.6	13.8

NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHs
Annual percentage change



NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHs
Annual percentage change



Source: BE.

a. This concept refers to the instruments included in the headings of the table, issued by resident credit institutions and mutual funds. The exception is column 9, which includes deposits in Spanish bank branches abroad.

b. Current accounts, savings accounts and deposits redeemable at up to 3 months' notice.

c. Deposits redeemable at over 3 months' notice and time deposits.

d. The series includes the old categories of Money market funds and Fixed income mutual funds in euros.

e. Defined as cash and cash equivalents, other liabilities of credit institutions and Fixed income mutual funds shares in euros.

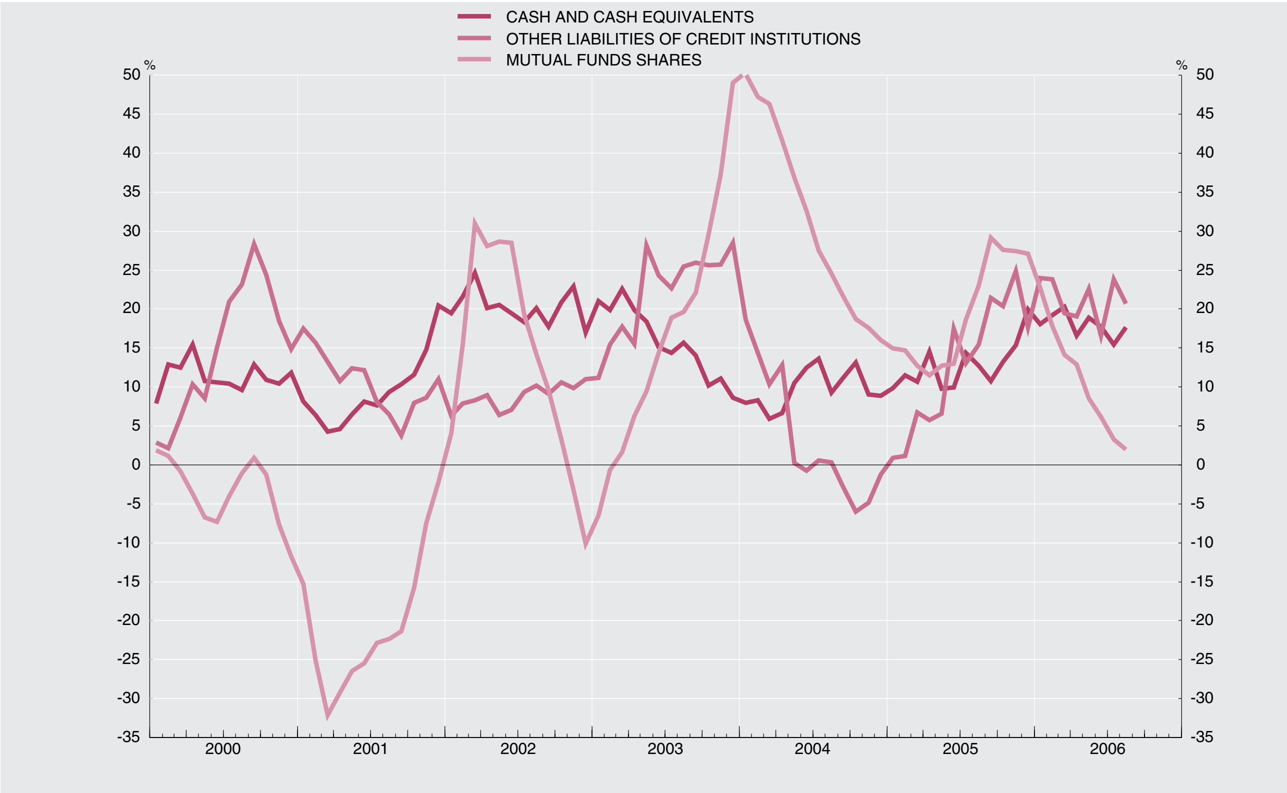
8.3 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF NON-FINANCIAL CORPORATIONS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

EUR millions and %

	Cash and cash equivalents (b)		Other liabilities of credit institutions				Mutual funds shares			
	Stocks	Annual growth rate	Stocks	Annual growth rate	Annual growth rate: Other deposits (c)	Annual growth rate: Repos + credit instit.' securit.+ dep. in branches abroad	Stocks	Annual growth rate	Annual growth rate: Fixed income in EUR (d)	Annual growth rate: Other
	1	2 ■	3	4 ■	5	6	7	8 ■	9	10
03	85 186	8.6	63 714	28.5	39.2	22.3	20 465	49.0	37.8	61.9
04	92 764	8.9	62 915	-1.3	24.6	-18.3	23 738	16.0	18.5	13.5
05	111 274	20.0	74 030	17.7	30.5	4.7	30 175	27.1	13.8	40.6
05 *May*	96 414	9.8	61 380	6.6	31.2	-14.9	26 373	12.7	8.2	17.4
Jun	102 686	9.9	65 715	17.5	45.1	-7.3	26 829	13.0	8.2	18.0
Jul	104 033	14.3	62 610	13.1	34.0	-6.7	27 592	18.6	10.9	27.0
Aug	98 989	12.8	66 435	15.5	36.1	-3.4	28 197	23.0	13.2	33.7
Sep	101 033	10.7	67 813	21.4	32.4	10.2	28 960	29.1	16.5	42.9
Oct	101 086	13.2	66 832	20.4	32.6	7.3	29 090	27.6	16.0	39.8
Nov	105 622	15.4	71 032	24.9	32.6	16.3	29 697	27.4	14.9	40.4
Dec	111 274	20.0	74 030	17.7	30.5	4.7	30 175	27.1	13.8	40.6
06 *Jan*	107 166	18.1	73 686	23.9	27.4	20.1	29 864	22.7	10.1	35.1
Feb	110 960	19.2	73 259	23.8	25.7	21.5	29 547	17.8	4.5	30.3
Mar	113 946	20.3	74 401	19.4	23.9	14.5	29 196	14.1	1.2	25.8
Apr	112 222	16.6	73 789	19.0	24.4	12.8	29 114	12.9	-3.6	28.3
May	114 623	18.9	75 225	22.6	19.1	27.2	28 628	8.6	-6.0	22.3
Jun	120 888	17.7	76 623	16.6	12.6	22.2	28 485	6.2	-6.1	18.1
Jul P	120 069	15.4	77 526	23.8	21.1	27.5	28 490	3.3	-8.0	13.8
Aug P	116 492	17.7	80 186	20.7	21.8	19.3	28 747	2.0	-8.9	12.1

NON-FINANCIAL CORPORATIONS
Annual percentage change



Source: BE.

a. This concept refers to the instruments included in the headings of the table, issued by resident credit institutions and mutual funds. The exception is column 6, which includes deposits in Spanish bank branches abroad.

b. Cash, current accounts, savings accounts and deposits redeemable at up to and including 3 months' notice.

c. Deposits redeemable at over 3 months' notice and time deposits.

d. The series includes the old categories of Money market funds and Fixed income mutual funds in euros.

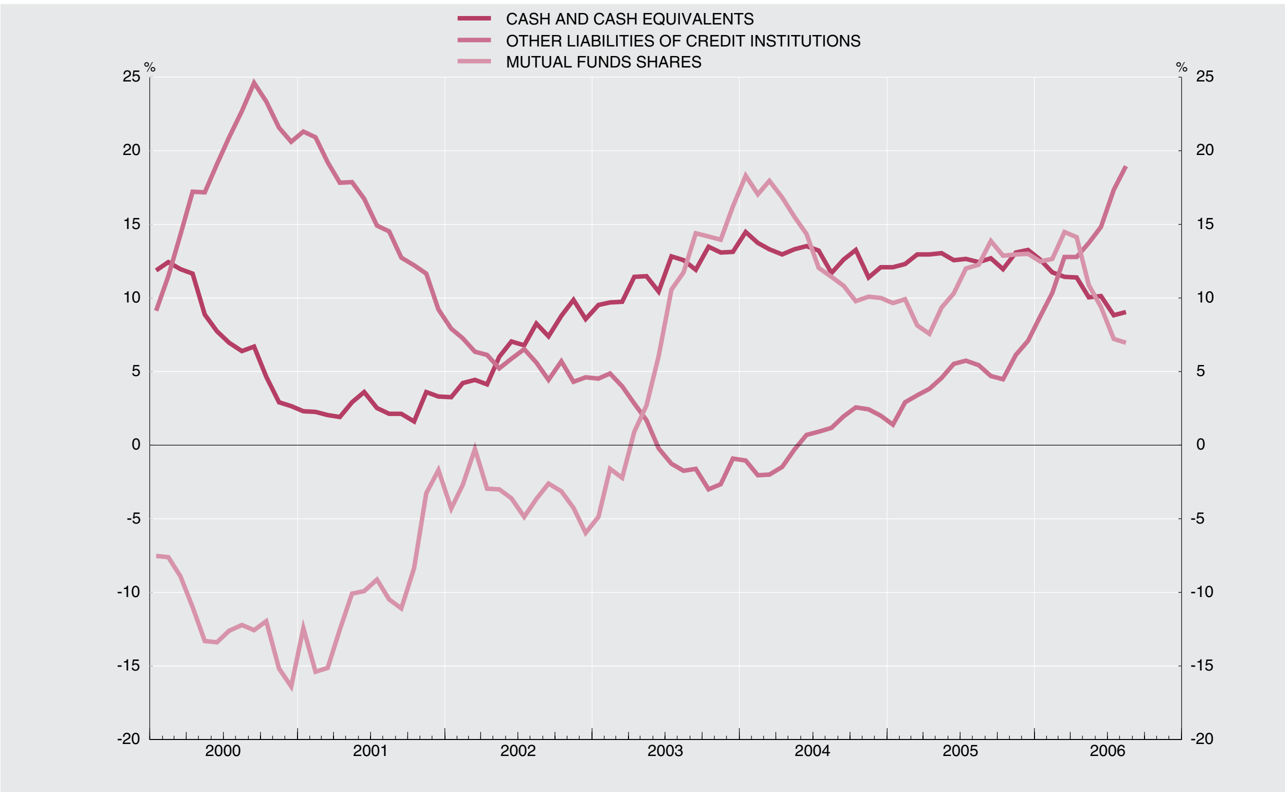
8.4 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

EUR millions and %

	Cash and cash equivalents				Other liabilities of credit institutions				Mutual funds shares			
	Stocks	Annual growth rate	Annual growth rate: Cash	Annual growth rate: Deposits (b)	Stocks	Annual growth rate	Annual growth rate: Other deposits (c)	Annual growth rate: Repos + credit instit.' securit.+ dep. in branches abroad	Stocks	Annual growth rate	Annual growth rate: Fixed income in EUR (d)	Annual growth rate: Other
	1	2 ■	3	4	5	6 ■	7	8	9	10 ■	11	12
03	275 505	13.1	20.7	11.3	214 720	-0.9	-1.4	1.9	153 452	16.2	16.6	15.8
04	308 805	12.1	20.6	9.8	219 053	2.0	6.1	-20.2	168 793	10.0	4.5	16.4
05	349 724	13.3	20.3	11.2	234 615	7.1	7.3	6.0	190 753	13.0	6.7	19.6
05 *May*	320 618	13.1	19.2	11.4	225 474	4.6	6.9	-9.0	177 716	9.4	8.4	10.4
Jun	332 840	12.6	19.3	10.7	227 837	5.5	6.7	-1.5	180 227	10.3	9.9	10.7
Jul	337 320	12.6	19.1	10.9	228 130	5.8	7.0	-2.3	183 238	12.0	10.2	14.0
Aug	330 636	12.4	19.4	10.5	228 747	5.5	7.2	-5.7	185 218	12.2	10.0	14.7
Sep	335 786	12.7	20.6	10.5	226 919	4.7	6.9	-9.8	187 971	13.9	10.6	17.3
Oct	335 881	12.0	19.8	9.8	227 970	4.5	6.0	-5.9	187 281	12.9	9.7	16.2
Nov	341 047	13.1	20.5	11.0	231 468	6.2	6.7	2.2	189 422	13.0	8.2	18.1
Dec	349 724	13.3	20.3	11.2	234 615	7.1	7.3	6.0	190 753	13.0	6.7	19.6
06 *Jan*	344 688	12.6	19.4	10.6	239 970	8.8	7.9	14.8	191 800	12.5	2.4	23.1
Feb	345 770	11.8	19.1	9.6	245 325	10.3	8.7	22.6	195 255	12.7	-0.4	26.3
Mar	350 270	11.5	19.3	9.2	251 186	12.8	11.1	24.6	198 924	14.5	-1.3	30.6
Apr	351 980	11.4	18.4	9.3	252 657	12.8	10.9	26.4	199 181	14.1	-4.2	33.2
May	352 840	10.1	16.8	8.0	256 507	13.8	12.5	22.3	197 059	10.9	-4.6	26.9
Jun	366 617	10.1	16.3	8.4	261 586	14.8	14.2	19.0	197 152	9.4	-3.3	22.5
Jul P	367 140	8.8	13.5	7.4	267 684	17.3	16.1	25.7	196 439	7.2	-5.8	20.5
Aug P	360 526	9.0	12.5	8.0	272 124	19.0	17.1	32.2	198 081	6.9	-6.7	21.2

HOUSEHOLDS AND NPISH
Annual percentage change



Source: BE.

a. This concept refers to the instruments included in the headings of the table, issued by resident credit institutions and mutual funds. The exception is column 6, which includes deposits in Spanish bank branches abroad.

b. Current accounts, savings accounts and deposits redeemable at up to 3 months' notice.

c. Deposits redeemable at over 3 months' notice and time deposits.

d. The series includes the old categories of Money market funds and Fixed income mutual funds in euros.

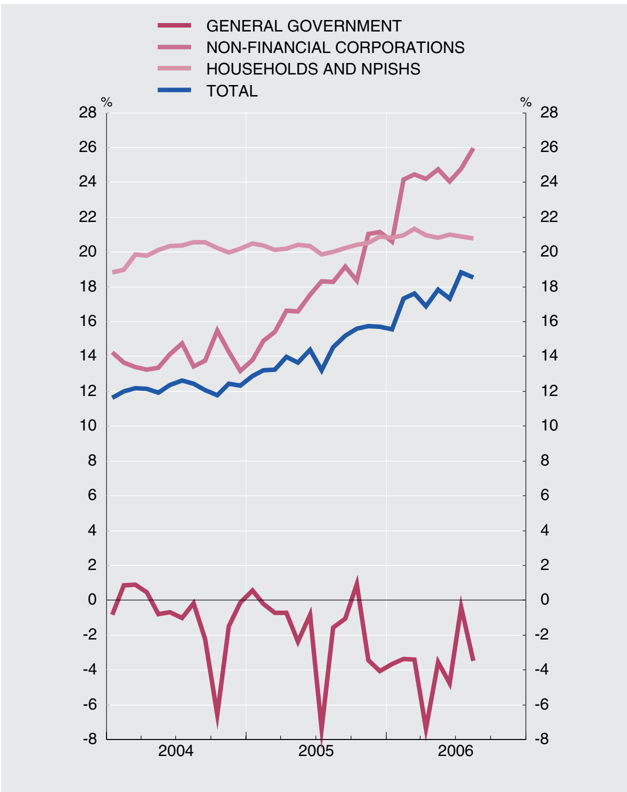
8.5. FINANCING OF NON-FINANCIAL SECTORS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

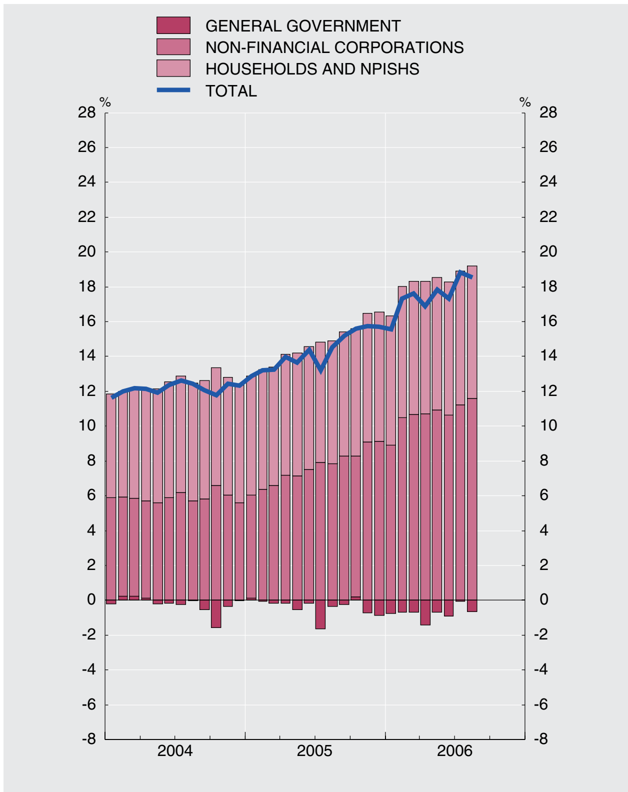
EUR millions and %

	Total			Annual growth rate							Contribution to col. 3						
					Non-financial corp. and households and NPISHs							Non-financial corp. and households and NPISHs					
						By sectors		By instruments					By sectors		By instrumentss		
	Stocks	Effective flow	Annual growth rate	General government (b)		Non-financial corporations	Households and NPISHs	Credit institutions' loans & securit. funds	Securities other than shares	External loans	General government (b)		Non-financial corporations	Households and NPISHs	Credit institutions' loans & securit. funds	Securities other than shares	External loans
	1	2	3 ■	4 ■	5	6 ■	7 ■	8	9	10	11 ■	12	13 ■	14 ■	15	16	17
03	1 342 446	141 234	11.8	0.6	15.9	13.5	19.1	16.4	-9.2	15.3	0.2	11.7	5.6	6.0	9.9	-0.1	1.8
04	1 511 634	165 679	12.3	-0.1	16.3	13.2	20.2	19.1	-1.2	3.4	-0.0	12.4	5.6	6.8	11.9	-0.0	0.4
05	1 755 057	237 465	15.7	-4.1	21.0	21.1	20.9	23.0	23.7	9.9	-0.9	16.6	9.1	7.4	15.2	0.2	1.2
05 *May*	1 591 884	14 155	13.7	-2.4	18.3	16.6	20.4	20.7	2.3	6.9	-0.5	14.2	7.1	7.1	13.3	0.0	0.9
Jun	1 638 779	44 576	14.4	-0.8	18.8	17.5	20.4	21.3	13.6	6.1	-0.2	14.6	7.5	7.1	13.7	0.1	0.8
Jul	1 641 531	1 976	13.2	-7.4	19.0	18.3	19.9	21.3	14.5	7.4	-1.6	14.8	7.9	6.9	13.8	0.1	0.9
Aug	1 656 310	15 161	14.5	-1.6	19.1	18.3	20.0	21.3	16.2	7.5	-0.3	14.9	7.9	7.0	13.8	0.1	0.9
Sep	1 675 745	20 134	15.2	-1.1	19.6	19.2	20.2	22.0	11.0	7.8	-0.2	15.4	8.3	7.1	14.4	0.1	1.0
Oct	1 684 476	10 074	15.6	0.9	19.3	18.3	20.4	21.9	13.6	5.8	0.2	15.4	8.1	7.3	14.6	0.1	0.7
Nov	1 719 824	33 784	15.7	-3.5	20.8	21.0	20.5	22.4	19.9	12.3	-0.7	16.5	9.1	7.4	14.8	0.1	1.5
Dec	1 755 057	33 486	15.7	-4.1	21.0	21.1	20.9	23.0	23.7	9.9	-0.9	16.6	9.1	7.4	15.2	0.2	1.2
06 *Jan*	1 775 599	19 286	15.5	-3.7	20.7	20.6	20.8	22.6	22.7	9.8	-0.8	16.3	8.9	7.4	15.0	0.2	1.2
Feb	1 813 214	37 321	17.3	-3.4	22.7	24.2	21.0	22.9	74.9	18.5	-0.7	18.0	10.5	7.5	15.3	0.6	2.2
Mar	1 848 529	33 114	17.6	-3.4	23.0	24.4	21.3	23.3	73.6	18.2	-0.7	18.3	10.7	7.7	15.6	0.6	2.2
Apr	1 850 839	2 934	16.9	-7.4	22.7	24.2	20.9	23.3	69.1	16.7	-1.4	18.3	10.7	7.6	15.7	0.5	2.0
May	1 883 203	32 351	17.9	-3.6	23.0	24.7	20.8	23.3	78.8	17.4	-0.7	18.5	10.9	7.6	15.9	0.6	2.1
Jun	1 929 271	44 584	17.3	-4.8	22.7	24.0	21.0	23.2	94.1	14.8	-0.9	18.3	10.6	7.6	15.8	0.8	1.7
Jul P	1 955 359	26 888	18.8	-0.4	23.0	24.8	20.9	23.5	111.9	14.6	-0.1	18.9	11.2	7.7	16.3	0.9	1.8
Aug P	1 968 484	13 195	18.5	-3.5	23.6	26.0	20.8	24.0	112.2	15.8	-0.7	19.2	11.6	7.6	16.4	0.9	1.9

FINANCING OF NON-FINANCIAL SECTORS
Annual percentage change



FINANCING OF NON-FINANCIAL SECTORS
Contributions to the annual percentage change



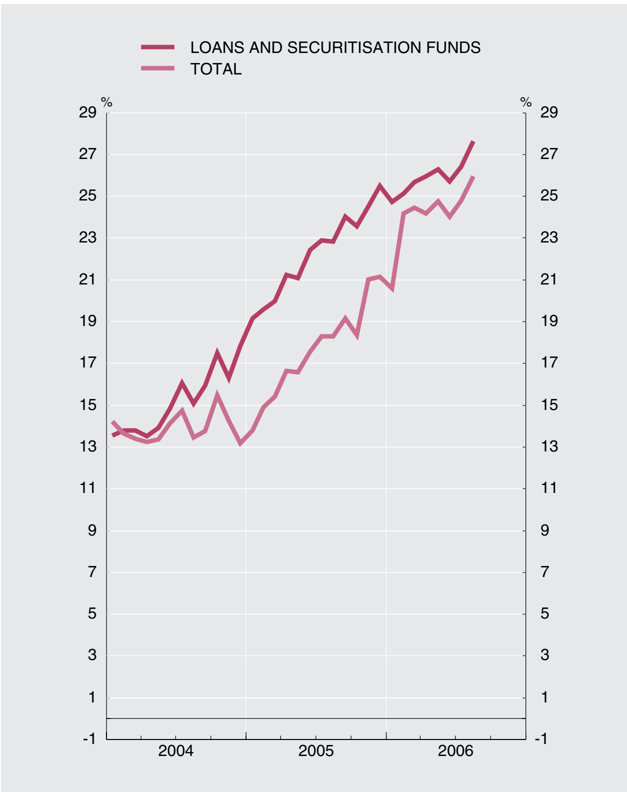
Source: BE.
GENERAL NOTE: Tables 8.2 to 8.7 were revised in September 2000, to take into account the criteria used to compile the Financial Accounts of the Spanish economy in accordance with ESA 95 (see the box appearing in the article "Evolución reciente de la economía española" in the September 2000 edition of the Boletín Económico).
a. The annual percentage changes are calculated as the effective flow of the period / the stock at the beginning of the period.
b. Total liabilities (consolidated) less deposits. Inter-general government liabilities are deduced.

8.6. FINANCING OF NON-FINANCIAL CORPORATIONS RESIDENT IN SPAIN (a)

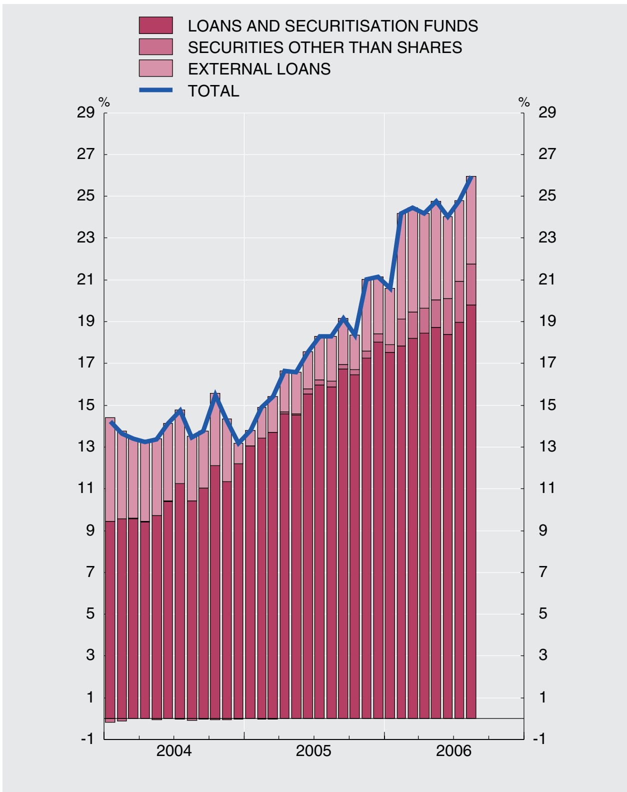
■ Series depicted in chart. *EUR millions and %*

		Total			Resident credit institutions' loans and off-balance-sheet securitised loans			Securities other than shares (b)				External loans			Memorandum items: off-balance-sheet securitised loans
		Stocks	Effective flow	Annual growth rate	Stocks	Annual growth rate	Contribution to col.3	Stocks	of which: Issues by resident financ. subsid.	Annual growth rate	Contribution to col.3	Stocks	Annual growth rate	Contribution to col.3	
		1	2	3 ■	4	5 ■	6 ■	7	8	9 ■	10	11	12 ■	13	14
03		572 606	67 287	13.5	391 916	13.6	9.4	10 807	-	-9.2	-0.2	169 884	15.3	4.3	13 647
04		652 019	75 416	13.2	461 109	17.8	12.2	10 678	-	-1.2	-0.0	180 232	3.4	1.0	15 538
05		796 260	137 901	21.1	578 229	25.5	18.0	13 207	2 634	23.7	0.4	204 823	9.9	2.7	5 581
05 *May*		703 753	4 464	16.6	501 394	21.1	14.5	11 712	223	2.3	0.0	190 647	6.9	2.0	11 848
Jun		724 682	18 526	17.5	518 568	22.4	15.5	13 246	1 596	13.6	0.3	192 867	6.1	1.8	6 567
Jul		743 677	18 193	18.3	533 826	22.9	16.0	13 016	1 595	14.5	0.3	196 835	7.3	2.1	5 942
Aug		738 301	-4 987	18.3	528 523	22.8	15.9	12 960	1 595	16.2	0.3	196 818	7.4	2.1	5 809
Sep		751 146	13 482	19.2	541 093	24.0	16.7	12 735	1 845	11.0	0.2	197 317	7.8	2.2	6 143
Oct		763 335	13 514	18.3	553 285	23.6	16.5	12 763	1 894	13.6	0.2	197 287	5.8	1.6	6 295
Nov		781 050	16 118	21.0	560 707	24.5	17.3	13 036	1 894	19.9	0.3	207 307	12.3	3.4	6 072
Dec		796 260	13 412	21.1	578 229	25.5	18.0	13 207	2 634	23.7	0.4	204 823	9.9	2.7	5 581
06 *Jan*		806 310	8 781	20.6	585 117	24.7	17.5	13 387	2 633	22.7	0.4	207 806	9.7	2.7	5 414
Feb		839 672	33 062	24.2	593 351	25.1	17.8	19 929	8 824	74.9	1.3	226 393	18.5	5.1	5 362
Mar		859 231	17 324	24.4	607 648	25.7	18.2	20 414	9 153	73.6	1.3	231 170	18.2	5.0	5 041
Apr		875 693	17 068	24.2	624 493	26.0	18.4	20 402	9 159	69.1	1.2	230 798	16.7	4.6	4 807
May		885 392	9 669	24.7	632 774	26.3	18.7	20 944	9 776	78.8	1.3	231 674	17.3	4.7	4 640
Jun		905 487	18 543	24.0	651 381	25.7	18.4	25 712	14 185	94.1	1.7	228 395	14.7	3.9	4 569
Jul	P	933 051	28 336	24.8	674 359	26.4	19.0	27 587	15 591	111.9	2.0	231 105	14.6	3.9	4 419
Aug	P	935 426	2 404	26.0	674 107	27.6	19.8	27 505	15 792	112.2	2.0	233 815	15.8	4.2	4 395

FINANCING OF NON-FINANCIAL CORPORATIONS
Annual percentage change



FINANCING OF NON-FINANCIAL CORPORATIONS
Contributions to the annual percentage change



Source: BE.
GENERAL NOTE: Tables 8.2 to 8.7 were revised in September 2000, to take into account the criteria used to compile the Financial Accounts of the Spanish economy in accordance with ESA 95 (see the box appearing in the article "Evolución reciente de la economía española" in the September 2000 edition of the Boletín Económico).
a. The annual percentage changes are calculated as the effective flow of the period / the stock at the beginning of the period.
b. Includes issues of resident financial subsidiaries of non-financial corporations, insofar as the funds raised in these issues are routed to the parent company as loans. The issuing institutions of these financial instruments are classified as Other financial intermediaries in the Boletín Estadístico and in the Financial Accounts of the Spanish Economy.

8.7. FINANCING OF HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

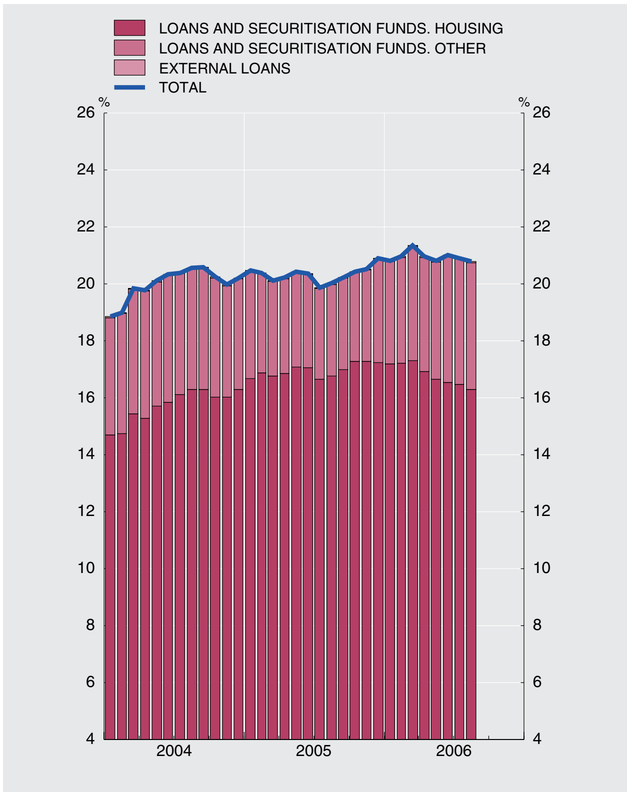
■ Series depicted in chart.

EUR millions and %

	Total			Resident credit institutions' loans and off-balance-sheet securitised loans. Housing			Resident credit institutions' loans and off-balance-sheet securitised loans. Other			External loans			Memorandum items: off-balance-sheet securitised loans	
	Stocks	Effective flow	Annual growth rate	Stocks	Annual growth rate	Contribution to col.3	Stocks	Annual growth rate	Contribution to col.3	Stocks	Annual growth rate	Contribution to col.3	Housing	Other
	1	2	3 ■	4	5 ■	6 ■	7	8 ■	9 ■	10	11 ■	12 ■	13	14
03	448 723	71 917	19.1	308 597	21.6	14.5	139 405	13.9	4.5	722	17.7	0.0	32 639	6 679
04	538 880	90 646	20.2	381 698	23.7	16.3	156 322	12.5	3.9	861	19.2	0.0	47 873	9 802
05	651 070	112 572	20.9	474 499	24.3	17.2	175 571	12.5	3.6	1 001	16.3	0.0	28 527	3 030
05 *May*	581 446	10 281	20.4	418 602	24.6	17.1	161 928	10.9	3.3	916	17.4	0.0	54 915	8 631
Jun	596 121	14 759	20.4	427 828	24.6	17.1	167 365	10.7	3.3	928	16.3	0.0	32 840	3 923
Jul	602 731	6 635	19.9	434 963	23.8	16.6	166 825	10.6	3.2	943	16.4	0.0	29 449	4 151
Aug	607 602	4 865	20.0	440 042	23.9	16.8	166 607	10.8	3.2	953	16.2	0.0	29 391	4 051
Sep	616 285	8 744	20.2	447 550	24.2	17.0	167 768	10.8	3.2	967	16.5	0.0	28 518	3 743
Oct	626 730	10 463	20.4	456 610	24.5	17.3	169 148	10.6	3.1	972	15.7	0.0	28 642	3 334
Nov	641 261	14 563	20.5	466 014	24.6	17.3	174 270	10.9	3.2	977	14.3	0.0	28 976	3 174
Dec	651 070	9 861	20.9	474 499	24.3	17.2	175 571	12.5	3.6	1 001	16.3	0.0	28 527	3 030
06 *Jan*	657 997	6 939	20.8	481 272	24.2	17.2	175 666	12.5	3.6	1 059	20.8	0.0	28 012	2 911
Feb	666 822	8 833	21.0	488 902	24.1	17.2	176 855	13.0	3.7	1 065	20.1	0.0	27 554	2 694
Mar	679 900	13 112	21.3	499 125	24.1	17.3	179 699	14.3	4.0	1 076	20.5	0.0	27 159	2 581
Apr	690 480	10 599	20.9	506 443	23.6	16.9	182 922	14.2	4.0	1 116	23.5	0.0	27 307	2 446
May	702 021	11 558	20.8	515 316	23.1	16.6	185 569	14.8	4.1	1 135	23.8	0.0	27 234	2 292
Jun	720 947	18 995	21.0	526 310	23.0	16.5	193 473	15.8	4.4	1 164	25.2	0.0	28 062	2 256
Jul P	728 353	7 434	20.9	534 213	22.8	16.5	192 958	15.9	4.4	1 182	25.2	0.0	26 929	2 177
Aug P	733 427	5 115	20.8	538 974	22.5	16.3	193 253	16.2	4.4	1 200	25.8	0.0	26 707	2 097

FINANCING OF HOUSEHOLDS AND NPISHs
Annual percentage change

FINANCING OF HOUSEHOLDS AND NPISHs
Contributions to the annual percentage change



Source: BE.
GENERAL NOTE: Tables 8.2 to 8.7 were revised in September 2000, to take into account the criteria used to compile the Financial Accounts of the Spanish economy in accordance with ESA 95 (see the box appearing in the article "Evolución reciente de la economía española" in the September 2000 edition of the Boletín Económico).
a. The annual percentage changes are calculated as the effective flow of the period / the stock at the beginning of the period.

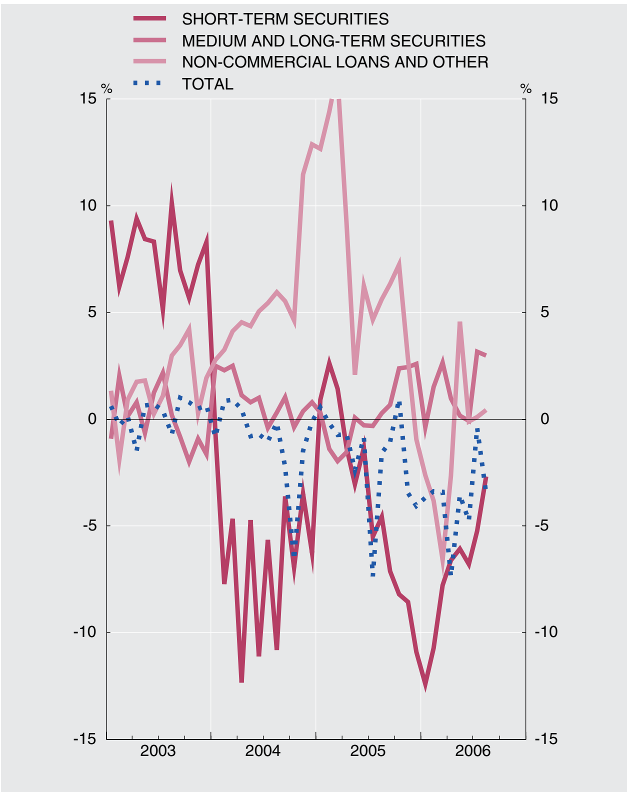
8.8. NET FINANCING OF SPAIN'S GENERAL GOVERNMENT

■ Series depicted in chart.

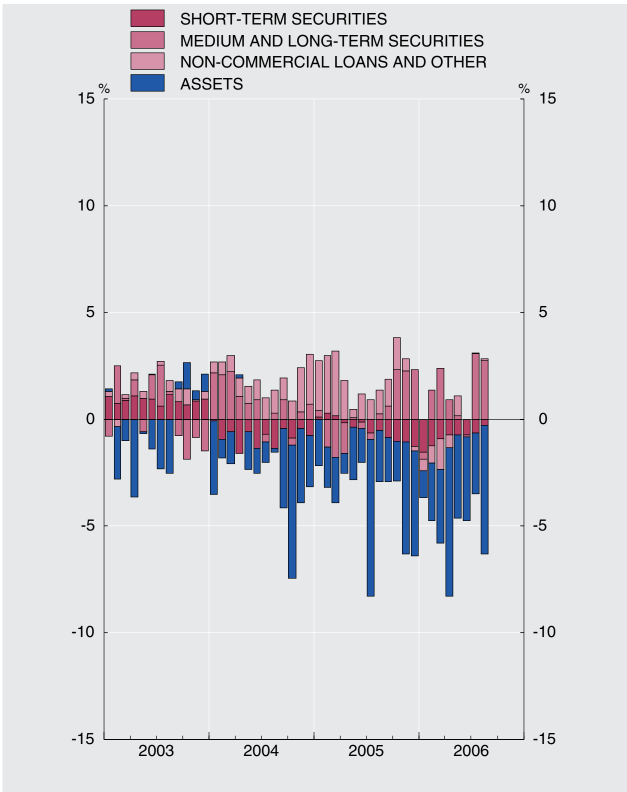
EUR millions and %

		Net financing			Monthly change in stocks						12-month % change in stocks					Contribution to 12-month % change in net stocks of liabilities			
					Liabilities (a)				Assets		Liabilities					Liabilities			
						Securities						Securities				Securities			
		Net stock of liabilities	Monthly change (columns 4-8-9)	12-month % change of col. 1	Total	Short-term	Medium and long-term	Non-commercial loans and other (b)	Deposits at the Banco de Espana	Other deposits (c)	Total	Short-term	Medium and long-term	Non-commercial loans and other (a)	Assets	Short-term	Medium and long-term	Non-commercial loans and other (a)	Assets
		1	2	3 ■	4	5	6	7	8	9	10	11 ■	12 ■	13 ■	14	15 ■	16 ■	17 ■	18 ■
02		319 087	-2 772	-0.9	5 963	74	5 698	190	1 785	6 950	1.6	0.2	2.0	0.3	15.2	0.0	1.8	0.1	-2.7
03		321 117	2 030	0.6	-567	3 047	-4 738	1 124	1 767	-4 363	-0.1	8.3	-1.6	1.9	-3.9	1.0	-1.5	0.4	0.8
04		320 735	-382	-0.1	7 309	-2 491	2 232	7 568	-1 817	9 509	1.9	-6.2	0.8	12.9	12.1	-0.8	0.7	2.4	-2.4
05	P	307 727	-13 007	-4.1	2 768	-4 075	7 479	-636	-695	16 470	0.7	-10.9	2.6	-1.0	22.2	-1.3	2.3	-0.2	-4.9
05 *Mar*	P	320 292	2 871	-0.7	1 938	1 207	-1 035	1 765	193	-1 125	1.2	1.4	-2.0	16.2	10.1	0.2	-1.8	3.0	-2.1
Apr	P	307 275	-13 017	-0.7	-3 749	-3 327	2 604	-3 026	1 471	7 798	0.2	-1.3	-1.5	9.2	3.5	-0.2	-1.5	1.8	-0.9
May	P	306 685	-590	-2.4	230	1 974	2 808	-4 552	-316	1 136	0.1	-3.0	0.1	2.1	10.1	-0.4	0.1	0.4	-2.5
Jun	P	317 976	11 290	-0.8	3 061	-2 165	2 402	2 824	150	-8 379	0.6	-1.3	-0.3	6.2	7.2	-0.1	-0.3	1.2	-1.6
Jul	P	295 124	-22 852	-7.4	-7 237	1 338	-8 588	13	-3 422	19 037	-0.0	-5.5	-0.3	4.7	33.8	-0.7	-0.3	0.9	-7.3
Aug	P	310 407	15 283	-1.6	-2 641	-2 350	-69	-221	-220	-17 704	0.7	-4.6	0.3	5.6	11.5	-0.5	0.3	1.1	-2.4
Sep	P	308 315	-2 092	-1.1	6 985	1 748	5 080	158	117	8 960	0.8	-7.1	0.7	6.3	8.3	-0.9	0.6	1.2	-2.1
Oct	P	294 411	-13 904	0.9	-2 448	-1 796	-824	172	-529	11 985	2.1	-8.2	2.4	7.3	6.0	-1.0	2.3	1.5	-1.8
Nov	P	297 514	3 103	-3.5	6 007	1 839	4 168	-1	-102	3 006	1.4	-8.5	2.4	2.8	19.7	-1.1	2.3	0.6	-5.2
Dec	P	307 727	10 213	-4.1	-702	-2 105	625	779	-342	-10 573	0.7	-10.9	2.6	-1.0	22.2	-1.3	2.3	-0.2	-4.9
06 *Jan*	P	311 292	3 565	-3.7	-4 938	1 742	-6 206	-473	86	-8 589	-2.0	-12.4	-0.4	-2.6	5.4	-1.5	-0.3	-0.5	-1.3
Feb	P	306 719	-4 573	-3.4	1 277	-2 063	3 368	-29	277	5 572	-0.6	-10.7	1.5	-3.8	11.2	-1.2	1.4	-0.8	-2.7
Mar	P	309 398	2 679	-3.4	4 282	2 204	2 296	-218	172	1 430	0.0	-7.8	2.7	-6.6	14.7	-0.9	2.4	-1.4	-3.4
Apr	A	284 666	-24 732	-7.4	-5 104	-2 665	-2 226	-213	10 249	9 378	-0.3	-6.6	1.0	-2.6	25.4	-0.7	0.9	-0.6	-7.0
May	A	295 790	11 124	-3.6	2 560	2 038	480	42	-3 084	-5 480	0.3	-6.1	0.2	4.6	14.1	-0.7	0.2	0.9	-3.9
Jun	A	302 837	7 047	-4.8	-703	-2 278	1 643	-68	-314	-7 436	-0.7	-6.8	-0.1	-0.1	16.3	-0.7	-0.1	-0.0	-3.9
Jul	A	293 955	-8 882	-0.4	2 656	1 805	703	149	535	11 003	1.9	-5.2	3.2	0.1	9.1	-0.6	3.1	0.0	-2.8
Aug	A	299 631	5 676	-3.5	-1 986	-1 368	-596	-22	-5 431	-2 231	2.0	-2.7	3.0	0.4	25.1	-0.3	2.7	0.1	-6.0

NET FINANCING OF GENERAL GOVERNMENT
Annual percentage changes



NET FINANCING OF GENERAL GOVERNMENT
Contributions to the annual percentage change



Source: BE.
a.Consolidated: deducted securities and loans held by other General Government units.
b.Including coined money and Caja General de Depositos.
c.Tax collection accounts are not included.

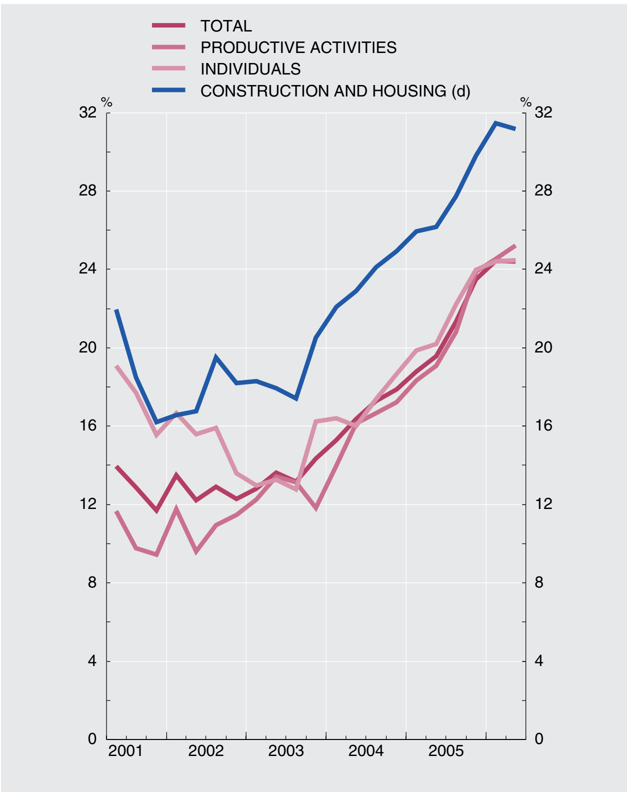
8.9 LENDING BY CREDIT INSTITUTIONS TO OTHER RESIDENT SECTORS. BREAKDOWN BY END-USE.

■ Series depicted in chart.

EUR millions and percentages

	Total (a)	Financing of productive activities						Financing of individuals					Financing of private non-profit institutions	Unclassified	Memorandum item: construction and housing (d)
		Total	Agriculture and fisheries	Industry excluding construction	Construction	Services		Total	Home purchases and improvements		Purchases of consumer durables	Other (b)			
						Total	Of which: Real estate activities		Total	Of which: Purchases					
	1 ■	2 ■	3	4	5	6	7	8 ■	9	10 ■	11 ■	12	13	14	15 ■
03	802 212	411 986	16 402	85 829	65 784	243 972	79 792	372 013	275 958	263 192	35 136	60 919	3 002	15 212	421 534
04	945 697	482 984	18 104	90 487	78 372	296 020	114 410	441 443	333 826	317 268	38 379	69 238	3 677	17 594	526 608
05	R1 202 628	604 061	20 738	104 695	100 761	377 867	166 334	576 253	445 972	424 238	45 928	84 354	4 666	17 648	713 067
02 *Q1*	640 193	334 865	13 420	82 689	47 487	191 269	45 605	293 673	214 354	205 404	34 671	44 648	2 382	9 273	307 446
Q2	664 446	343 191	13 980	81 235	50 770	197 207	48 576	308 555	225 521	216 080	35 466	47 568	2 287	10 413	324 867
Q3	680 806	351 950	14 281	82 834	53 777	201 057	51 298	316 697	234 668	224 849	35 072	46 957	2 339	9 820	339 744
Q4	701 663	368 466	15 122	85 762	57 376	210 206	57 295	320 053	235 086	224 830	34 741	50 227	2 324	10 819	349 757
03 *Q1*	722 204	375 901	15 138	86 559	56 975	217 229	62 226	331 747	244 498	233 729	34 910	52 339	2 285	12 271	363 698
Q2	754 872	389 249	15 712	87 015	59 431	227 091	67 740	349 500	256 010	244 414	35 676	57 814	2 512	13 608	383 181
Q3	770 523	398 206	16 462	87 240	61 902	232 601	72 545	357 146	264 453	252 316	36 468	56 225	2 651	12 520	398 900
Q4	802 212	411 986	16 402	85 829	65 784	243 972	79 792	372 013	275 958	263 192	35 136	60 919	3 002	15 212	421 534
04 *Q1*	832 734	428 517	16 973	85 326	68 171	258 047	87 073	386 179	288 736	275 107	36 201	61 242	3 108	14 930	443 980
Q2	878 477	452 030	17 102	86 636	72 362	275 930	97 040	405 486	301 537	286 744	37 374	66 575	3 183	17 777	470 939
Q3	903 590	464 578	17 655	88 360	75 494	283 069	104 592	419 230	315 021	299 447	38 075	66 134	3 426	16 355	495 107
Q4	945 697	482 984	18 104	90 487	78 372	296 020	114 410	441 443	333 826	317 268	38 379	69 238	3 677	17 594	526 608
05 *Q1*	989 196	507 089	18 188	93 815	83 421	311 665	123 982	462 910	351 757	334 224	39 375	71 778	3 548	15 649	559 160
Q2	R1 085 320	544 048	19 501	99 393	89 806	335 349	139 010	516 384	394 989	375 523	42 531	78 864	4 200	20 687	623 805
Q3	1 131 240	567 022	20 182	101 716	94 411	350 714	148 623	541 346	419 032	398 498	44 644	77 670	4 355	18 518	662 066
Q4	1 202 628	604 061	20 738	104 695	100 761	377 867	166 334	576 253	445 972	424 238	45 928	84 354	4 666	17 648	713 067
06 *Q1*	1 265 755	637 277	21 213	105 687	106 183	404 195	186 475	604 878	471 966	449 246	46 320	86 592	4 788	18 813	764 623
Q2	1 350 191	681 307	21 946	109 856	116 195	433 311	203 879	642 698	498 248	474 404	49 161	95 289	5 109	21 077	818 322

CREDIT BY END-USE
Annual percentage changes (c)



CREDIT TO INDIVIDUALS BY END-USE
Annual percentage changes (c)

SOURCE: BE.

a. Series obtained from information in the accounting statement established for the supervision of resident institutions. See the changes introduced in the October 2001 edition of the Boletín estadístico and Tables 4.13, 4.18 and 4.23 of the Boletin estadístico, which are published at www.bde.es.

b. Includes loans and credit to households for the purchase of land and rural property, the purchase of securities, the purchase of current goods and services not considered to be consumer durables (e.g. loans to finance travel expenses) and for various end-uses not included in the foregoing.

c. Asset-backed securities brought back onto the balance sheet as a result of the entry into force of Banco de España Circular BE 4/2004 have caused a break in the series in June 2005. The rates depicted in the chart have been adjusted to eliminate this effect.

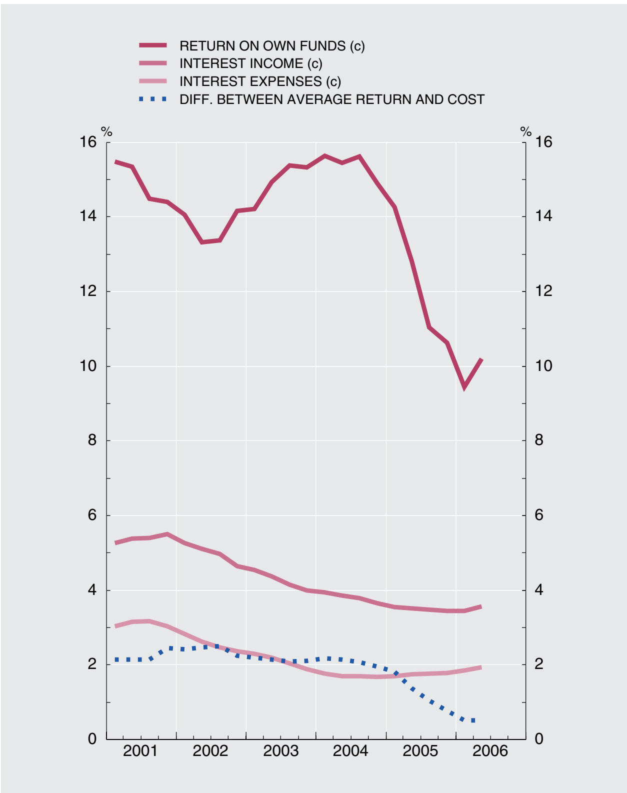
d. Including: construction, real estate activities and home purchases and improvements

8.10. PROFIT AND LOSS ACCOUNT OF BANKS, SAVINGS BANKS AND CREDIT CO-OPERATIVES RESIDENT IN SPAIN

■ Series depicted in chart.

		As a percentage of the adjusted average balance sheet										Percentages			
		Interest income	Interest expenses	Net interest income	Non interest income and expenses	Gross income	Operating expenses:	Of which: Staff costs	Net income	Provisions and other income and expenses	Profit before tax	Return on own funds (a)	Average return on lending operations (b)	Average cost of borrowing operations (b)	Difference (12-13)
		1 ■	2 ■	3 ■	4	5 ■	6	7	8 ■	9	10 ■	11 ■	12	13	14 ■
03		4.2	1.8	2.5	0.3	2.7	1.6	0.9	1.2	-1.0	0.8	14.5	4.3	2.2	2.1
04		3.7	1.7	2.0	0.8	2.8	1.5	0.9	1.3	-1.6	0.7	11.6	3.9	1.9	1.9
05	R	3.6	1.8	1.8	0.8	2.5	1.2	0.8	1.3	-0.8	0.9	10.0	2.8	2.0	0.8
03 *Q2*		4.0	1.9	2.1	0.8	2.9	1.6	1.0	1.3	-0.2	1.0	17.9	4.7	2.5	2.1
Q3		3.7	1.7	2.0	0.7	2.6	1.6	0.9	1.0	-0.2	0.8	14.1	4.4	2.3	2.1
Q4		4.2	1.8	2.5	0.3	2.7	1.6	0.9	1.2	-0.4	0.8	14.5	4.3	2.2	2.1
04 *Q1*		3.8	1.7	2.2	0.7	2.9	1.5	0.9	1.4	-0.5	0.9	16.0	4.2	2.0	2.2
Q2		3.7	1.7	2.0	0.7	2.7	1.5	0.9	1.2	-0.3	0.9	17.2	4.1	1.9	2.1
Q3		3.4	1.7	1.7	0.7	2.4	1.4	0.9	1.0	-0.2	0.8	14.8	4.0	1.9	2.1
Q4		3.7	1.7	2.0	0.8	2.8	1.5	0.9	1.3	-0.6	0.7	11.6	3.9	1.9	1.9
05 *Q1*		3.4	1.7	1.7	0.7	2.4	1.4	0.8	1.0	-0.2	0.8	13.5	3.8	1.9	1.8
Q2	R	3.5	1.8	1.7	0.9	2.6	1.3	0.8	1.3	-0.2	1.1	11.4	3.3	2.0	1.4
Q3		3.3	1.8	1.5	0.6	2.1	1.2	0.8	0.9	-0.2	0.7	7.7	3.0	2.0	1.0
Q4		3.6	1.8	1.8	0.8	2.5	1.2	0.8	1.3	-0.2	0.9	10.0	2.8	2.0	0.8
06 *Q1*		3.4	2.0	1.4	0.8	2.2	1.2	0.7	1.0	-0.2	0.8	8.7	2.6	2.1	0.5
Q2		4.0	2.2	1.8	0.8	2.6	1.1	0.7	1.5	-0.2	1.2	14.4	2.7	2.2	0.5

PROFIT AND LOSS ACCOUNT
Percentages of the adjusted average balance sheet and returns



PROFIT AND LOSS ACCOUNT
Percentages of the adjusted average balance sheet

Source: BE.
Note: The underlying series for this indicator are in Table 4.36 of the BE Boletín estadístico.
a. Profit before tax divided by own funds (capital,reserves, and general risk fund less losses from previous financial years and intangible assets).
b. Only those financial assets and liabilities which respectively give rise to financial income and costs have been considered to calculate the averge return and cost.
c. Average of the last four quarters.

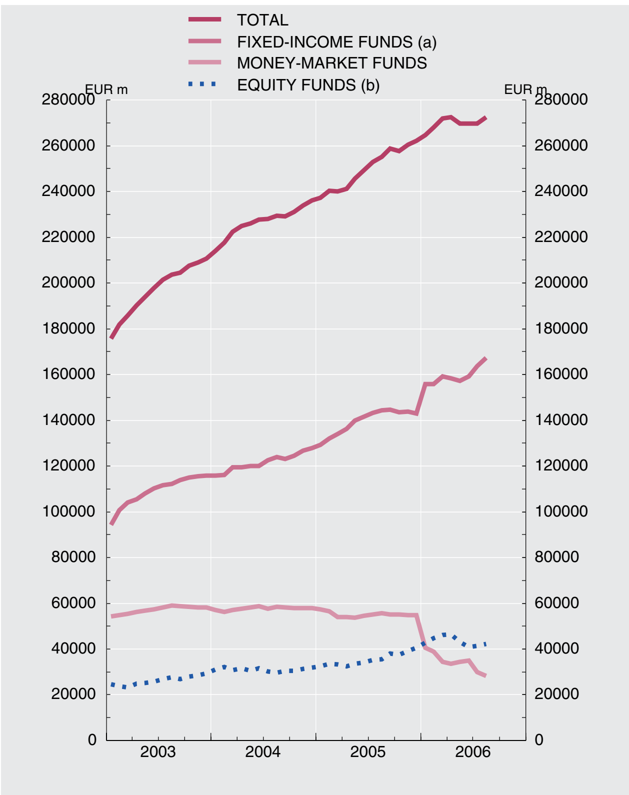
8.11. MUTUAL FUNDS RESIDENT IN SPAIN

■ Series depicted in chart.

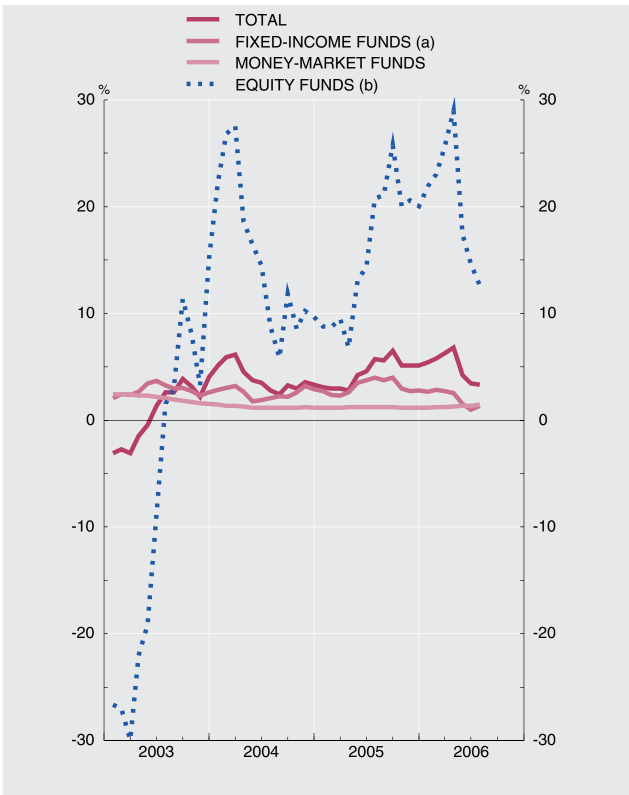
EUR millions

		Total				Money-market funds				Fixed-income funds (a)				Equity funds (b)				Others funds (c)
		Net asset value	Of which: Monthly change	Of which: Net funds invested	Return over last 12 months	Net asset value	Of which: Monthly change	Of which: Net funds invested	Return over last 12 months	Net asset value	Of which: Monthly change	Of which: Net funds invested	Return over last 12 months	Net asset value	Of which: Monthly change	Of which: Net funds invested	Return over last 12 months	Net asset value
		1 ■	2	3	4 ■	5 ■	6	7	8 ■	9 ■	10	11	12 ■	13 ■	14	15	16 ■	17
03		210 627	35 894	28 077	4.0	58 054	4 688	3 830	1.5	115 819	23 077	20 129	2.6	29 401	3 334	-202	15.1	7 353
04		236 088	25 461	18 250	3.3	57 989	-66	-744	1.2	127 735	11 917	10 445	2.9	32 023	2 622	480	9.7	18 341
05		262 201	26 113	14 270	5.1	54 751	-3 237	-3 881	1.2	143 047	15 312	12 061	2.8	40 672	8 649	2 303	20.0	23 730
05 *May*		245 737	4 586	1 908	4.2	53 820	-243	-296	1.2	139 748	3 622	2 676	3.5	33 512	1 179	-338	13.0	18 657
Jun		249 193	3 456	1 493	4.6	54 626	806	751	1.2	141 550	1 803	1 137	3.7	34 116	603	-341	14.4	18 901
Jul		252 926	3 733	2 021	5.7	54 983	357	305	1.2	143 341	1 791	1 331	4.0	35 341	1 225	87	20.7	19 260
Aug		255 127	2 201	2 256	5.6	55 571	588	531	1.2	144 425	1 083	1 008	3.7	35 532	191	358	21.1	19 599
Sep		258 684	3 557	823	6.5	55 015	-556	-607	1.2	144 713	288	125	4.0	38 163	2 631	749	25.7	20 793
Oct		257 516	-1 168	774	5.1	55 136	121	75	1.2	143 442	-1 271	-348	3.0	37 353	-810	169	20.0	21 585
Nov		260 502	2 986	1 188	5.1	54 861	-275	-318	1.2	143 658	216	-208	2.7	39 218	1 865	860	20.6	22 766
Dec		262 201	1 698	-1	5.1	54 751	-110	-171	1.2	143 047	-611	-1 167	2.8	40 672	1 454	538	20.0	23 730
06 *Jan*		264 634	2 433	1 900	5.4	40 547	-14 204	-14 252	1.2	155 770	12 723	13 794	2.6	42 740	2 067	687	21.9	25 577
Feb		267 936	3 302	1 256	5.8	38 864	-1 683	-1 728	1.2	155 851	81	-568	2.9	44 789	2 049	822	23.0	28 432
Mar		271 765	3 829	-1 774	6.2	34 355	-4 509	-4 549	1.2	159 303	3 452	-1 424	2.7	46 155	1 366	925	25.6	31 952
Apr		272 560	795	197	6.8	33 513	-842	-890	1.3	158 228	-1 075	-1 505	2.6	46 507	352	274	29.0	34 312
May		269 710	-2 850	307	4.2	34 423	910	869	1.3	157 089	-1 139	-492	1.5	42 938	-3 570	-1 602	17.4	35 261
Jun		269 778	68	-360	3.5	34 899	476	427	1.4	159 209	2 120	1 945	1.0	40 727	-2 211	-2 223	14.6	34 943
Jul		269 647	-131	-1 722	3.3	30 010	-4 889	-4 939	1.4	163 570	4 362	3 662	1.3	41 501	774	99	12.6	34 566
Aug	P	272 394	2 747	...	...	28 307	-1 703	...	...	167 323	3 753	...	...	42 273	772	...	...	34 491

NET ASSET VALUE



RETURN OVER LAST 12 MONTHS



SOURCES: CNMV and Inverco.

a. Includes short and long-term fixed-income funds in euros and international, mixed fixed-income funds in euros and international and guaranteed funds.

b. Includes equity funds and mixed equity funds in euros, national and international.

c. Global funds.

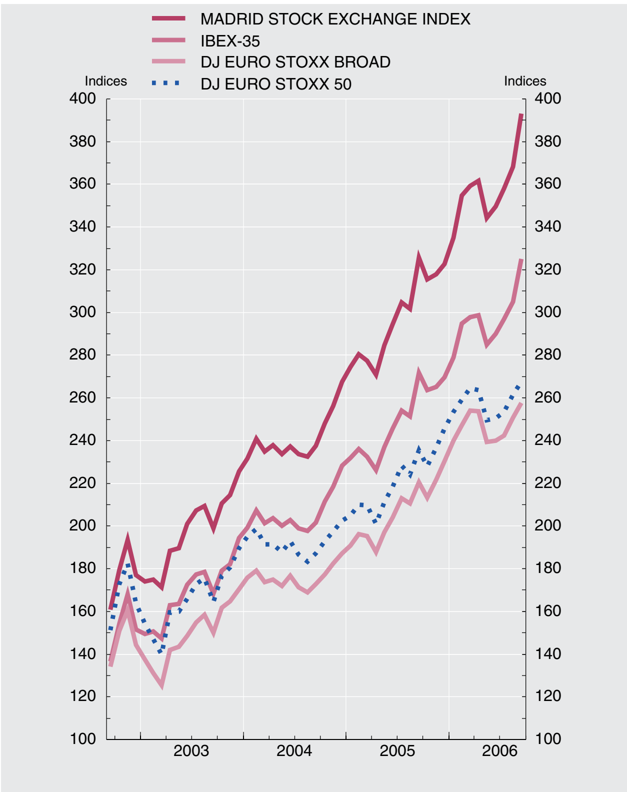
8.12. SHARE PRICE INDICES AND TURNOVER ON SECURITIES MARKETS. SPAIN AND EURO AREA

■ Series depicted in chart.

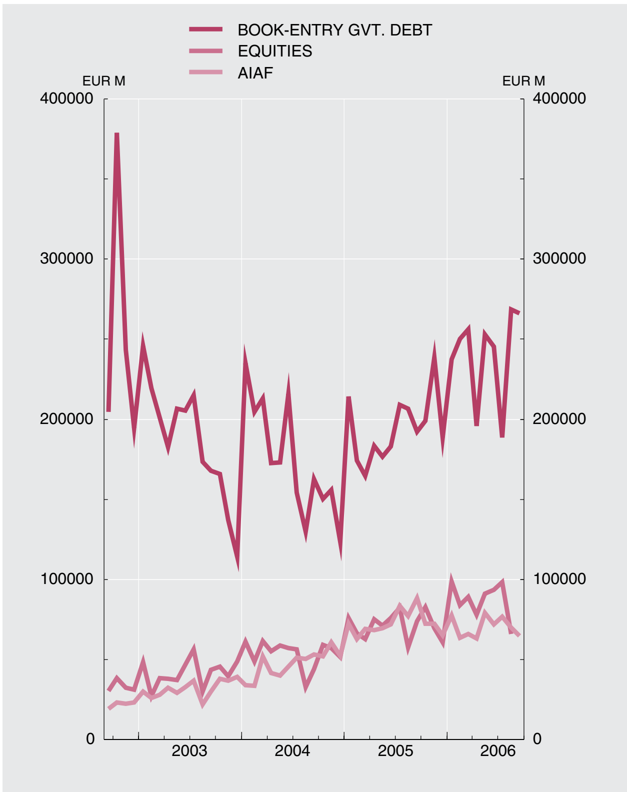
Indices, EUR millions and thousands of contracts

	Share price indices				Turnover on securities markets							
	General Madrid Stock Exchange	IBEX 35	Dow Jones EURO STOXX indices		Stock market		Book-entry government debt	AIAF fixed-income market	Financial options (thousands of contracts)		Financial futures (thousands of contracts)	
			Broad	50	Equities	Bonds			Fixed-income	Shares and other equities	Fixed-income	Shares and other equities
	1 ■	2 ■	3 ■	4 ■	5 ■	6	7 ■	8 ■	9	10	11	12
04	863.25	8 195.58	251.25	2 800.48	643 542	82 790	2 090 447	566 600	-	8 495	0	4 473
05	1 066.43	9 903.47	295.18	3 222.05	853 971	93 191	2 330 021	872 299	-	11 356	-	5 050
06 A	1 283.32	11 817.27	352.91	3 760.08	698 636	65 683	2 160 368	632 677	-	9 271	-	4 767
05 *Jun*	1 055.65	9 783.20	291.17	3 181.54	76 059	7 417	183 058	71 904	...	910	...	414
Jul	1 092.02	10 115.60	303.84	3 326.51	82 379	7 739	209 001	83 492	...	779	...	412
Aug	1 080.50	10 008.90	300.62	3 263.78	57 371	7 787	206 603	76 957	...	840	...	396
Sep	1 166.48	10 813.90	314.81	3 428.51	73 796	7 603	192 091	88 115	...	1 914	...	433
Oct	1 130.60	10 493.80	304.53	3 320.15	82 639	6 764	198 843	72 176	...	935	...	463
Nov	1 138.53	10 557.80	316.42	3 447.07	69 451	9 853	238 405	72 176	...	972	...	441
Dec	1 156.21	10 733.90	328.92	3 578.93	60 709	8 885	188 813	65 300	...	1 313	...	408
06 *Jan*	1 199.80	11 104.30	342.50	3 691.41	98 821	6 993	237 197	77 566	...	1 223	...	475
Feb	1 271.16	11 740.70	352.80	3 774.51	84 021	7 818	250 052	63 474	...	917	...	466
Mar	1 287.25	11 854.30	362.83	3 853.74	89 034	9 233	256 046	66 038	...	1 694	...	521
Apr	1 295.56	11 892.50	362.34	3 839.90	77 956	6 631	195 661	63 194	...	1 048	...	477
May	1 233.86	11 340.50	341.54	3 637.17	91 045	8 961	252 818	79 070	...	1 057	...	663
Jun	1 252.61	11 548.10	342.65	3 648.92	93 550	8 216	245 355	72 002	...	1 174	...	586
Jul	1 283.05	11 818.00	346.10	3 691.87	98 318	10 674	188 658	76 778	...	704	...	497
Aug	1 319.76	12 144.70	357.92	3 808.70	65 891	7 157	268 624	69 876	...	556	...	488
Sep P	1 409.08	12 934.70	367.92	3 899.41	...	...	265 956	64 678	...	898	...	595

SHARE PRICE INDICES
JAN 1994 = 100



TURNOVER ON SECURITIES MARKETS



Sources: Madrid, Barcelona, Bilbao and Valencia Stock Exchanges (columns 1, 2, 5 and 6); Reuters (columns 3 and4); AIAF (column 8) and Spanish Financial Futures Market (MEFFSA) (columns 9 to 12)

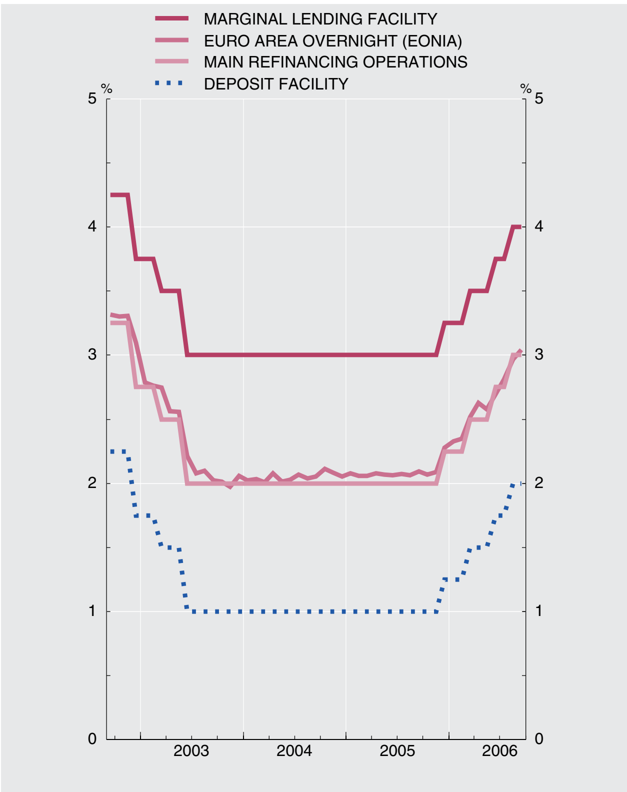
9.1. INTEREST RATES. EUROSYSTEM AND MONEY MARKET. EURO AREA AND SPAIN

■ Series depicted in chart.

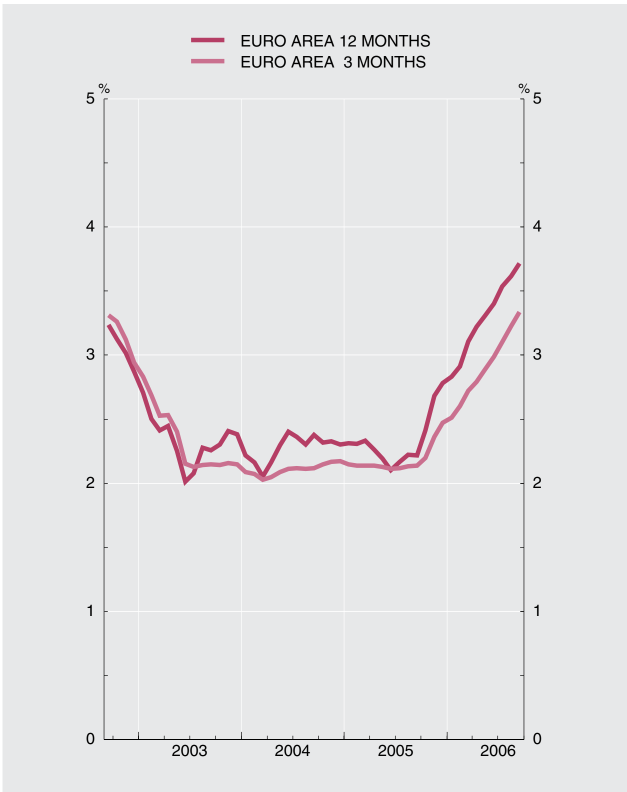
Averages of daily data. Percentages per annum

	Eurosystem monetary policy operations				Money market												
	Main refinancing operations: weekly tenders	Longer term refinancing operations: monthly tenders	Standing facilities		Euro area: deposits (Euribor) (a)					Spain							
										Non-transferable deposits				Government-securities repos			
			Marginal lending	Deposit	Overnight (EONIA)	1-month	3-month	6-month	1-year	Overnight	1-month	3-month	1-year	Overnight	1-month	3-month	1-year
	1 ■	2	3 ■	4 ■	5 ■	6	7 ■	8	9 ■	10	11	12	13	14	15	16	17
04	2.00	2.12	3.00	1.00	2.05	2.08	2.11	2.15	2.27	2.04	2.06	2.10	2.29	1.99	1.99	1.99	2.14
05	2.25	2.45	3.25	1.25	2.09	2.14	2.19	2.24	2.33	2.09	2.13	2.18	2.34	2.04	2.05	2.07	2.23
06 A	-	3.30	4.00	2.00	2.66	2.77	2.91	3.07	3.30	2.66	2.75	2.90	3.30	2.57	2.65	2.77	3.06
05 *Jun*	2.00	2.06	3.00	1.00	2.06	2.10	2.11	2.11	2.10	2.06	2.08	2.10	2.11	2.02	2.01	2.01	2.01
Jul	2.00	2.07	3.00	1.00	2.07	2.11	2.12	2.14	2.17	2.06	2.09	2.11	2.15	2.03	2.00	2.01	2.04
Aug	2.00	-	3.00	1.00	2.06	2.11	2.13	2.16	2.22	2.07	2.09	2.13	2.23	2.04	2.03	2.04	2.12
Sep	2.00	2.09	3.00	1.00	2.09	2.12	2.14	2.17	2.22	2.09	2.09	2.13	2.25	2.09	2.04	2.04	2.13
Oct	2.00	2.17	3.00	1.00	2.07	2.12	2.20	2.27	2.41	2.07	2.11	2.19	2.44	2.02	2.04	2.08	-
Nov	2.00	-	3.00	1.00	2.09	2.22	2.36	2.50	2.68	2.09	2.21	2.36	2.68	1.95	2.11	2.23	2.62
Dec	2.25	2.45	3.25	1.25	2.28	2.41	2.47	2.60	2.78	2.28	2.40	2.47	2.78	2.22	2.28	2.32	2.69
06 *Jan*	2.25	2.47	3.25	1.25	2.33	2.39	2.51	2.65	2.83	2.32	2.37	2.50	2.84	2.27	2.27	2.40	2.73
Feb	2.25	2.57	3.25	1.25	2.35	2.46	2.60	2.73	2.91	2.34	2.44	2.60	2.92	2.25	2.36	2.47	2.78
Mar	2.50	2.73	3.50	1.50	2.52	2.63	2.72	2.87	3.11	2.52	2.61	2.72	3.12	2.46	2.51	2.60	2.96
Apr	2.50	2.76	3.50	1.50	2.63	2.65	2.79	2.96	3.22	2.62	2.63	2.78	3.24	2.55	2.53	2.63	3.14
May	2.50	-	3.50	1.50	2.58	2.69	2.89	3.06	3.31	2.58	2.67	2.88	3.32	2.44	2.55	2.75	3.17
Jun	2.75	3.00	3.75	1.75	2.70	2.87	2.99	3.16	3.40	2.69	2.85	2.98	3.43	2.61	2.76	2.84	-
Jul	2.75	3.08	3.75	1.75	2.81	2.94	3.10	3.29	3.54	2.81	2.92	3.09	3.53	2.74	2.82	2.95	-
Aug	3.00	3.20	4.00	2.00	2.97	3.09	3.23	3.41	3.62	2.96	3.08	3.22	3.61	2.85	2.99	3.07	-
Sep	3.00	3.30	4.00	2.00	3.04	3.16	3.34	3.53	3.72	3.03	3.14	3.33	3.70	2.96	3.03	3.18	3.55

EUROSYSTEM: MONETARY POLICY OPERATIONS AND EURO AREA OVERNIGHT DEPOSITS



INTERBANK MARKET: EURO AREA 3-MONTH AND 1-YEAR RATES



Source: ECB (columns 1 to 8).

a. To December 1998, synthetic euro area rates have been calculated on the basis of national rates weighted by GDP

9.2. INTEREST RATES: SPANISH SHORT-TERM AND LONG-TERM SECURITIES MARKETS

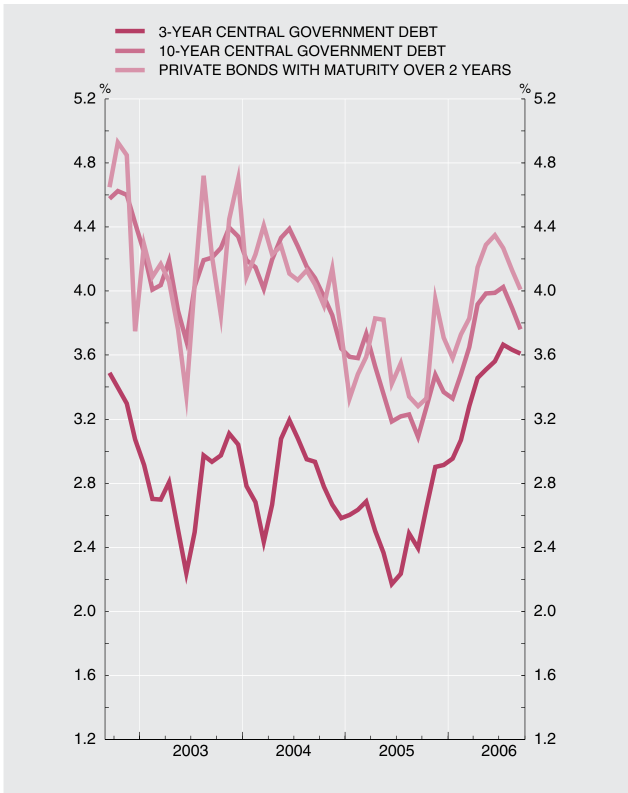
■ Series depicted in chart.

Percentages per annum

	Short-term securities				Long-term securities							
	One-year Treasury bills		One-year commercial paper		Central Government debt							Private bonds with a maturity of over two years traded on the AIAF
	Marginal rate at issue	Secondary market: outright spot purchases between market members	Rate at issue	Secondary market: outright spot purchases	Marginal rate at issue					Secondary market. Book-entry debt. Outright spot purchases between market members		
					3-year bonds	5-year bonds	10-year bonds	15-year bonds	30-year bonds	At 3-years	At 10-years	
	1 ■	2	3 ■	4	5	6	7	8	9	10 ■	11 ■	12 ■
04	2.15	2.17	2.34	2.25	2.79	3.22	4.02	4.27	4.73	2.82	4.10	4.11
05	2.20	2.19	2.40	2.36	2.38	2.89	3.44	3.70	3.84	2.55	3.39	3.55
06 A	3.13	3.12	3.30	3.29	3.28	3.54	3.76	-	4.04	3.42	3.78	4.04
05 *Jun*	2.00	1.98	2.34	2.17	2.14	-	-	-	3.92	2.17	3.19	3.42
Jul	2.06	2.03	2.23	2.18	-	2.64	-	-	-	2.24	3.22	3.55
Aug	2.08	2.10	2.35	2.25	-	-	-	-	-	2.49	3.23	3.34
Sep	2.09	2.05	2.35	2.27	2.18	-	3.17	-	-	2.40	3.09	3.28
Oct	2.29	2.30	2.43	2.44	-	-	-	-	3.77	2.65	3.27	3.33
Nov	2.53	2.42	2.75	2.66	2.62	-	3.48	-	-	2.90	3.48	3.95
Dec	2.69	2.63	2.81	2.84	-	3.03	-	-	-	2.91	3.37	3.71
06 *Jan*	2.62	2.66	2.85	2.87	2.93	-	3.31	-	-	2.95	3.33	3.58
Feb	2.75	2.77	2.92	2.93	3.09	-	-	-	3.81	3.07	3.48	3.73
Mar	2.93	2.87	3.07	3.07	-	3.27	3.70	-	-	3.28	3.65	3.83
Apr	3.05	3.06	3.23	3.20	3.43	-	-	-	4.27	3.46	3.92	4.15
May	3.12	3.28	3.36	3.28	-	-	4.05	-	-	3.51	3.99	4.29
Jun	3.28	3.25	3.43	3.33	-	3.69	-	-	-	3.56	3.99	4.35
Jul	3.37	3.34	3.50	3.55	3.68	-	3.99	-	-	3.66	4.02	4.27
Aug	3.48	3.43	3.57	3.59	-	-	-	-	-	3.63	3.89	4.13
Sep	3.54	3.43	3.73	3.76	-	3.68	-	-	4.03	3.61	3.76	4.01

PRIMARY MARKET

SECONDARY MARKET



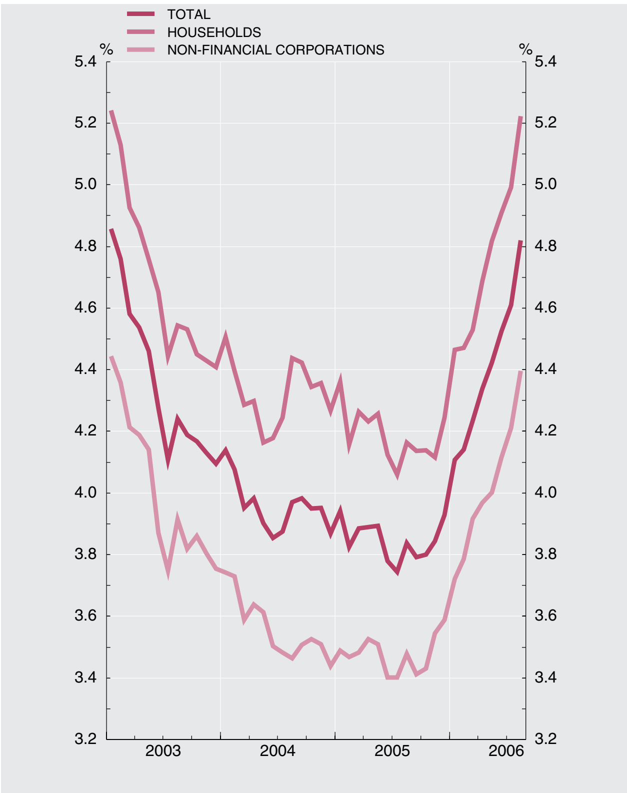
Sources: Main issuers (column 3); AIAF (columns 4 and 12).

9.3. INTEREST RATES ON NEW BUSINESS. CREDIT INSTITUTIONS. (CBE 4/2002)

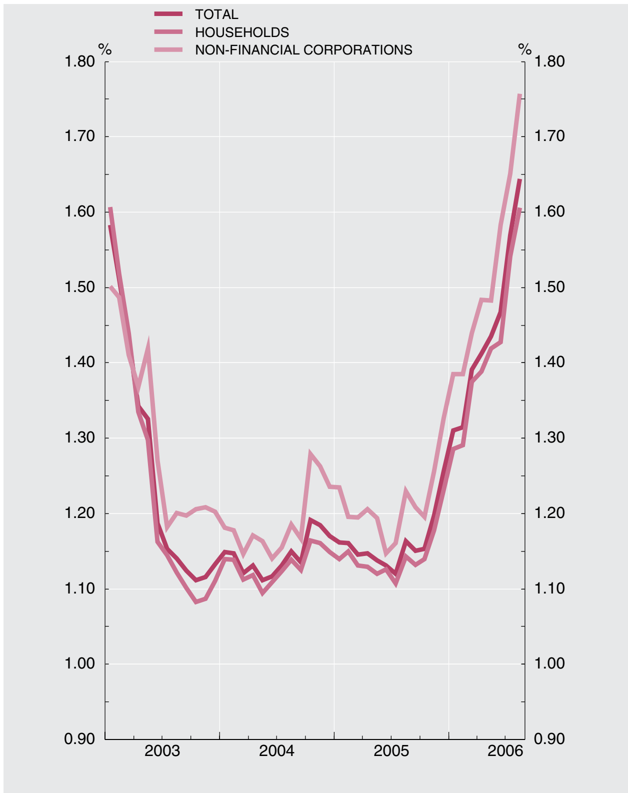
■ Series depicted in chart. *Percentages*

	Loans (APRC) (a)							Deposits (NDER) (a)								
	Syn-thetic rate (c)	Households and NPISH			Non-financial corporations			Syn-thetic rate (c)	Households and NPISH				Non-financial corporations			
		Syn-thetic rate	House pur-chase	Con-sump-tion and other	Syn-thetic rate	Up to EUR 1 million	Over EUR 1 million (b)		Syn-thetic rate	Over-night and re-deema-ble at notice	Time	Repos	Syn-thetic rate	Over-night	Time	Repos
	1 ■	2 ■	3	4	5 ■	6	7	8 ■	9 ■	10	11	12	13 ■	14	15	16
04	3.87	4.27	3.39	6.27	3.44	4.12	3.01	1.17	1.15	0.39	2.06	2.11	1.24	0.68	2.06	2.03
05	3.93	4.24	3.46	6.27	3.59	4.04	3.26	1.26	1.23	0.41	2.27	2.25	1.33	0.82	2.22	2.22
06 A	4.82	5.22	4.41	7.41	4.40	4.86	3.99	1.64	1.61	0.47	2.90	2.85	1.76	1.10	2.88	2.89
05 *Jan*	3.94	4.36	3.43	6.53	3.49	4.21	2.89	1.16	1.14	0.39	2.02	2.04	1.23	0.73	2.05	2.09
Feb	3.83	4.16	3.44	5.85	3.47	4.09	2.91	1.16	1.15	0.40	2.04	2.09	1.20	0.70	2.03	2.05
Mar	3.89	4.26	3.42	6.26	3.48	4.04	2.98	1.15	1.13	0.39	2.03	2.06	1.19	0.70	2.03	2.00
Apr	3.89	4.23	3.41	6.18	3.53	4.03	3.01	1.15	1.13	0.39	2.02	2.08	1.21	0.72	2.02	2.03
May	3.89	4.26	3.42	6.25	3.51	4.06	2.99	1.14	1.12	0.38	2.02	2.08	1.19	0.73	1.97	2.01
Jun	3.78	4.12	3.35	5.99	3.40	4.00	2.99	1.13	1.13	0.40	2.04	2.08	1.15	0.67	2.01	2.01
Jul	3.74	4.06	3.29	5.99	3.40	3.95	2.99	1.12	1.11	0.40	2.00	2.07	1.16	0.71	2.02	2.01
Aug	3.84	4.16	3.29	6.38	3.48	4.01	2.92	1.16	1.14	0.40	2.05	2.09	1.23	0.73	2.11	2.02
Sep	3.79	4.14	3.28	6.32	3.41	3.88	2.97	1.15	1.13	0.40	2.04	2.11	1.21	0.73	2.05	2.04
Oct	3.80	4.14	3.31	6.27	3.43	3.91	2.98	1.15	1.14	0.39	2.07	2.01	1.20	0.73	2.03	2.01
Nov	3.84	4.12	3.35	6.07	3.55	3.93	3.16	1.20	1.18	0.40	2.16	1.98	1.26	0.76	2.16	2.01
Dec	3.93	4.24	3.46	6.27	3.59	4.04	3.26	1.26	1.23	0.41	2.27	2.25	1.33	0.82	2.22	2.22
06 *Jan*	4.11	4.46	3.67	6.56	3.72	4.27	3.27	1.31	1.29	0.42	2.34	2.22	1.39	0.88	2.25	2.27
Feb	4.14	4.47	3.78	6.30	3.79	4.28	3.37	1.31	1.29	0.44	2.32	2.24	1.39	0.87	2.33	2.27
Mar	4.23	4.53	3.84	6.36	3.92	4.35	3.56	1.39	1.38	0.45	2.49	2.49	1.44	0.89	2.46	2.47
Apr	4.34	4.69	3.93	6.70	3.97	4.46	3.56	1.41	1.39	0.45	2.51	2.51	1.48	0.91	2.52	2.52
May	4.42	4.82	4.10	6.74	4.00	4.54	3.58	1.43	1.42	0.44	2.58	2.45	1.48	0.92	2.51	2.48
Jun	4.52	4.91	4.19	6.78	4.11	4.59	3.78	1.47	1.43	0.43	2.63	2.61	1.58	0.95	2.81	2.65
Jul	4.61	4.99	4.29	6.87	4.21	4.72	3.87	1.57	1.54	0.45	2.83	2.70	1.65	1.03	2.81	2.78
Aug P	4.82	5.22	4.41	7.41	4.40	4.86	3.99	1.64	1.61	0.47	2.90	2.85	1.76	1.10	2.88	2.89

LOANS
SYNTHETIC RATES



DEPOSITS
SYNTHETIC RATES



Source: BE.

a. APRC: annual percentage rate of change. NEDR: narrowly defined effective rate, which is the same as the APRC without including commissions.

b. Calculated by adding to the NDER rate, which does not include commissions and other expenses, a moving average of such expenses.

c. The synthetic rates of loans and deposits are obtained as the average of the interest rates on new business weighted by the euro-denominated stocks included in the balance sheet for all the instruments of each sector.

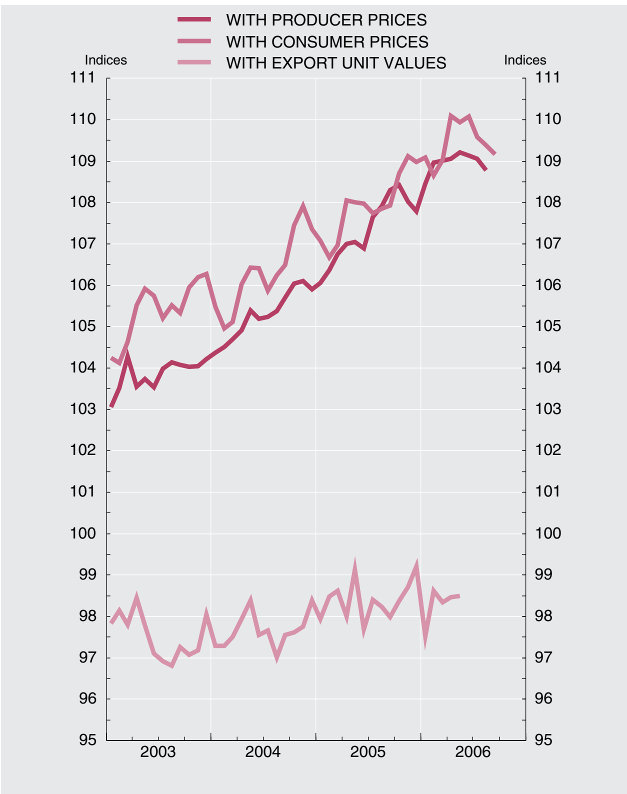
9.4 INDICES OF SPANISH COMPETITIVENES VIS-à-VIS THE EU-15 AND THE EURO AREA

■ Series depicted in chart.

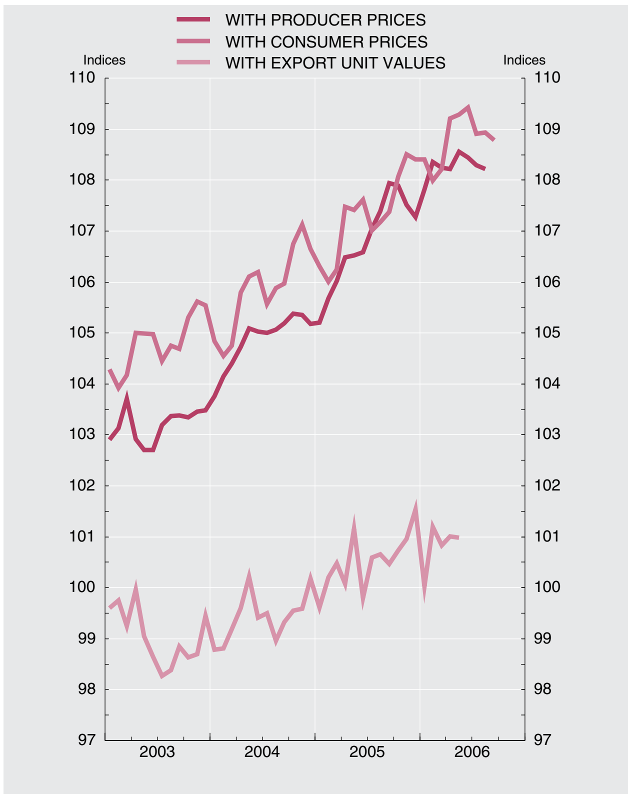
Base 1999 QI = 100

	Vis-à-vis the EU-15: Total (a): Based on producer prices	Vis-à-vis the EU-15: Total (a): Based on consumer prices	Vis-à-vis the EU-15: Total (a): Based on manufactu-ring unit labour costs (d)	Vis-à-vis the EU-15: Total (a): Based on export unit values	Vis-à-vis the EU-15: Nominal component (b)	Vis-à-vis the EU-15: Price component (c): Based on producer prices	Vis-à-vis the EU-15: Price component (c): Based on consumer prices	Vis-à-vis the EU-15: Price component (c): Based on manufactu-ring unit costs	Vis-à-vis the EU-15: Price component (c): Based on export unit values	Vis-à-vis the euro area: Based on producer prices	Vis-à-vis the euro area: Based on consumer prices	Vis-à-vis the euro area: Based on manufactu ring unit labour costs (d)	Vis-à-vis the euro area: Based on export unit values
	1 ■	2 ■	3	4 ■	5	6	7	8	9	10 ■	11 ■	12	13 ■
03	103.9	105.4	103.9	97.5	100.1	103.7	105.2	103.7	97.4	103.2	104.8	103.1	99.0
04	105.3	106.3	107.0	97.7	99.9	105.4	106.4	107.1	97.7	104.9	105.9	106.1	99.4
05	107.4	107.9	111.4	98.4	100.1	107.3	107.9	111.3	98.3	106.8	107.3	110.8	100.5
04 *Q3*	105.4	106.2	107.0	97.4	99.8	105.6	106.4	107.2	97.6	105.1	105.8	106.3	99.3
Q4	106.0	107.6	109.8	97.9	100.2	105.8	107.4	109.6	97.8	105.3	106.8	108.7	99.8
05 *Q1*	106.4	106.9	110.8	98.3	100.2	106.2	106.7	110.6	98.2	105.6	106.2	109.9	100.1
Q2	107.0	108.0	111.1	98.3	100.0	107.0	108.1	111.2	98.3	106.5	107.5	110.5	100.4
Q3	107.9	107.8	111.5	98.2	100.1	107.9	107.8	111.4	98.1	107.5	107.2	110.9	100.6
Q4	108.1	108.9	112.2	98.8	100.0	108.0	108.9	112.2	98.7	107.6	108.3	111.9	101.1
06 *Q1*	108.8	108.9	112.6	98.1	100.1	108.7	108.8	112.5	98.0	108.1	108.2	112.2	100.7
Q2	109.1	110.0	112.2	...	100.1	109.0	109.9	112.0	...	108.4	109.3	111.8	...
05 *Dec*	107.8	109.0	...	99.2	100.0	107.8	109.0	...	99.2	107.3	108.4	...	101.5
06 *Jan*	108.5	109.1	...	97.5	100.1	108.3	109.0	...	97.4	107.8	108.4	...	100.0
Feb	109.0	108.6	...	98.6	100.1	108.9	108.6	...	98.6	108.4	108.0	...	101.2
Mar	109.0	109.0	...	98.3	100.2	108.8	108.8	...	98.2	108.2	108.2	...	100.8
Apr	109.1	110.1	...	98.5	100.3	108.8	109.8	...	98.2	108.2	109.2	...	101.0
May	109.2	109.9	...	98.5	100.1	109.1	109.9	...	98.4	108.6	109.3	...	101.0
Jun	109.1	110.1	...	...	100.1	109.0	110.0	...	...	108.4	109.4	...	...
Jul	109.1	109.6	...	...	100.1	108.9	109.5	...	...	108.3	108.9	...	...
Aug	108.8	109.4	...	...	99.9	108.9	109.5	...	...	108.2	108.9	...	...
Sep	...	109.2	...	...	99.9	...	109.3	...	...	...	108.8	...	...

INDICES OF SPANISH COMPETITIVENESS VIS À VIS THE EU-15



INDICES OF SPANISH COMPETITIVENESS VIS À VIS THE EURO AREA



Source: BE.

a. Outcome of multiplying nominal and price components. A decline in the index denotes an improvement in the competitiveness of Spanish products.

b. Geometric mean calculated using a double weighting system based on 1995-1997 manufacturing foreign trade figures.

c. Relationship between the price indices of Spain and of the group.

d. The index obtained drawing on Manufacturing Labour Costs has been compiled using base year 2000 National Accounts data.

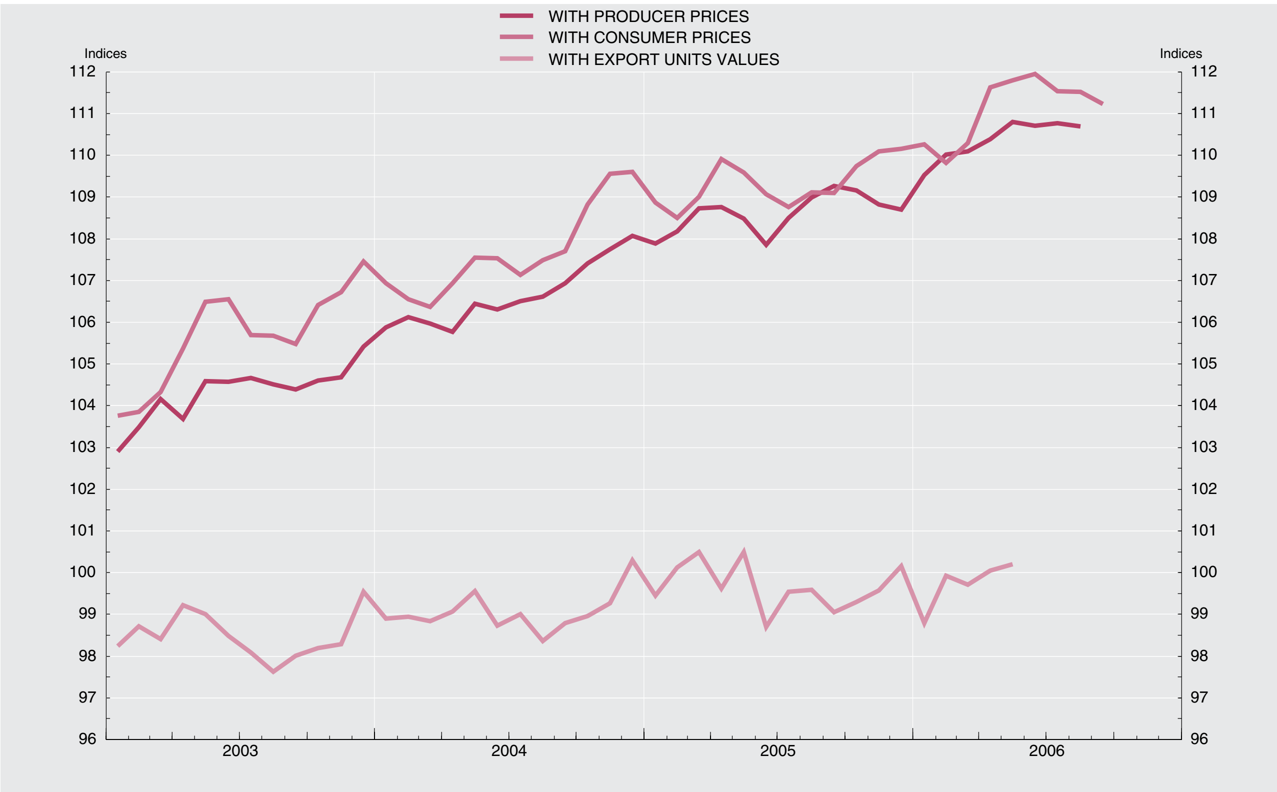
9.5 INDICES OF SPANISH COMPETITIVENESS VIS-à-VIS THE DEVELOPED COUNTRIES

■ Series depicted in chart.

Base 1999 QI = 100

	Total (a)				Nominal component (b)	Price component (c)			
	Based on producer prices	Based on consumer	Based on manufacturing unit labour costs (d)	Based on export unit values		Based on producer prices	Based on consumer prices	Based on manufacturing unit labour cost (d)	Based on export unit values
	1 ■	2 ■	3	4 ■	5	6	7	8	9
03	104.3	105.7	105.3	98.5	100.0	104.3	105.7	105.2	98.5
04	106.6	107.7	109.6	99.1	100.8	105.8	106.9	108.8	98.3
05	108.6	109.3	113.7	99.7	100.9	107.7	108.4	112.7	98.8
04 *Q3*	106.7	107.4	109.5	98.7	100.5	106.1	106.9	108.9	98.2
Q4	107.7	109.3	112.7	99.5	101.4	106.3	107.9	111.2	98.2
05 *Q1*	108.3	108.8	113.8	100.0	101.5	106.7	107.2	112.1	98.6
Q2	108.4	109.5	113.5	99.6	100.9	107.4	108.6	112.5	98.7
Q3	108.9	109.0	113.5	99.4	100.7	108.2	108.2	112.7	98.7
Q4	108.9	110.0	114.0	99.7	100.6	108.3	109.4	113.4	99.1
06 *Q1*	109.9	110.1	114.6	99.5	100.8	109.0	109.3	113.7	98.7
Q2	110.6	111.8	114.6	...	101.3	109.2	110.4	113.2	...
05 *Dec*	108.7	110.2	...	100.2	100.6	108.1	109.6	...	99.6
06 *Jan*	109.5	110.3	...	98.8	100.8	108.7	109.4	...	98.0
Feb	110.0	109.8	...	99.9	100.7	109.3	109.1	...	99.3
Mar	110.1	110.3	...	99.7	100.9	109.2	109.3	...	98.9
Apr	110.4	111.6	...	100.0	101.2	109.1	110.3	...	98.9
May	110.8	111.8	...	100.2	101.3	109.4	110.4	...	98.9
Jun	110.7	111.9	...	...	101.4	109.2	110.5	...	...
Jul	110.8	111.5	...	...	101.5	109.2	109.9	...	...
Aug	110.7	111.5	...	...	101.5	109.1	109.9	...	...
Sep	...	111.2	...	...	101.4	...	109.7	...	...

INDICES OF SPANISH COMPETITIVENESS VIS-À-VIS THE DEVELOPED COUNTRIES



Source: BE.

a. Outcome of multiplying nominal and cost/price components. A decline in the index denotes an improvement in the competitiveness of Spanish products.

b. Geometric mean calculated using a double weighting system based on 1995-1997 manufacturing foreign trade figures.

c. Relationship between the price indices of Spain and of the group.

d. The index obtained drawing on Manufacturing Labour Costs has been compiled using base year 2000 National Accounts data.

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