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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 1/05/04
EU-27	Countries making up the European Union as from 1/01/07
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
INEM	National Public Employment Service
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
MiFID	Markets in Financial Instruments Directive
MMFs	Money market funds
MROs	Main refinancing operations
MTBE	Banco de España quarterly macroeconomic model
NAIRU	Non-accelerating-inflation rate of unemployment
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
WTO	World Trade Organisation
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)
BG	Bulgaria	BGN (Bulgarian lev)
CZ	Czech Republic	CZK (Czech koruna)
DK	Denmark	DKK (Danish krone)
DE	Germany	EUR (euro)
EE	Estonia	EEK (Estonia kroon)
IE	Ireland	EUR (euro)
GR	Greece	EUR (euro)
ES	Spain	EUR (euro)
FR	France	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)
RO	Romania	RON (New Romanian leu)
SI	Slovenia	EUR (euro)
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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Testimony of the Governor of the Banco de España, Miguel Fernández Ordóñez, to the Parliamentary Committee on Financial Affairs

Ladies and gentlemen,

My appearance before this Committee comes at a juncture characterised by two notable phenomena. First, the continued strong momentum of the global, European and Spanish economies for yet another year. And second, the sudden emergence of uncertainty in the world economy as a consequence of turbulence on the financial markets.

The root cause of this turbulence is the increase in US sub-prime mortgage loan defaults. The distinctive feature of these loans is that they have been granted to individuals with incomplete, or even inexistent, credit records illustrative in all cases of a high risk profile. These loans have, moreover, often been extended under rather lax conditions and hence have ultimately put the US institutions involved in a highly vulnerable position.

When the (in all likelihood excessive) risk exposures materialised, the intermediaries specialising in mortgages of this type began to incur losses and some of them were unable to meet their payment commitments. In the early stages, then, the crisis was confined to a limited number of specialised US financial intermediaries.

However, the weight of the US economy in world events, the high volume of funds attracted by it in recent years on the international markets and, above all, the strong interdependence that has developed between these markets and between financial institutions worldwide as a result of globalisation, have ultimately resulted in the financial turbulence taking on a global dimension.

A key factor in propagating the turbulence internationally has been the prolific development in recent years of new structured financial instruments designed to smooth the transfer of credit risk between different agents. These new assets enable greater diversification of banks' loan portfolios and therefore more efficient management of underlying risks. On the downside, however, there are also potential adverse effects owing to the valuation difficulties derived from their complexity and to the weak incentives for institutions specialising in these practices to properly calibrate risks that they may not ultimately assume. I shall return to this point later on.

The spread of the turbulence throughout the international system brought falling valuations and rising volatilities in a good number of stock markets, along with a general increase in the credit risk premiums demanded in fixed-income markets. These movements reflect a trend towards the more accurate pricing of risks following a long period of excessive indulgence, and this should make for sounder economies in the medium and long term. Nevertheless, the correction is causing tension in lending conditions which, if it persists too long, could also bear on the confidence of investors and other economic agents.

However, it is still premature to assess the effect of these shocks on world economic growth. Significant data are not yet available on how economies have performed after the shock. In any event, the size of the possible effect will depend closely on how much the US economy is affected by the turbulence that has arisen there. The information available so far shows that the United States is more resilient to the residential investment crisis than originally envisaged, so the foreseeable effects seem limited. This diagnosis is consistent with the forecasts of international organisations which, while acknowledging a considerable heightening of uncertainty and downside risk, continue pointing to a scenario of ongoing world buoyancy. Realistically, however, if the United States went into recession, a significant change in the world economic scenario could take place, although the impact would in any event be cushioned by the continued buoyancy of the emerging economies, which have generally been little affected by the financial turbulence.

The extent of the impact on global growth will also depend fundamentally on the force and duration of the shocks generated. In the past, in episodes such as that of 1998 sparked by the collapse of the Long Term Capital Management fund and by the Russian debt crisis, the financial turbulence barely influenced world economic buoyancy despite the dark predictions that accompanied it. Other episodes, by contrast, such as the "new economy" crisis had a more far-reaching impact, albeit of varying intensity and duration in the different geographical areas.

Unfortunately, these experiences are no precedent for diagnosing the potential scope of the current episode, which exhibits many new features, including the fact that it is especially concentrated in the Western heartland of the industrialised countries. The recent past has seen turbulence in Asia, Latin America and eastern Europe. Now, in contrast, the shocks are mainly affecting the United States and the more developed European countries.

Let me thus take an eminently European perspective as I examine more closely some of the main features at play here. This approach will also help me to look at its implications for euro monetary policy, which I believe is the most logical way to address the possible impact on the Spanish economy.

I wish to begin by emphasising the non-existence in the euro area of the sub-prime mortgages that are accepted practice in the United States. Therefore, in the first analysis, the rise in doubtful assets in the United States should affect only the European financial intermediaries that acquired securities linked to sub-prime mortgage loans originated in that economy. However, the propagation of contagion is not confined to the influence of this channel alone, but rather is transmitted through a wider range of shocks.

The increase in doubtful assets and defaults in US mortgages has set in motion a global process of upward revision of credit risk premiums, which in the climate of economic boom of recent years had sunk to very low, barely discriminatory levels, prompting what was probably excessive investment in potentially high-risk activities.

These investments were further driven by the proliferation of new financial intermediaries specialised in the credit risk transfer markets to which I referred earlier. In particular, in the current bout of turbulence a major role has been played by institutions that raise funds by issuing very short-term fixed-income securities and use the proceeds to acquire structured products linked to long-term loans, including US sub-prime mortgages.

The liquidity risks associated with such practices have been clearly under-estimated by these specialised institutions. And the consequences have been felt in the money markets because some credit institutions agreed to provide liquidity to these specialised institutions if, upon maturity, the latter did not manage to roll over the funds raised via the issuance of securities. This led to a serious liquidity crisis in the money markets of a good number of industrialised economies, including the euro area.

Central banks, and the ECB in particular, reacted rapidly and implemented emergency processes to inject the amounts of liquidity demanded by the market. This prevented the lack of liquidity from compounding the crisis and sent a message of calm and reassurance to the markets.

However, the difficulties in pricing the structured products linked to sub-prime mortgages and, above all, the patent lack of transparency in the process of pooling, segmentation and redistribution of credit risk carried out through these products are causing problems of confidence between institutions.

All these problems have practically paralysed the interbank markets for term loans, in which transaction volumes are very low, and led to interest rates above those expected under normal circumstances. European stock market prices, particularly for financial and construction firms, have also been adversely affected, while some investors have shifted to lower-risk assets such as government debt, resulting in declines in yields on these securities.

The uncertainties deriving from all these movements pose evident added complexity in monetary policy decision-making.

Fortunately, the financial turbulence described reaches Europe at a time of high economic buoyancy and, therefore, notable resilience in the euro area. The GDP of the euro area grew somewhat less than expected in the second quarter of the year, but 2007 to date represents, overall, a continuation of the economic boom initiated in the area in mid-2005. The sound financial position of firms, the expected profit rates and the favourable response of employment to the step-up in activity suggest that this stage of output expansion will persist over the coming quarters at a rate that, although it may well be slightly lower than anticipated some months ago, continues to be around potential growth. It should be kept in mind that the persistence of certain global imbalances and protectionist pressures and the uncertainties over oil and other commodity prices represent risk factors for growth, which date from before the outbreak of the current bout of turbulence.

Turning to prices, the behaviour of production seems to have been accompanied by a slight upturn in inflation to around 2% in the medium term, since the smaller contribution of indirect taxes (which has been especially marked in 2007) should be offset by the larger contribution of unit labour costs, in what is a buoyant labour market. Against this background, a possible increase in wage pressure associated with the aforementioned taking-up of slack in the labour market, or a widening of the margins in those sectors more sheltered from international competition, pose risk factors for price stability in the euro area.

The current financial market turbulence has naturally heightened the downside risk to growth, and this has in some way mitigated inflationary risks, which nevertheless continue to rise. Above all, however, the turbulence has widened the range of uncertainty associated with the central scenario for the European economy that I have just described.

In these conditions, the first ECB Governing Council meeting this month unanimously decided, as you know, to hold interest rates unchanged and gather more information on this episode of turbulence and study it in more detail before taking any new decisions. It should come as no surprise to anyone that the conditional nature of the decisions, which has always been a significant feature of ECB monetary policy practice, should take on particular significance in the current setting of particularly high global uncertainty.

Hence in the coming months the main channels through which financial shocks could affect the European economy will have to be monitored very closely. In my opinion, three factors require particular attention. First, it is necessary to gauge the true extent of the US slowdown, its possible spread to the world economy and the possible impact on exchange rates. Second, at the European level, the effect of the turbulence on the cost and availability of financing for the private sector will have to be calibrated. Finally, the possible impact on corporate and consumer confidence will have to be monitored carefully. The signs identified in these latter two channels, i.e. credit and economic sentiment, will be particularly informative for euro area economic growth when they affect countries in which consumption growth is still somewhat hesitant.

I also believe that, echoing the words of the ECB President after the Governing Council meeting, this is an appropriate time to reiterate the firm commitment of monetary policy to the objective of price stability, which is the best way to promote the sustained growth of output and employment and thus the welfare of European citizens in general and of Spaniards in particular.

In fact, these events have taken place at a time when the Spanish economy, too, continues to show considerable buoyancy that is prolonging its already long expansionary phase. Output grew in the first half of this year at a rate of around or slightly above 4% (in line with the performance in the closing months of 2006) and the vigour of activity was compatible with a more even balance between domestic and foreign sources of spending. In particular, the contribution of net external demand, which trimmed two percentage points from growth in certain months of 2004 and 2005, improved in 2006 and continued to do so in the first half of this year. At the same time, the share of business investment in domestic demand has continued to rise at the expense of private consumption and residential investment.

The process of normalisation of monetary and financial conditions that commenced at the end of 2005 has contributed effectively to achieving this more balanced composition of spending. Moreover, the healthy performance of the world economy in 2006 and, in particular, the recovery of the euro area have spurred exports after several years of weakness. On the supply side, the growing availability of labour resources in a highly expansionary demographic setting helped to smooth the adjustment of activity to this robust demand, preventing excessive cost and price pressure from building up. Indeed, the inflation rate fell to around 2% (2.2% in July and August), taking the differential with the euro area to half a percentage point, although some rise can be expected in the rest of the year and in the first quarter of next year.

The smoothly slowing path of household consumption in 2006 and the first half of this year reflects, as mentioned above, the foreseeable adaptation to more normal monetary and financial conditions. The rise in interest rates that began at the end of 2005 has been spreading gradually to the various financial and banking markets, stimulating household saving and increasing the interest burden on indebted households. Also, the lower rates of household wealth appreciation (mainly due to the gradual containment of house price rises) have reduced the expansionary influence of wealth effects on consumption. Counterbalancing this, the strength of employment, which continues to grow at more than 3%, and the high levels of confidence have played a significant role in ensuring that this process of adjustment of household consumption to more sustainable levels has been smooth.

Also perceptible since the beginning of 2006 has been the lesser vigour of residential investment which, as in the case of private consumption, was also in response to the interest rate rise and to the lowered expectations of house appreciation following the sharp price increases of previous years. In this case, the gradualness of the residential investment slowdown was made possible by the support provided by strong housing demand, against a backdrop of high demographic momentum in the Spanish economy in recent years.

The lower contribution to growth of these two domestic expenditure components was offset, first, by the continued buoyancy of productive investment of firms, in a situation of high profitability and favourable business expectations due to the continued momentum of domestic demand and, above all, to the surge in the world economy. In particular, capital goods investment in 2006 grew by more than 10% and in recent quarters its rate of expansion has been around 13%. Furthermore, net external demand has helped to mitigate the impact of the slowdown in household spending on growth, thanks to the notable recovery of exports in 2006 and to the moderation in imports in the first half of this year.

The most probable scenario for the coming months is the continued gradual moderation of domestic demand and of output growth. In fact, there were signs in 2007 Q2 that might suggest a gradual change to a more subdued growth path, although GDP growth was only 10 bp less than in the first quarter of the year. The information (still very partial and fragmentary) of certain economic indicators relating to 2007 Q3 also points in this direction.

In light of the buoyancy of domestic demand in recent years, it is reasonable that private consumption and residential investment should show somewhat lower growth rates, although, as has been the case so far, a continued robust employment and population growth rate would fairly effectively counter the possible deceleration of these two variables. In the construction sector, moreover, investment in civil engineering and in non-residential building, which has so far shown greater resilience, will foreseeably remain vigorous in the next few years. This could soften the negative impact on growth caused by the slowing of residential investment, where a cyclical downturn seems to have started.

Productive investment will probably continue to be the most buoyant component of domestic demand, although it is hardly likely that it alone will offset the lower contribution of household spending. Therefore, the role of net external demand will be fundamental in ensuring that a certain containment of expenditure is compatible with continued growth of around 3%. The contribution of this variable will hinge crucially on the behaviour of Spain's export markets, but also on competitiveness, which is a factor that firms and the economic authorities are actually able to influence.

In this respect, the basic channel through which the recent episode of financial instability and heightened international uncertainty could affect the Spanish economy's expected growth scenario depends on the performance of the foreign sector. Indeed, if that episode significantly affected the buoyancy of Spain's international markets, the capacity of external demand to contain the negative impact of the slowdown in private spending would be diminished.

The Spanish economy's track record over the last few years shows that the behaviour of employment and its influence on household income expectations play a key role as drivers of household spending. For this reason, it is essential that resource allocation mechanisms should be sufficiently flexible to enable industrial and service activities (partly linked to exports) to play a greater role and take up the baton from construction.

From the standpoint of the continued dynamism of domestic spending, attention also has to be paid to how the Spanish economy may be affected by a possible tightening of financial conditions stemming from developments in European financial markets, a process in which a fundamental role is played by the behaviour of Spanish financial institutions. Allow me, therefore, to devote special attention at this point in my address to the current situation of Spanish credit institutions, which stand at the heart of our financial system.

Spanish credit institutions face this bout of turbulence from a position of strength based principally on high profitability, which is always the first line of defence against any adverse shock; comfortable solvency levels clearly above the minimum regulatory requirements; and, standing at some point between the two, the ample coverage of doubtful assets by the provisions that have been built up during the boom years. I believe that the role played by the Banco de España in promoting this accumulation of provisions is well known, so I shall not dwell on this point.

I will, however, point out that there are various idiosyncratic factors in the performance of Spanish institutions that have limited their exposure to the current shocks. I have already mentioned that in the euro area there is no equivalent to the US sub-prime mortgage market, an observation that applies fully to Spain. Rather, the credit quality of Spanish mortgages is high, as shown by the low doubtful assets ratio and the moderate levels of the average loan-to-volume ratio and of the collateral required.

Along these same lines, the weight of the assets linked to the sub-prime mortgages on institutions' balance sheets is completely marginal, as is also their indirect exposure through any lines of credit granted to other financial intermediaries that may actually hold such assets. The fact is that intermediaries of this type have not proliferated in Spain's financial system.

One of the factors that has probably contributed most to preserving the quality of assets in the Spanish financial system is the persistence of a traditional banking model in which, unlike in other countries (especially the United States) in recent years, institutions have used asset securitisation mainly to fund the expansion of activity and not to transfer to third parties the risks associated with their loan portfolio. One particularly positive effect of this pattern of behaviour in the current situation is that the institutions' practice of keeping credit risks on their own balance sheets has acted as a powerful incentive for them to ensure that their risk quality controls continue to work properly. Also, since the securitisation processes used by Spanish institutions have aimed to raise fresh funds rather than redistribute risks, instruments such as covered bonds or asset-backed bonds have been used, which are not very complex and are much easier to price than the structured products that have proliferated in other parts of the world.

These sources of solidity should not lead us to overlook the danger that an excessive prolongation of the current bout of turbulence could ultimately have undesirable effects on investor confidence. These effects might extend above and beyond a desirable and healthy correction of abnormally low risk premiums and volatility levels, and substantially reduce the capacity of financial markets to offer useful yardsticks by which investors can discriminate the true credit quality of the different instruments. If this were to happen, the need for the Spanish economy to turn to the international markets to finance a large part of the investment spending of Spanish households and firms could become an obstacle to continued high buoyancy in the future.

Overall, ladies and gentlemen, since I last appeared before you, the growth prospects for the Spanish economy that I then described largely remain in place, although the financial turmoil has, as everywhere, heightened the uncertainty surrounding those prospects. The outlook offered by a scenario of continued buoyancy - albeit at a slightly more moderate rate but with a more balanced composition - and the solidity of our financial institutions are evidence of a strength that affords every assurance of being able to withstand the impact of the turbulence. However, depending on the ultimate duration and intensity of this episode of turbulence, it cannot be ruled out that some difficulties may arise to prevent external demand from acting, as it has to date, as a factor sufficient to offset the foreseeable gradual moderation of domestic demand. This will be even more the case if the impact of the financial instability on the growth of Spain's main export markets becomes substantial.

In circumstances such as those prevailing at present, economic policy has a very important role to play in offering a framework in which confidence stems from the existence of leeway for taking action to deal with possible future contingencies. To this end, policy should maintain its firm stance on medium-term stability targets and consequently avoid the adoption of measures excessively focused on the short term. In this respect, budgetary policy should not change its current stance, which is proving so beneficial for the strength of the economy by preserving a sufficiently wide budget surplus, so that there is headroom to deploy, if needed, its stabilising potential in less favourable circumstances than those prevailing at present. For this purpose, spending deviations should be avoided, since they would absorb prematurely a part of that headroom at a possibly inappropriate time. We will have occasion to look more specifically at this topic in the framework of the budget discussion process.

An equally important task is that of continuing to implement resolutely and ambitiously the structural reform agenda, both in making the goods and factor markets more flexible and in pushing ahead with the capitalisation, productivity and competitiveness of the economy. These reforms are essential in the current circumstances because they are needed to enable resources, such as labour, to be reallocated without friction between sectors and to improve the conditions under which Spanish production competes in the international markets.

Thank you.

18.9.2007.

TESTIMONY OF THE GOVERNOR OF THE BANCO DE ESPAÑA, MIGUEL FERNÁNDEZ ORDÓÑEZ, TO THE PARLIAMENTARY BUDGET COMMITTEE

Testimony of the Governor of the Banco de España, Miguel Fernández Ordóñez, to the Parliamentary Budget Committee

Ladies and gentlemen,

My appearance before this Committee as part of the Parliamentary discussion of the State budget for 2008 comes at a time when shocks are still reverberating through some of the major international financial markets, and the attendant uncertainty inevitably bears on the analysis of the economic situation.

In my appearance before the Parliamentary Committee on Financial Affairs on 17 September, I examined in detail the origin and the main implications for ECB monetary policy and for the Spanish economy of these shocks, which emerged last summer against a background of marked momentum of the economy and of world trade.

A significant part of this dynamism – reflected in growth rates above 5% for world output and above 6% for trade – derives from the sound performance of the emerging economies in recent years; indeed, they seem to have been less affected by the shocks than the more developed Western economies. This is, in fact, a significant feature of the present bout of turbulence which, if I may briefly recall, originated in a financial market of a developed country (the US sub-prime mortgage market). The turbulence was initially transmitted to other international financial markets through sharp corrections in the credit quality of certain complex structured financial products which, at least apparently, were relatively concentrated in the financial systems of a number of developed economies. The Spanish economy is not one of them. Although I will pass quickly over this point, which I addressed in depth in my recent appearances before Congress and the Senate, I do wish to remind you of the safety buffer afforded by the Spanish financial system's non-exposure to practices and products of this type and by the soundness of our credit institutions in terms of profitability, solvency and ample provisions.

In the economies most directly affected, credit institutions active in originating and distributing these complex structured products have prompted tensions in the interbank markets in which the liquidity provided by central banks to the financial system is redistributed. The rapid response of the central banks, led by the US Federal Reserve and the European Central Bank, prevented these tensions from acting as a channel through which the instability was further amplified. We must acknowledge, however, that there are still uncertainties hindering the normalisation of these markets and that dissipating them will require an additional effort by institutions to increase the transparency of their operations.

The euro area stands ready to face these shocks from a solid position and, therefore, with significant resilience. That said, in the second quarter of 2007 the euro area's GDP grew less than expected, although it held at levels in line with potential growth.

The fundamentals underlying this growth pattern remain firm, so conditions are generally favourable for the continuation of the current economic boom. Significant in this respect is, firstly, the favourable trend of employment, which is a necessary, albeit not sufficient, condition for the increased buoyancy of private consumption in the area. Secondly, European firms on the whole enjoy a healthy financial position and are posting substantial profits, a situation which is conducive to the growth of private productive investment.

In the external sector, however, most of the available forecasts point to a loss of steam in the US economy in the coming quarters. But this will be countered by the continued thrust of the emerging economies which, as stated, are showing notable resilience to the type of financial tensions currently at large.

The sound economic performance of the area has, moreover, been compatible with continued low inflation rates. The rise evidenced by the September figure – which will probably continue in the closing months of this year and in the opening months of 2008 – is largely attributable to the more volatile components of the HICP. Firstly, it is strongly influenced by energy prices, which in the closing stages of 2007 are unlikely to repeat the favourable pattern of late 2006, so the growth rate of the HICP is being subjected to an upward base effect of some size. Secondly, the demand pressures and decreased supply in the markets for certain food products are exerting upward pressure on the prices of those products.

This is, in short, the macroeconomic situation of the euro area as it faces the financial market shocks. The time elapsed and the information it has been possible to gather since the summer are clearly insufficient to predict with any accuracy the most likely effects of this turbulence on the European economy in the medium term.

Before July, the persistence of the global imbalances and of protectionist pressure in some markets, the uncertainty over the future behaviour of oil and commodity prices, and the pressure that more buoyant employment might exert on wage demands made for a scenario in which the balance of risks to euro area activity growth and price stability was moving downwards in the first case and upwards in the second.

Subsequent events in international financial markets suggest an increase in downside risks to activity, which may have mitigated to some extent the risks to price stability, which continue to be upward. However, uncertainty is still very high in relation to at least three factors that may be crucial for the outcome of this bout of turbulence.

First, more information has to be gathered to determine more accurately the extent of the US slowdown and its possible transmission to the world economy. Second, the ultimate effects that the upward revision of credit risk premiums will have on the cost and availability of private sector financing will have to be determined. These premiums had reached very low and, in general, scantly discriminatory levels in recent years against a background of widespread optimism and economic boom, and so may have led to probably excessive investment in certain potentially high-risk activities. Such a revision is, in itself, a healthy sign, but it is yet to be seen how large it will be and whether it will be orderly, as would be desirable. Also, the significance, and the impact on European corporate and consumer confidence, of the poor functioning of some markets will largely depend on how long this bout of turbulence lasts.

Against this backdrop of uncertainty, on 4 October the ECB Governing Council decided to hold official interest rates unchanged, reiterating its commitment to price stability, close attention to ongoing developments and readiness to act as necessary to prevent the risks to price stability from materialising. At the same time, the ECB has expressed its determination to use the resources available to it to smooth the process of normalisation of European interbank market conditions.

As I mentioned before Parliament scarcely a month ago, these events come at a time when the Spanish economy continues to show considerable buoyancy, with GDP growth in the first half of the year around or slightly above a rate of 4% and employment growth somewhat higher than 3%. This period saw the continuation of the slight moderation in domestic demand first seen in 2006 and of the improvement in the contribution of net external demand to growth, which began that same year, enabling the composition of domestic and external sources of expenditure to be brought more into balance.

But the change in composition extended also to domestic demand, where lower relative household spending growth and stronger business investment were observed during the first half of the year. Indeed, the gradual moderation in household consumption initiated some quarters ago continued, reflecting a natural adaptation to less generous monetary and financial conditions as a result of the interest rate rise under way since late 2005 and of the weaker wealth effect on consumption due to slower house price rises. However, the buoyancy of employment and its effect on income prospects are helping to smooth the adjustment of consumption to more sustainable levels.

It is precisely this behaviour of employment, which continues to be underpinned by considerable demographic dynamism, that is the main factor behind the gradualness of the first-half slowdown in residential investment, since also in this case the higher interest rates and the lower expectations of capital gains are making for less vigorous housing investment. The change in monetary and financial conditions also induced a certain moderation in their demand for credit, contributing to a progressive stabilisation of household debt ratios.

Corporate investment and borrowing plans are being affected somewhat less perceptibly by the rise in interest rates. Particularly notable is the continued strength of productive investment in a situation of high profitability and favourable business expectations. In fact, it has become the most buoyant component of domestic demand, although moving on a mildly decelerating trend in the second quarter. Also apparent in the last few months is an incipient change in the purpose of loans extended to firms, with a slowdown in those used to finance real estate and construction activities, and an increase in those to industrial firms.

Net external demand is helping to mitigate the impact of slower spending on growth, mainly due to the moderation in imports in the first half of this year, probably in response to the mild slowdown in final demand. Meanwhile, exports, after the good results last year, are showing the effect of more contained world – and especially European – growth and perhaps the effect of the euro's appreciation on sales to non-Community countries. Spain's net borrowing, although it has continued to increase, is doing so more slowly than in previous years.

The changes I have described in GDP composition on the expenditure side have been feeding through to the various productive branches which, as a whole, have remained most robust in the first half of this year. Noteworthy in this respect is the strength of industrial production and the mild slowdown in construction activity.

But the most notable feature on the supply side was again the abundance of labour resources, which continue acting to smooth the adjustment of activity to the buoyancy of demand, preventing cost pressures and excessive prices. The growth of consumer prices, spurred by a temporary turnaround in oil prices in the first half of the year, posted a year-on-year rate of 2.2% in August, leaving the differential with the euro area close to its historical low. However, it is very likely that, once the base effect of the energy price falls in the closing months of 2006 has been stripped out, inflation will again rise and that at the end of this year it will reach levels similar to those at end-2006. This is in fact suggested by the HICP growth flash estimate of 2.7% for September.

In examining the outlook of the Spanish economy for the coming quarters, it has to be kept in mind that there are still few indicators of the situation since the turbulence erupted on international financial markets. Nonetheless, the available information indicates that the profile of smoothly moderating activity apparent since the second quarter continued in the third quarter, and this pattern can be expected to persist throughout the rest of the year, with scant deviations from the forecasts published by the Bank on 30 March (3.7% for 2007). This slight slowdown is based on domestic demand and, more specifically, on the consumption and residential investment components, while the contribution of net external demand to growth in the first half of 2007 improved further. The slowdown in GDP seems to point to a gradual shift to a growth rate of around 3% in 2008 as a result of some rebalancing of the domestic and external sectors. However, the shocks affecting the international financial markets since August have also increased uncertainty over the forecasts for the Spanish economy and have possibly heightened the downside risks.

Allow me to spell out some of the factors behind this scenario of a smooth slowdown, compatible with continued highly dynamic activity and employment.

First, the change in monetary and financial conditions will foreseeably ease the adjustment to a more sustainable pace of private-sector spending and indebtedness. This adjustment started some time back and is proceeding smoothly. Second, the progressive normalisation of the real estate market, against a background in which the demographic factor and the buoyancy of employment are lending greater support to housing demand than in previous property cycles, would limit the effect of slower house price rises on consumption and soften the impact of the cyclical change on residential investment.

At the same time, the step-up in private- and public-sector investment in recent years has raised the level of capitalisation of the economy following a prolonged period of intense job creation, and this should manifest itself in higher long-term potential growth. Although it is unlikely that the expansion of business investment and non-residential investment in construction will maintain the pace of recent quarters, the growth outlook for both spending components is, at first sight, favourable.

In any event, it seems unlikely that productive investment alone can offset the lower contribution from household spending. Hence, as I pointed out in my previous testimony, the role of net external demand will be fundamental in making some containment of spending compatible with a continued growth rate of around 3%. As we have seen in the last few years, the contribution of this variable to growth depends very much on the performance of Spain's export markets, but also on the competitiveness of Spanish production. Therefore, a scenario of recovery in net exports such as that described requires Spanish firms to push ahead with the improvement in competitiveness made by them in response to the sharp ongoing adjustment in the structure of world trade due to the entry of new competitors. At the same time, the slower momentum of final demand should manifest itself in a certain slowdown in imports, curbing the leakage of spending out of Spain.

However, as I indicated in September, it is precisely in the external economic environment where the main factors of risk to the macroeconomic scenario outlined above are to be found. If the recent bout of financial instability and of heightened international uncertainty were to significantly affect the buoyancy of Spain's export markets, the capacity of external demand to contain the adverse impact of a slowdown in domestic spending would be diminished and, accordingly, the efforts required to improve competitiveness would be even greater.

Domestically, the continued dynamism of employment and the gradual normalisation of the property market are fundamental for keeping income expectations and, consequently, agents' spending plans on a mildly slowing course. In any event, the Spanish economy is witnessing a process in which construction investment is diminishing in importance as the engine of growth. Therefore, it is essential to have a sufficiently flexible mechanism of resource allocation to enable industrial activity and services to take over from construction, furthering the change in output composition that has been taking place in the last few quarters.

In the current circumstances, economic policies have an important role to play by holding the euro area firmly on course to meet its macroeconomic stability objectives, which are those that make sustained growth possible and shore up the economy against shocks and outbreaks of insecurity and uncertainty. As mentioned above, the main task of monetary policy is to ensure euro area price stability in the medium term, and it is against this background that monetary conditions have gradually been normalised since December 2005. This process has been correcting the benign monetary conditions of the Spanish economy in recent years and promoting a more balanced growth pattern.

The most valuable contribution fiscal policy can make is to ensure the commitment to budgetary stability. This commitment has been essential for establishing the conditions propitious to the recent long period of economic growth of the Spanish economy and it is particularly relevant to the macroeconomic setting I have described.

The latest official forecasts for the general government account are for a surplus of 1.3% of GDP in 2007. This would amply meet the requirements of the Stability and Growth Pact and enable a further reduction of the public debt/GDP ratio. Moreover, it represents an improvement of 30 bp on the target set in the latest update of the Stability Programme. This improvement basically reflects a positive deviation of tax revenue with respect to budget, in a setting of higher-than-expected growth.

The target set in the draft State Budget for 2008 for the general government surplus is 1.15%, in a macroeconomic scenario characterised by a mild slowdown in GDP. The projected decrease in the surplus is based essentially on tax cuts mainly affecting personal and corporate income tax, whereas on the spending side the draft Budget sets a growth rate for the State in line with expected nominal GDP growth. This entails strict compliance with the ceiling established in the Budget Stability Law in June.

In any event, it should be kept in mind that the Budget is based on a projection for end-2007 that is very prudent on the revenue side. The strong buoyancy of receipts in the year to date, particularly in direct taxes, might enable the latest official projection of the surplus for 2007 to be exceeded. Should this occur, under a macroeconomic scenario similar to that assumed in the Budget, this improved result in 2007 should be carried over to the budget for 2008 and thus enable another surplus in excess of projections. What is most important is that, as in previous years, the additional revenue that may arise should not lead to increased spending, but rather to a higher surplus.

Regarding the size of the budget surplus, I wish to underline that the current situation of public finances is, in part, temporary. This is because, after ten years of rapid expansion at a rate that has recently exceeded potential growth, the actual buoyancy of tax revenue has naturally been associated with the buoyancy of domestic demand and, in particular, with the vigour of the real estate sector, and therefore has a temporary component that would tend to disappear in an economic slowdown. It is therefore imperative to preserve the stabilising potential provided by the current state of public finances so that phases of less dynamic private spending can be faced with strength and the ability to react and, above all, so as to be prepared for unexpected contractionary shocks. This approach is especially valid in the current climate of uncertainty, in which a continued economic policy of rigour and budgetary stability is one of the most valuable resources when it comes to preserving internal and external confidence in our economy.

Perseverance in the strategy of budgetary consolidation is also necessary from a medium-term perspective so as to be in the best possible position to address the foreseeable impact of population ageing, aside from the required further progress in reform of the pension system.

Regarding the co-ordination of this strategy, I would like to add two more comments. First, it is very important that all tiers of government contribute effectively, particularly the regional governments, whose weight in public spending policies has become most substantial. However, the official forecast is that, overall, these territorial governments will still post a deficit in 2007 despite the benign economic circumstances over the last few years.

Second, budgetary stability should be accompanied by an improvement in the quality of public finances to secure advances in the allocation of factors of production, particularly human and technological factors, and in the efficiency of the economy. The spending policies included in the draft Budget give priority to areas of key importance for improving productivity, such as increased resources for research and development, education and infrastructure, although other priority items entail increases in current primary spending. It is important that the envisaged increase in resource allocation be managed efficiently through the use of better suited mechanisms to assess and select public policies so as to enable real increases in productivity.

The budget is not, however, the only instrument, nor often the most appropriate one, to achieve the aim of raising the efficiency of the economy. Structural policies designed to make factor and product markets more flexible will be called on to make an essential contribution to this aim and, for this purpose, it is necessary to persevere with and extend the processes of liberalisation undertaken in recent years. Policies of this type, which enable growth potential to be raised and make for the efficient allocation of resources in the economy, are pivotal in the present conjuncture, which, as stated earlier, requires a rebalancing of the sources of growth of the Spanish economy.

Thank you.

9.10.2007.

1 Overview

The period to date in 2007 has seen the prolongation of the phase of buoyant activity and employment in the Spanish economy, though there has been a mild slowdown in the pace of both variables since Q2. At the same time, the ongoing rebalancing of the contributions of national demand and of net exports to growth has continued. On QNA data, the year-on-year growth rate of GDP stood at 4% in 2007 Q2, 0.1 pp down on Q1. This was due to the somewhat more contained behaviour of national demand, since the contribution of net external demand to GDP growth stood at the level of the previous quarter, at –0.9 pp.

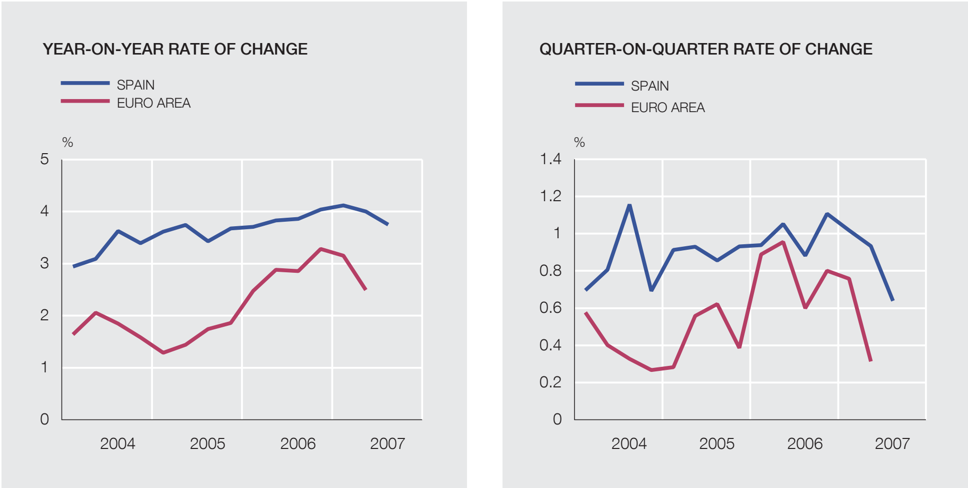
The information for 2007 Q3, though still incomplete and fragmentary, suggests that activity will have continued easing slightly. As a result, the growth rate of GDP should be standing at 3.7%, with a quarter-on-quarter rate of 0.6% (see Chart 1). The year-on-year growth rate of national demand is estimated to have declined by 0.3 pp to 4.3%, the result of more contained increases in its various components, especially investment in construction. In contrast, the contribution of net external demand to GDP growth is estimated to have risen by 0.1 pp to –0.8 pp, as a result of a greater recovery in exports than in imports. On the supply side, the mild slowdown in value added affected the various productive branches, although it impacted more sharply the construction and energy industries, and the rate of increase of employment fell off moderately. Consumer price growth was low in July and August, mainly reflecting a base effect linked to oil price developments. However, consumer prices rebounded in September to a year-on-year rate of 2.7%, a movement which may extend into the coming months owing to the pressures being exerted both by food prices and the latest rises in oil prices. As this report was going to press, the flash estimate of the HICP for October was released, showing a significant deterioration to 3.6% year-on-year. For the quarter as a whole, there was scarcely any change in the core inflation rate, which held at around 2.5%, and the inflation differential with the euro area stood at 0.6 pp on average.

The key development on the international economic stage during this period has been the bout of turbulence on international financial markets that began in the summer, and which has not fully abated at the time of this report going to press. The data released continue to show notable dynamism in the world economy, driven in particular by the strength of the emerging economies and the resilience of growth in the European economies. As described below, although this episode has not impacted the short-term behaviour of the main countries, it is contributing to clouding the outlook for the external environment and the Spanish economy.

The above-mentioned episode of financial instability originated in the increase in defaults on US sub-prime mortgage loans, a phenomenon initially perceptible in late 2005 but which heightened last spring. The origin of this crisis was relatively local, and began by affecting a limited number of specialised US financial intermediaries. But the high volume of financial transactions on international markets in recent years and, above all, the development of credit risk transfer instruments and the strong interdependence between these markets and the financial institutions of different countries have seen the financial turbulence take on a global dimension, impacting the main industrialised economies and a large number of financial markets.

Over the course of the summer these incidents triggered an upward revision of liquidity and credit risk premia, falls in stock market values, increases in the volatility of a large number of financial assets and a reduction in government debt yields. Subsequently, these movements

GROSS DOMESTIC PRODUCT (a) CHART 1



SOURCES: ECB, INE and Banco de España.

a. Seasonally adjusted series.

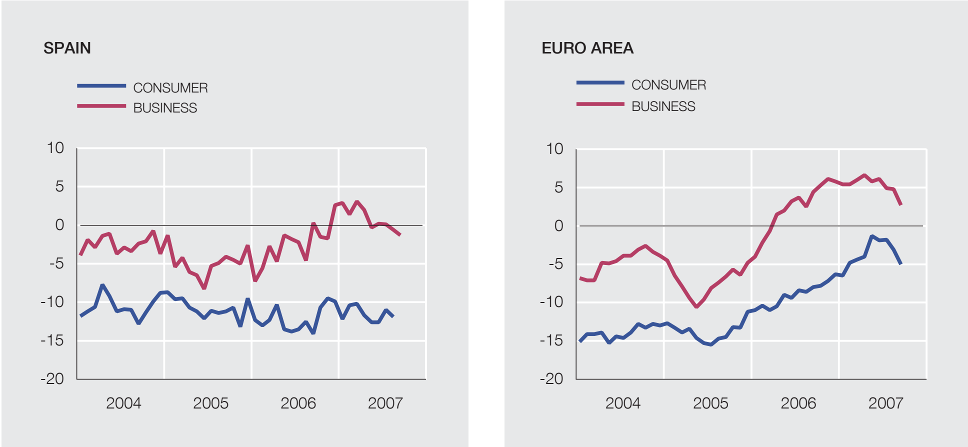
were partially reversed, although difficulties have persisted in the trading of structured and low-credit-quality products. In turn, the greater liquidity requirements associated with the refinancing of some of the financial instruments affected by sub-prime mortgages were ultimately reflected in money markets, where there were rather acute liquidity shortages and significant rises in interbank interest rates. In response to these events on money markets, the main central banks – the Federal Reserve, the ECB and the Bank of Japan, in particular – increased the supply of liquidity through the various mechanisms at their disposal, providing for some normalisation of monetary conditions, although pressures have not yet fully disappeared. On the foreign exchange markets, the dollar appreciated at the start of this episode, as a result of its safe-haven status. But it subsequently resumed the depreciating trajectory it had followed since early 2007, and at end-October it had fallen to a level of $1.43 against the euro. Finally, the oil price picked up sharply as from late August, and at the close of October it stood once again at over $83 per barrel.

Despite the instability of financial markets, the world economy has continued to show signs of considerable dynamism in Q3, driven by the strength of the emerging economies, whose financial markets have scarcely been affected by recent developments, and by the relative soundness of the European economies. Meanwhile, the Japanese economy picked up slightly following its poor figures the previous quarter, and the phase of moderate growth in United States continued, linked to the adjustment in the real estate sector, which has gathered pace in recent months owing to the sub-prime mortgage crisis. Against this background, it is estimated that US residential investment has fallen once more, and that consumption and employment, which had been underpinning spending and activity, have begun to show (albeit incipient) signs of being contained. Nonetheless, the industrial sector is strong and the external sector has improved, owing partly to the depreciation of the dollar.

Inflation rates in the developed economies eased slightly during the quarter and this, combined with the pressures arising on money markets, led the central banks to act. The Federal Reserve cut its official rates by 50 bp on 18 September to 4.75%, while the Bank of Japan and the Bank of England held their intervention rates unchanged at 0.5% and 5.75%, respectively, at their October meetings.

CONFIDENCE INDICATORS

CHART 2



SOURCE: European Commission.

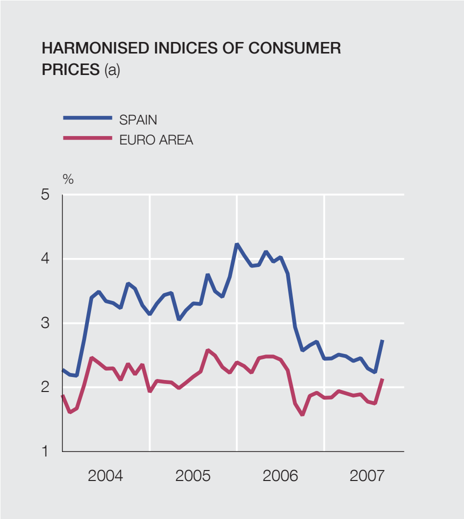
The strong growth phase in train in the euro area since late 2005 continued according to the still-incomplete information available, underpinned by external demand and by the greater momentum of employment. That said, there is some discrepancy between the quantitative and qualitative information at hand (the latter is more pessimistic), which is illustrative of the uncertainty surrounding these forecasts. As to inflation, the year-on-year rate of change of the HICP in September was 2.1%, somewhat higher than at the end of Q2, owing to a base effect associated with the behaviour of oil prices in the first half of 2006 and with the recent rise in the price of this latter commodity and that of foodstuffs. Stripping out the effect of the more volatile components, the core inflation rate rose slightly in Q2, taking it up to a year-on-year rate of 2% in September. This was due to the increases in processed food prices in the face of the strong rise in agricultural commodities prices and the demand pressures on international markets. Given this situation, at its September and October meetings the ECB considered that the inflation outlook in the euro area was compatible with price stability in the medium term, although the upside risks detected before the summer remained in place. In any event, faced with the pressures on money markets and greater uncertainty, the ECB held its intervention rates unchanged at its August, September and October meetings, with a view to gathering more information on the effects of the episode of financial stability on the European economy.

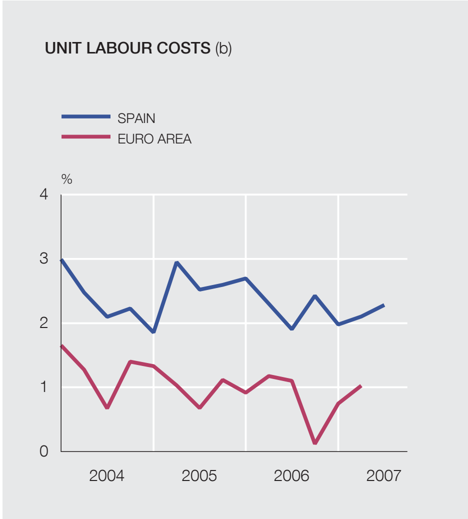
In sum, the events unfolding on international financial markets are having a relatively limited effect on the world economy in the second half of 2007, but their impact might be somewhat greater in 2008. Indeed, this is reflected in the growth forecasts for world output by the main international agencies in recent weeks.

The external environment of the Spanish economy in Q3 was, naturally, marked by the aforementioned episode of financial turbulence. Spanish financial markets experienced these pressures, and the reflection of this has been a certain tightening of monetary and financial conditions in the light of the rise seen in forward interbank market interest rates (which rose to high levels in August and September, but have turned downwards somewhat in October). Set against the high volatility of securities markets throughout the quarter, stock market prices have picked up considerably since mid-September, meaning there will have been a moderate rise in financial wealth between June and October. The rises in real estate values continued to slow, given the gradual deceleration in house prices, which increased in Q3 at a year-on-year rate of 5.3%, 4.5 pp down on a year earlier.

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.

As earlier described, there have been no appreciable changes in Q3 in the dynamism of the world economy, and of the euro area in particular. Accordingly, the external environment of the Spanish economy remains favourable. Overall, this combination of factors has enabled the gradually slowing path of activity to continue in recent months, on the basis of the moderation of domestic demand and of a rebalancing of the contribution of net external demand to growth.

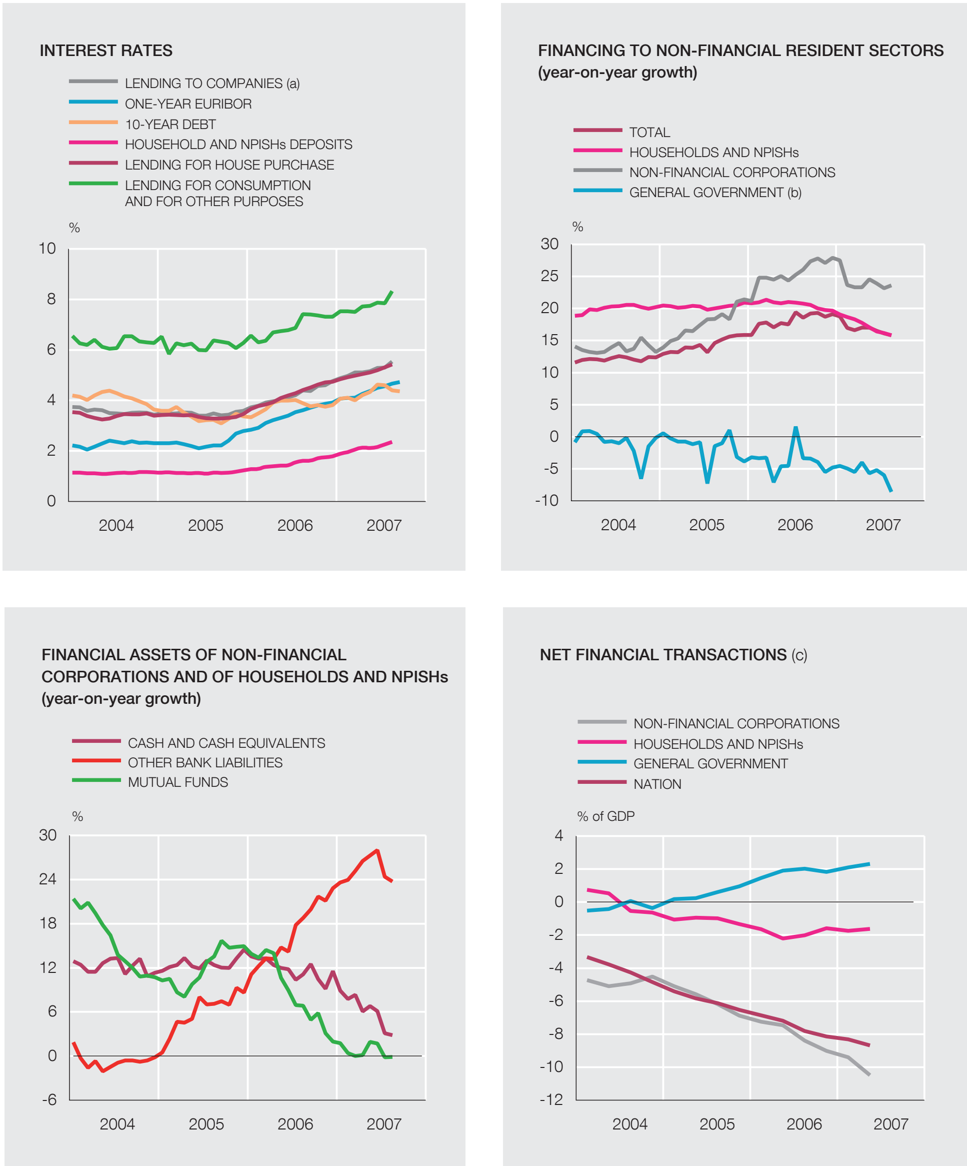
Household spending continued on the gradually slowing trajectory on which it has been moving since late 2006, albeit within a pattern of dynamism underpinned by the strength of employment. Household consumption slowed moderately in a setting in which, as developments in disposable income in the first half of the year would suggest, the high growth of tax revenue and the rise in interest payments limited the increase in wage income and curtailed the expansionary effect on spending capacity of the favourable inflation figures. The growth rate of residential investment declined somewhat more sharply, continuing on the gradually slowing path on which it embarked in early 2006, in the face of the increase in the user cost of investment in housing and of the reduced expectations of property price rises.

The lesser momentum of spending, along with the rise in borrowing costs, led the rate of increase of household debt to fall during the quarter, in line with the behaviour observed in the preceding months. As a result, the year-on-year growth rate of credit to households stood below 16% in August, somewhat over 0.5 pp less than in June. This was thanks to the slowdown both in house purchase loans and in loans intended for consumption and other purposes. Overall, the household saving ratio eased once again in the first half of the year and net household borrowing held stable in terms of GDP; however, the change in financial conditions may possibly lead the saving ratio to stabilise in the future.

Corporate spending remained robust, albeit on a mildly moderating path. During Q3 investment in equipment continued to be buoyant, and it was once again the most dynamic component of national demand, running at a rate of over 10%. The maintenance of a highly favourable outlook for earnings, following the sound results in Q2 (particularly in the industrial sector),

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. Cumulative four-quarter data.

the strength of national demand and a pick-up in exports all lent support to corporate investment plans. Investment in other construction slowed more severely following the high rate of expansion of the previous quarters. On the whole, the resort by corporations to borrowed funds began to reflect the relative tightening of financial conditions. As a result, the year-on-year rate of increase of credit to firms eased to around 24% in August, somewhat less than 0.5 pp below the June rate. That said, the sector's net borrowing continued to increase in the first half of the year.

Foreign trade flows – in terms of both export and import volumes – recovered to some extent in Q3 following a first half of the year marked by moderate growth. Nevertheless, in 2007 to date the increase in exports has been lower than that for the previous year, against a backdrop in which export markets are, on the whole, proving somewhat less expansionary than in 2006 and in which the appreciation of the euro might be adversely bearing on the price-competitiveness of exports, affecting particularly those targeted on the rest of the world. In terms of products, exports of non-energy intermediate goods and, to a lesser extent, of non-food consumer goods were relatively strong. The tourism indicators performed somewhat more favourably in the summer months, which made for a mild recovery in tourism receipts in this period.

Goods imports in real terms also quickened in Q3, although for the year as a whole their growth is slightly down on that of 2006, which is consistent with the mild slowdown in final demand; that said, there has at the same time been an appreciable improvement in the competitiveness of imported products, owing to the appreciation of the euro. Of note has been the strength of purchases of capital goods and of non-energy intermediate goods, in line with the buoyancy of industrial activity. Services imports also rose in Q3, as a result of the increase in non-tourist expenditure.

In any event, the trade deficit has continued to rise in 2007 to date, albeit at a lower rate than in the past. Underpinning this lesser pace, to some extent, has been the fall in oil prices in the first half of the year and the appreciation of the euro. The net borrowing of the nation continued to increase, standing at 8.8% of GDP in Q2.

On the supply side, the mild slowdown in the rate of increase of value added in Q3 was mainly due to some loss of momentum in activity in the construction industry, both in the residential construction component and, to a somewhat greater extent, in public works and other construction. The latter was temporarily affected by the completion of numerous projects in the quarters prior to the last local and regional elections. However, the infrastructure development commitments entered into in the PEIT (infrastructure strategic plan) and the spending programmes envisaged in the 2008 Budget, in partnership with the private sector in the case of many projects, augur a recovery in this type of investment in the coming quarters. Output in the remaining non-farm productive branches held on a similar path to that of the first half of the year, although industry showed signs of an incipient easing in activity.

The mild slowdown in GDP passed through with similar intensity to the pace of employment creation, although the loss of momentum in job generation was somewhat greater in construction. The EPA figures for Q3 are along the same lines, as numbers employed grew at a year-on-year rate of 3.1%, compared with 3.4% the previous quarter. Labour supply rose smoothly in the June-September period, after having moderated in the preceding quarters. The resulting rate of increase is, in any event, somewhat slacker than that posted in recent years.

Turning to labour costs, estimates for Q3 suggest compensation per employee in the market economy held at a rate of increase – marginally below 3% – virtually unchanged from the first half of the year. This would indicate that the pace of wages is slowing following the rise observed in 2006. The easing in labour costs would reflect collectively bargained wage rates lower than those of the previous year (around 2.9% on the information to September). But it would, above all, be indicative of the lesser impact of indexation clauses due to the deviation by actual inflation in 2006 from its forecast target, which might raise labour costs by around 0.3 pp in 2007, compared with the impact of almost 1 pp estimated last year. Foreseeably, the remaining factors that account for the gap between wage rates and increases in compensation per employee – in particular the composition effects that have come about as a result of the major changes in labour supply – may become less important in the coming quarters, partly offsetting the moderation introduced by the foregoing effects. Owing to the rise observed in productivity, this scenario of wage moderation is feeding through to unit labour costs, which are undergoing negative changes in the case of industry, prompting improvements in the price-competitiveness indices constructed with these indicators.

On average for the quarter, consumer prices have held at a growth rate of 2.4%, similar to that in the previous quarter. Nonetheless, the CPI rose in September to a year-on-year growth rate of 2.7%. A significant portion of the easing seen in consumer prices in July and August reflects the fall in the prices of the energy component compared with a year earlier; however, the prices of non-energy industrial goods also behaved very favourably, perhaps reflecting the effect of the appreciation of the euro on import prices. In contrast, services prices remained at a level close to 4% and food prices, especially those of processed food, quickened somewhat. The stripping out of the above-mentioned base effects, the oil price rises in September and October, and the risk of further increases in food prices may heighten inflationary pressures in the remainder of the year, with the risk that the indexing mechanisms in place may help these price rises spread, temporarily, to the rest of the economy.

The Spanish economy is witnessing a phase of gradual moderation in the dynamism of its domestic demand which reflects the effect of the tightening of financial conditions on Spanish household and corporate spending decisions, and which presages private-sector indebtedness that will be more sustainable over time. The short-term growth outlook is therefore favourable but, as indicated, it is subject to greater uncertainty owing to the doubts over the duration of the episode of financial stability. Its duration will determine the final impact on real growth in the world economy and, therefore, on the dynamism of the external environment of the Spanish economy, in which headway towards a more balanced growth pattern is firming. Moreover, if the international financial instability were to continue, it might manifest itself in a more durable tightening of financial conditions, thereby affecting future private sector spending plans.

In these circumstances, economic policies geared to budgetary stability and structural reform have an important role to play in fomenting an environment of certainty and in improving the economy's degree of flexibility. In recent months the draft State budget for 2008 and the annual progress report on the PNR (National Reforms Programme) have been presented. The draft budget targets an overall general government surplus of 1.15% in 2008, thereby complying with the budgetary stability requirements laid down in the Stability and Growth Pact and in the Law on Budgetary Stability. Insofar as its preparation is based on a very prudent end-2007 forecast on the revenue side, any upward deviation in revenue should be used to bring about a likewise higher-than-budgeted surplus, preventing it from resulting in an increase in spending. The PNR progress report highlights how the implementation of the plan has progressed soundly and how convergence in terms of per capita GDP with the European Union has been maintained. Since the approximation of economic welfare levels closer has been essentially based on the increase in the rate of employment, further reforms must be pushed through to allow the ongoing buoyancy of job creation to be maintained and, at the same time, provide for greater efficiency gains in the economy.

2 The external environment of the euro area

Since early August there has been a period of turbulence in international financial markets. This has been manifest in a strong increase in the risk premia on the structured financial assets associated with the financing of US sub-prime mortgages and in a drastic decline in liquidity in numerous financial market segments, especially in structured instruments. These problems also fed through to money markets, prompting intervention by the main central banks, which provided emergency liquidity assistance. The flight to quality initially led to a significant reduction in long-term government bond yields, the appreciation of the dollar and, above all, of the yen (owing to the closing out of carry-trades), and corrections on stock markets. Subsequently, these movements were largely reversed, in particular following the 50 bp cut in US official interest rates on 18 September. In any event, the pressures in money markets and in the markets for structured products and for the lowest-graded assets persist. As to the foreign exchange markets, after the initial reaction the yen and the dollar once again showed marked weakness, which in the case of the latter led to an historical low against the euro of $1.43, while the main recipient currencies of carry trade flows, such as the Brazilian real and the Turkish lira, appreciated strongly. In this episode the emerging markets have shown notable resilience (see Box 1); while they were adversely affected at first, the stock markets of all the emerging regions have recovered notably and sovereign yields have narrowed, though there was an across-the-board reduction in issues in September, following record placements in the previous months. Finally, the price of Brent oil fell forcefully at the start of the bout of turbulence, but its robust recovery since late August - coinciding with the hurricane season in the Gulf of Mexico, negative stocks data and instability in certain producer regions - has placed it at new highs, at over $89 per barrel.

In the United States, the final GDP figures for Q2 showed a substantial acceleration in the pace of economic activity, with annualised quarterly growth of 3.8%, compared with 0.6% in Q1. The acceleration stemmed from the improvement in the external sector and in non-residential investment. However, there was a slowdown in private consumption, which had acted as the driving force of growth in the preceding quarters, and the contribution of residential investment remained negative. Regarding the outlook for Q3, the latest indicators confirm the sluggishness of the real estate sector, which is indeed exceeding expectations. In July and August, the slide in house sales continued, the stock of unsold new and second-hand housing held at historically high levels, and in September housing starts reached a 14-year low. Likewise, to August, house prices continued slowing significantly. On the demand side, employment figures point to some slowing in the labour market in Q3 (when 97,000 jobs were created on average per month, down on the average of 134,000 in the first half of the year), and certain dispersed indicators of consumption would suggest a slowdown in September and October. The most favourable signs for the economy continue to arise in the industrial sector, where production and the manufacturing and services PMI indices suggest a moderate expansion in activity during Q3. Finally, in the external sector, there was an improvement in the trade balance in August as a result of the acceleration in exports. The behaviour of prices over the quarter as a whole has generally been positive. The personal consumption spending deflator - in both the overall and the core index - eased to 1.8% in August, and core inflation measured by the CPI stood in September at 2.1%, despite the overall index rising to 2.8%. The September cut in official interest rates contributed to a gradual but limited restoring of normality on interbank markets.

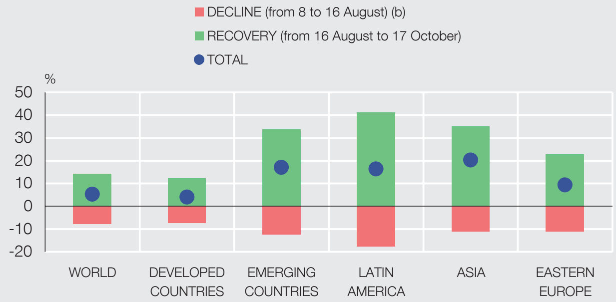
In Japan, the indicators of consumption and industrial activity rose in August after their unfavourable performance in July and following the contraction of GDP in Q2, owing to the unexpected decline in investment. On the supply side, the Tankan survey for Q3 was generally positive and

The emerging economies were not initially immune to the impact of the financial turbulence stemming from the US mortgage market. However, and unlike previous periods of global instability, the impact on the financial markets has been a fleeting one, and the initial losses have been more than recouped.

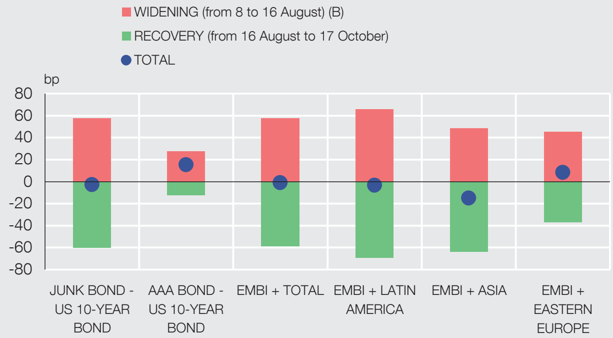
Panels 1 and 2 respectively compare stock market developments and the interest rate spreads of the emerging countries with similar variables in the developed economies in three periods and up to 17 October. The first reference period runs from 8 August, when the pressures - which had already initiated in July - heightened, up to the point of the maximum asset price losses (as at 16 August), the second spans the subsequent recovery and the third the complete period. The initial losses, both on stock markets and in the yield spreads of comparable assets (low-grade bonds in the United States and sovereign bonds in the emerging economies), were somewhat bigger in the emerging markets, but their recovery was clearly greater, whereby the overall balance is more favourable for the latter economies. The emerging stock markets, measured by the MSCI index, posted gains of around 30% from 16 August, more than offsetting the losses in previous weeks. Regarding sovereign spreads, the EMBI+ for the emerging countries had fallen again to around 190 bp, the level prior to the bout of turbulence. It should be underscored, however, that the recovery in sovereign spreads and on stock markets was greater in Asia and Latin America than in Central and Eastern Europe. On the foreign exchange markets, most currencies had appreciated significantly against the dollar, especially those which, in the first half of the episode of turbulence, had undergone greater depreciations. These were currencies which had been recipients of carry trade flows, as is the case of the Brazilian real and the Turkish lira. Lastly, the resilience of the financial variables in China throughout the entire episode was notable, probably because Chinese financial markets are more isolated from international developments, owing to the existence of capital controls. In particular, the gains posted on the Chinese market since early August have exceeded 40%.

A counterpoint to these favourable developments has been the sharp reduction in Q3 in debt issues (public and private alike) by the emerg-

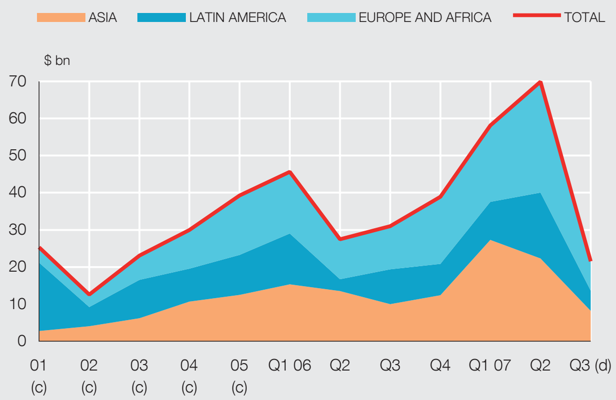
1 CHANGE IN STOCK MARKET INDICES (a)



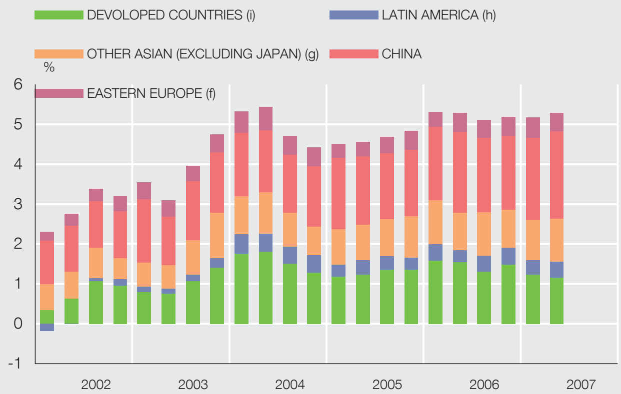
2 CHANGE IN BOND SPREADS



3 ISSUES ON INTERNATIONAL MARKETS



4 CONTRIBUTION TO WORLD GDP GROWTH (e)



SOURCES: National statistics, IMF, MSCI and Datastream.

a. MSCI indices.
b. The financial variables posted their worst figures on 16 August.
c. Quarterly average.
d. Data to August and estimate for September 2007.
e. Contribution, in percentage points, to the year-on-year change in world GDP, calculated drawing on data from 56 countries accounting for 91% of world GDP.
f. Russia, Ukraine, Turkey, Poland, Czech Republic, Hungary, Estonia, Latvia, Lithuania, Slovenia, Slovak Republic, Bulgaria and Croatia.
g. India, Singapore, Malaysia, South Korea, Indonesia, Thailand, Hong Kong, Taiwan and the Philippines.
h. Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
i. Western Europe, United States, Canada, Japan, Australia and New Zealand.

ing economies on international markets (see panel 3). In any event, these figures should be interpreted with caution, as what is involved is a correction of the previous sharp growth, taking advantage of the sound financing conditions, and they do not necessarily reflect the impossibility of issuing debt. In contrast, this pause in issues might be interpreted as a reasonable strategy in a more uncertain setting, given that borrowing requirements are not pressing.

Several reasons, relating both to the emerging economies and to the international context, explain this recovery and justify the lesser financial vulnerability of these economies on this occasion. Firstly, the economic fundamentals of most of these economies have improved significantly (strong economic growth, contained inflation, moderate fiscal deficits). Secondly, the financial fundamentals are also sounder: most of these countries currently boast a comfortable external position, with the exception of the Eastern European economies where, perhaps because of this, the recovery has been more muted; capital inflows have also been substantial, but the traditionally more stable foreign direct investment has played a most substantial role over the last five years in practically all the emerging regions; further, these countries have sharply built up reserves, which act as an additional buffer against potential financial shocks; moreover, some governments, especially in Latin America, have reduced their exposure to foreign-currency-denominated foreign debt, applying highly active financial management policies; lastly, the commodities and oil exporting countries are enjoying an additional increase in the already-high prices of these products.

The growth prospects for these economies remain robust, partly due to their resilience in the face of financial turbulence, and partly because domestic demand has been firming in recent years. This positive growth outlook for the emerging economies may prove to be a key underpinning for global growth in the short and medium term, if the foreseeable slowdown in the pace of activity in the developed countries occurs. The emerging economies already account for half of world output (measured in PPPs) and their contribution to the growth of global GDP has exceeded 70% in the last six years (75% in 2006) (see panel 4). Moreover, the fact that the external position of this group of countries is in surplus means that they are net financers of the developed countries.

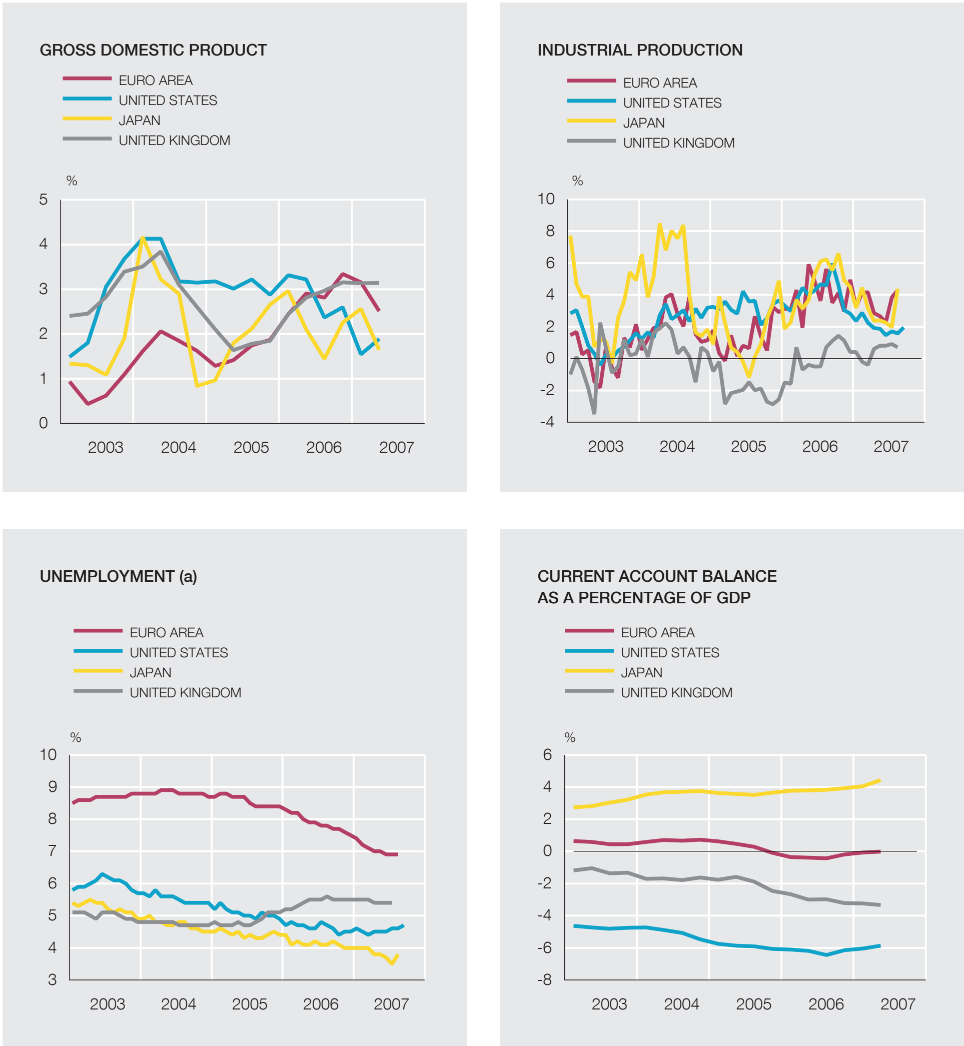
In any event, it should be noted that this greater resilience of the emerging economies has come about in a highly favourable international setting, in both real and financial terms (since low interest rates have been conducive to the search for higher returns by international investors, some of whom have targeted the emerging countries). Accordingly, these economies are exposed to economic and financial risks that need to be monitored. Among the economic risks, there is the possibility that the global economic slowdown may be sharper than foreseen. In that case, despite the strengthening of domestic demand in the emerging economies, their diminishing but continuing financial dependence on the rest of the world and on buoyant commodities markets would make the envisaged maintenance of growth rates inviable. Another factor of risk is the growing inflationary pressures, which might give rise to economic policy dilemmas in some of these countries. Among the financial risks, many of the emerging economies have posted strong credit growth and/or a significant increase in private-sector foreign debt (occasionally via structured products) against a background of ample liquidity and very favourable borrowing conditions. In some regions such as Eastern Europe, a high proportion of this debt has been taken out in foreign currency. Accordingly, it is crucial for these economies to pursue economic and financial policies that enable them to continue reducing their vulnerability and that ensure sound fundamentals.

industrial output in August more than offset the fall the previous month, while the PMI index increased once again in September. Overall, this would suggest a recovery in manufacturing activity following the sluggishness shown in the first half of the year. On the consumption side, most of the spending indicators rose in August, despite the ongoing deterioration in consumer confidence. In the labour market, the unemployment rate edged up by 0.2 pp in August to 3.8%, owing to a slowdown in the pace of job creation, although the ratio of job vacancies to applications held at a high level. The current account surplus improved in August, thanks to the notable momentum of the trade balance, assisted by the strength of exports to the rest of Asia. On the negative side, the construction indicators posted notable declines in terms both of housing starts and of orders in August. As to the inflation indicators, the August figures placed the year-on-year rate of the overall index at -0.2%, while the core rate held at -0.1% for the fifth consecutive month. Against this background, the Bank of Japan kept its official interest rate at 0.5% at its October meeting, at which level it has held unchanged since February.

In the United Kingdom, GDP grew by 3% in Q2 compared with the same period a year earlier and, on preliminary estimates, by 3.3% in Q3, in keeping with the buoyancy of the industrial production and consumption indicators in this period. The rise in consumer and house prices, along with

MAIN MACROECONOMIC INDICATORS
Year-on-year rate of change

CHART 5



SOURCES: Banco de España, national statistics and Eurostat.

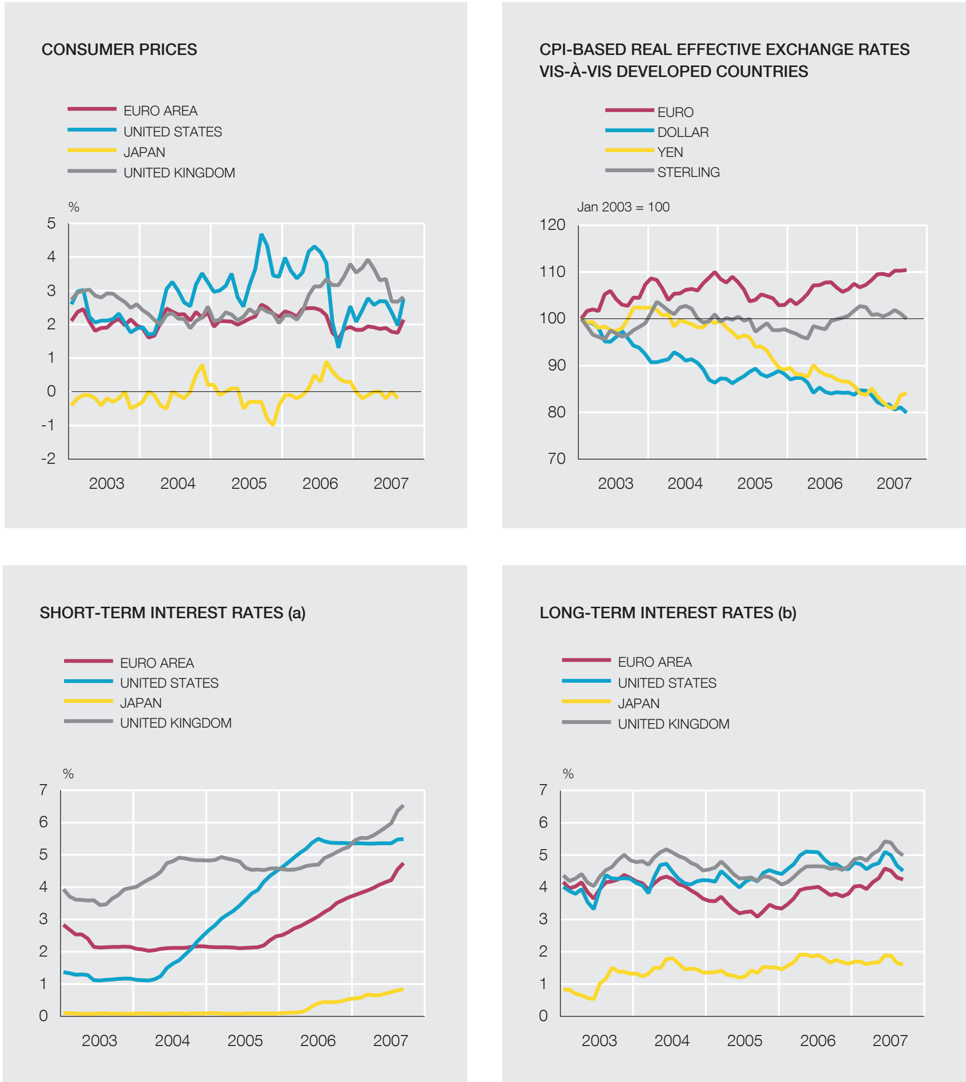
a. Percentage of labour force.

wages, showed signs of easing during Q3, while producer prices rose slightly in September. In this setting and against the backdrop of the financial turbulence, the Bank of England held official rates at 5.75% at its October meeting and, following the financial problems at a mortgage bank on 14 September, it became more active in providing liquidity assistance to the banking system. Notwithstanding, normality has not been fully restored in the interbank market.

The notable dynamism of activity in the new European Union members continued in Q2, when year-on-year GDP growth of 6% was recorded. However, the latest indicators of activity in demand would suggest a slight easing, especially so in Hungary, owing to the fiscal adjustment programme. The strength of domestic demand in most countries continues to exert pressure on consumer prices, which has led to an upward revision of inflation expectations, and has also widened current account deficits, especially in the Baltic States and in Bulgaria. There was no change in official interest rates, except in Hungary, where they were cut by 25 bp to 7.50%. Following the market turbulence, the main currencies with flexible exchange rates appreciated against the euro. The ERM II remained relatively stable, with some downward pressure on the Latvian lats, which nevertheless held within the central fluctuation bands against the euro.

PRICES, REAL EXCHANGE RATE AND INTEREST RATES

CHART 6



SOURCE: Banco de España.

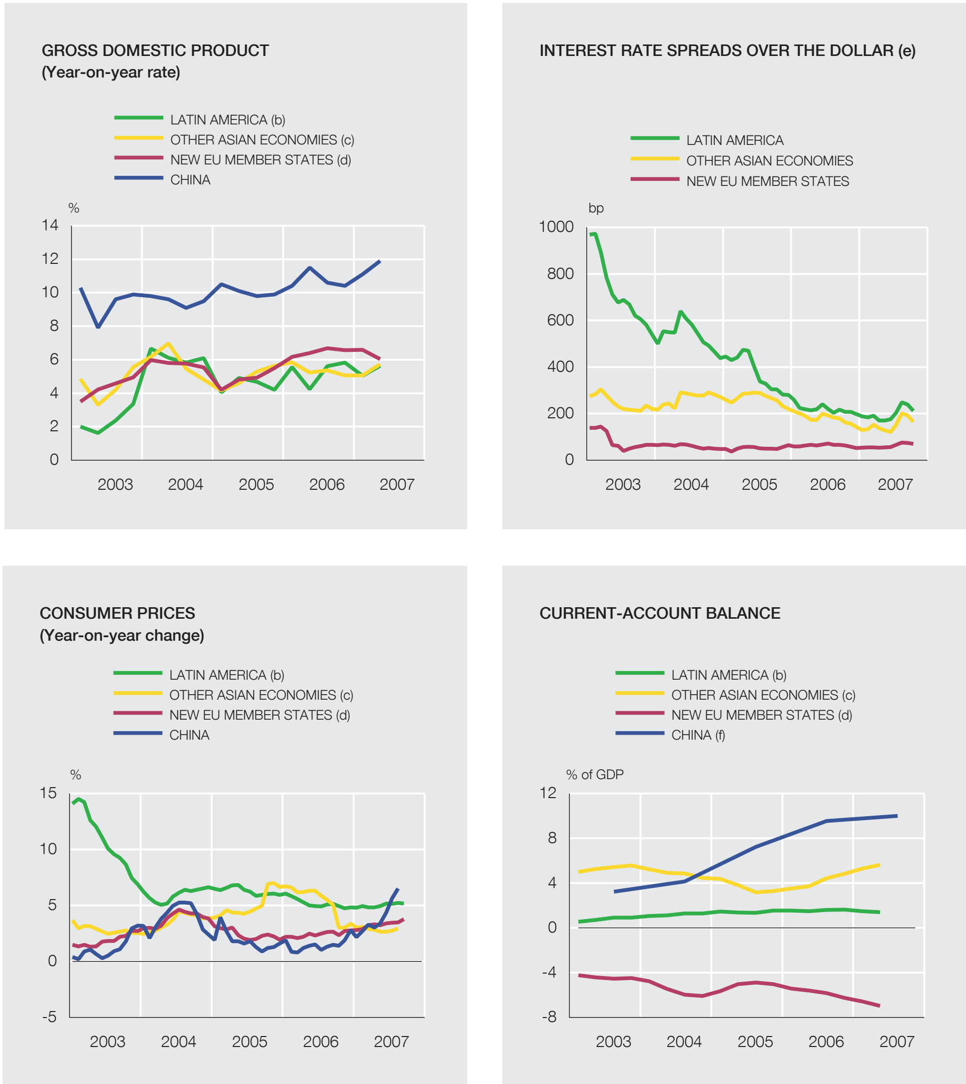
a. Three-month interbank market interest rates.
b. Ten-year government debt yields.

In China, growth quickened during Q2 to 11.9%, and in Q3 the indicators of industrial activity and demand would suggest that the growth rate will be maintained. The trade surplus remained high in Q3, following the record figure in June, against the background of the ongoing but moderate appreciation of the renminbi against the dollar. Notable throughout the quarter was the rise in inflation to 5.6% year-on-year in July and 6.5% in August (an 11-year high). This increase was largely driven by the rise in food prices, since core inflation held stable. Given this situation the central bank continued to tighten monetary policy, which was reflected in an increase over the last quarter in benchmark lending and deposit rates by a total of 45 bp and 54 bp, respectively, and by a rise in the bank reserve ratio in September and October. In the rest of Asia, the available data on economic activity would suggest that its pace eased in July and August, while inflation tended to rise across the board in September, with the notable exception of India.

In Latin America, year-on-year GDP growth in Q2 rose to 5.6%, compared with 5.2% the previous quarter. This increase in activity in the region was centred on Brazil, Argentina and, to a lesser extent, Chile, while in other economies in the area growth slowed, though the related

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, Slovak Republic, Estonia, Latvia, Lithuania, Cyprus, Malta, Bulgaria and Romania.
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.

rates remain very high. Domestic demand was the main driving force of activity, and there has been a notable and fresh acceleration in the growth rate of investment. The initial data for Q3 suggest the pace of growth will be maintained in most countries, with the exception of Chile and Mexico. Turning to prices, regional inflation climbed by 0.2 pp to 5.3% in August, and held at this figure in September. The biggest increases were in Brazil and Chile, and largely stemmed from food price developments. As to monetary policy, there was a 25 bp increase in official rates in Colombia, and one of 50 bp in Chile and Peru. Brazil, however, cut its rates by 50 bp in July and by 25 bp in September, but held them unchanged in October. The Mexican Congress gave final approval to the fiscal reform presented by the Executive, with slight amendments. This measure led to the upgrading of Mexican sovereign debt. Brazil's credit rating also improved, standing at investment-grade level.

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

The period of buoyancy initiated in late 2005 in the euro area continued in the first half of 2007. The latest activity and employment indicators point to the prolongation of this scenario in the second half of the year, although the economic conditions have changed substantially due to three factors: the notable increase in raw materials prices, the sustained appreciation of the euro and the more restrictive financial conditions, which, as indicated by the Bank Lending Survey (BLS), could tighten in the last quarter of the year. The combined action of these three factors seems to be having a significant impact – at least in the short-term – on agents' confidence (see Box 2) and could give rise to a certain slowdown in growth at the end of the year. In any event, it seems that the average GDP growth rate in 2007 will not differ from the 2.5% recorded in Q2, a figure which is in line with the estimates of certain international agencies.

In summer the problems sparked by sub-prime mortgages in the United States spread to the international financial markets, giving rise to a significant change in the valuation of and attitude to risk, an increase in volatility and greater demand for liquidity. The financial shocks particularly affected the money markets, including the euro area interbank market, which saw a marked decline in the volume of longer-term transactions and a substantial increase in yields (see Box 3). Against this background, the action of the ECB – and that of other central banks – has focused on preventing the lack of liquidity from adding to the tensions, which, despite a certain normalisation, have been more persistent than initially expected.

These circumstances have notably heightened the uncertainty over the economic outlook for the euro area, since the information available for arriving at firm conclusions on the duration of the situation of instability in certain financial markets and its potential macroeconomic effects is still far from complete. All told, the moderation of the euro area's economic growth in 2008 will probably be somewhat sharper than anticipated some months ago, although output growth should not differ from potential growth. Such is the picture beginning to emerge in light of the most recent updates of international agencies' forecasts. At the same time, the downside risks to this central scenario have risen substantially.

As regards inflation, the year-on-year rate of change of the HICP increased to 2.1% in September, although this rise was largely anticipated due to the past oil price behaviour. In the medium term, the inflation outlook is compatible with price stability. Nevertheless, upside risks remain, highlighted by oil and food price rises, although the foreseeable moderation in activity and the sustained appreciation of the euro will tend to mitigate this pressure.

Against this backdrop, the ECB Governing Council held the minimum bid rate on main refinancing operations unchanged at 4% in its September and October meetings, while it gathered information to more accurately assess the impact of the financial turbulence.

3.1 Economic developments

According to National Accounts data, the quarter-on-quarter GDP growth rate of the euro area fell by 0.5 pp to 0.3% in Q2 (see Table 1). The year-on-year rate of 2.5% was 0.7 pp less than in Q1. This moderation stemmed from the lesser momentum of domestic demand and, above all, from the change in inventories, the contribution of which to GDP growth fell by 0.3 pp and 0.5 pp to 0.3 pp and -0.2 pp, respectively (see Chart 8). Domestic demand was notable for the uneven behaviour of its components. Private consumption recovered, although its year-on-year growth remained low at 1.5%. By contrast, government consumption and gross fixed capital formation slowed significantly. In the latter there was a fall due to the adjustment of

Most euro area confidence indicators fell significantly in September this year, as exemplified by the behaviour of those published by the European Commission (see panel 1) and of the PMIs (see panel 2). Coinciding with the bout of financial market instability initiated in the summer, all EU indicators (except those relating to construction) fell, the sharpest decline being in retail trade. The deterioration identified by PMI surveys was particularly sharp in the services sector, which saw the largest monthly fall-off since the series commenced in July 1998, largely due to lower confidence in the financial services subsector. This decline was corrected slightly in October, while the manufacturing PMI recorded an additional fall, according to preliminary information.

One of the advantages of confidence indicators is that they are available soon after the end of the survey period. They are thus very useful for making an initial assessment of the economic situation. Moreover, as seen in panel 3, there is a high, practically contemporaneous, correlation between the behaviour of economic activity (measured as the year-on-year rate of change of GDP) and these indicators.[1] However, confidence indicators reflect the subjective opinion of agents on the economic situation and may therefore contain biases of judgement. In particular, at certain times when uncertainty rises for economic or non-economic reasons (military tensions, natural disasters, political changes), they may reflect disproportionate reactions of a more or less transitory nature,[2] which partially alter their usual high correlation with quantitative benchmarks (GDP, industrial production, consumption, etc.).

To evaluate this possibility, it is useful to observe the behaviour of these confidence indicators in past bouts of instability. Specifically, panels 4 to 7 show the paths of a selected group of confidence indicators one year before and after the following events: the October 1987 stock market crash, the Russian debt and LTCM fund crises in August 1998 and the bursting of the technology bubble in September 2000,[3] in which the instability had its source in the financial markets themselves; and the invasion of Kuwait by Iraq in August 1990 and the terrorist attacks in the US in September 2001, related to geopolitical tensions. As seen in these panels, the fall-off in the indicators from August 2007 is in line with what happened on past occasions. Also apparent is that the initial impact on consumer confidence is smaller than the effect on supply indicators such as industrial confidence and PMIs, as in previous bouts of instability.

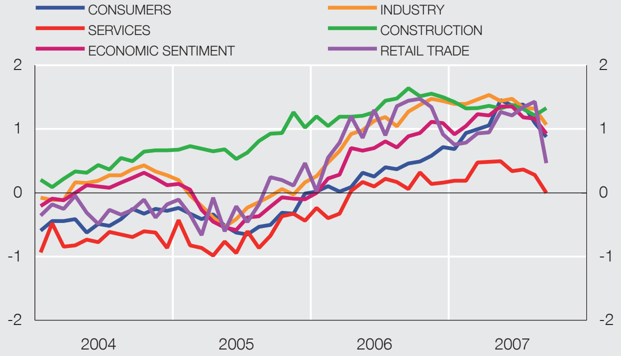
The panels show that on various occasions the indicators recovered rapidly after an initial fall. In other cases, however, various quarters may pass before a temporary fall-off can be distinguished from the start of a change of trend. Confidence indicators recovered very promptly after the 2001 terrorist attacks and somewhat more slowly after the 1998 crisis. By contrast, the moderation of confidence indicators after the 1990 invasion of Kuwait and the 2000 stock market fall was not very sharp in the initial stages, but was not corrected in the following year. The 1987 stock market crash is a clear exception, since no noteworthy impact on confidence surveys can be discerned.

In conclusion, the rapid availability of confidence indicators makes them a useful tool for monitoring the economic conjuncture. However, the available evidence advises some caution in considering their very short-term movements in the periods immediately following major bouts of economic or geopolitical turbulence. At such times, to assess the medium-term performance of the economy, it is advisable to wait until the confidence surveys can be supplemented with the information provided by quantitative indicators.

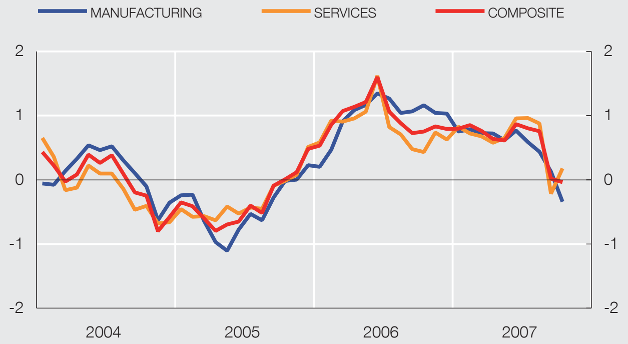
1. The graph plots the economic sentiment indicator compiled by the European Commission (which is a combination of the Commission's confidence indicators for industry, services, construction, retail trade and consumers) and the composite PMI based on the manufacturing and services PMIs. **2.** Further evidence of bias in confidence indicators is that the long-term average of many of these indicators is often lower than the value considered neutral or reflecting no change (zero in EC indicators and 50 in PMIs), which signals the predominance of pessimistic opinions of economic agents.

3. Although many stock exchange indices peaked in March 2000, the fall-offs in market prices sharpened in September of that year.

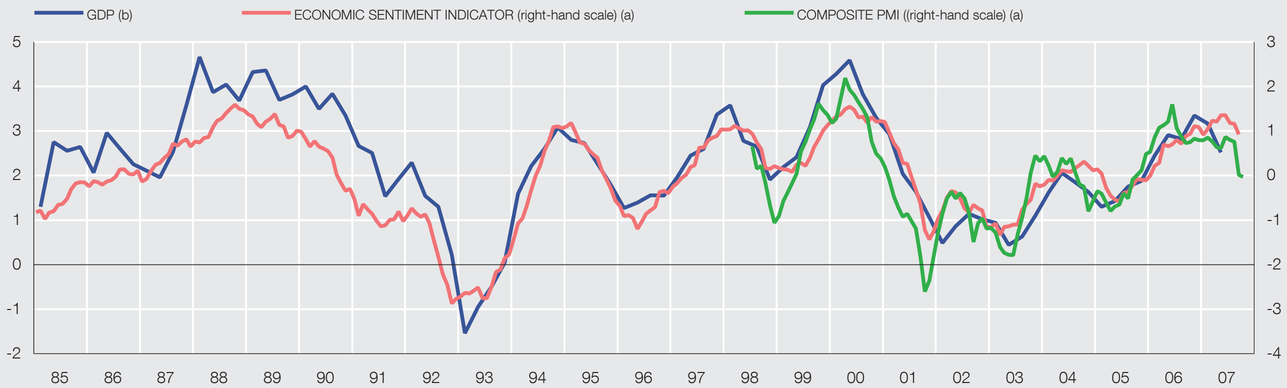
1 EUROPEAN COMMISSION CONFIDENCE INDICATORS (a)



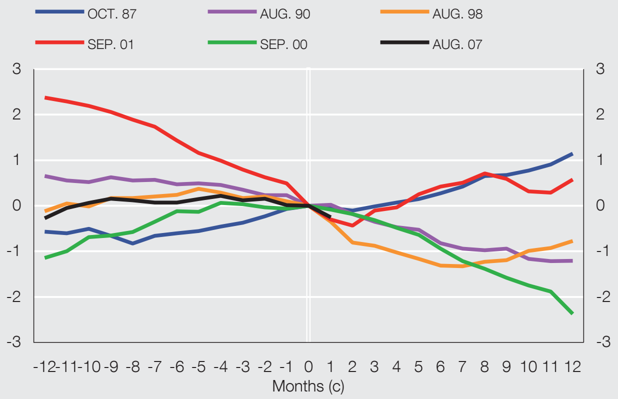
2 PMI CONFIDENCE INDICATORS (a)



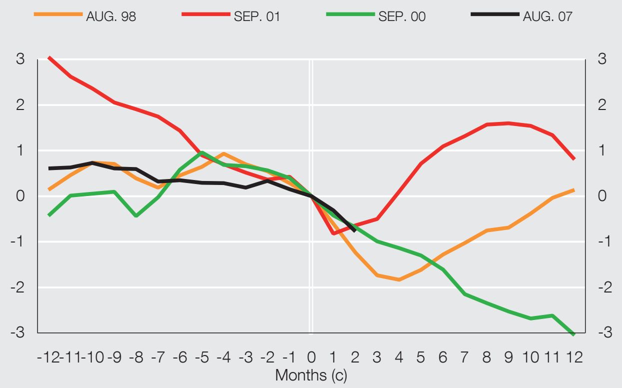
3 GDP AND CONFIDENCE INDICATORS



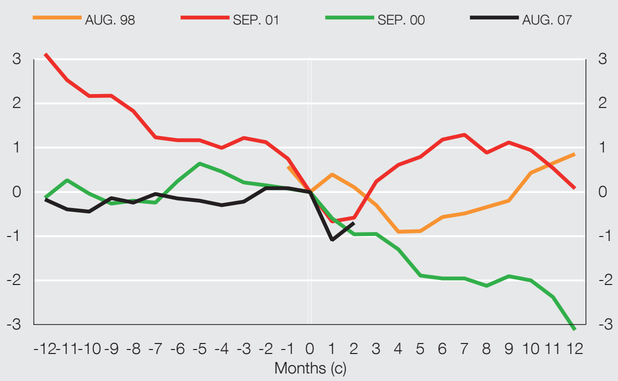
4 EC INDUSTRIAL CONFIDENCE (a)



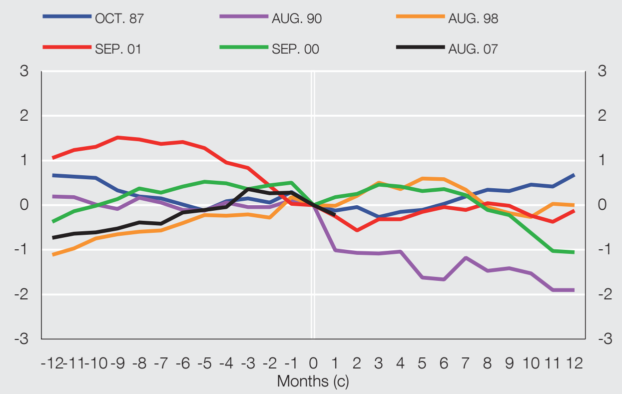
5 MANUFACTURING PMI (a)



6 SERVICES PMI (a)



7 EC CONSUMER CONFIDENCE (a)



SOURCES: Banco de España, European Commission, Eurostat and Reuters.

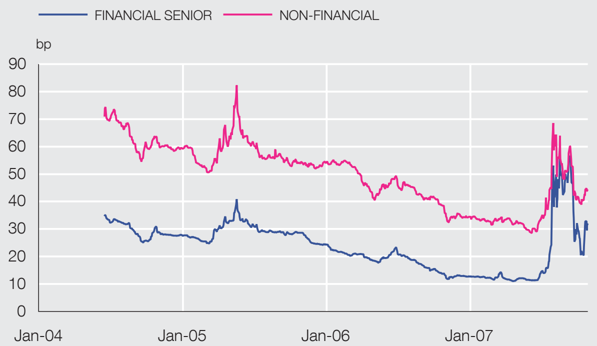
a. Normalised data.
b. Year-on-year rate of change.
c. Number of months from the reference period.

The rise in defaults on sub-prime mortgage loans in the US ended up causing tensions in the international credit markets. Two major features contibuting to this were the complexity of the structured products used in recent years to transfer the risks associated with those loans and the scant transparency of investors' exposures to these products. A general re-assessment of risk thus took place which, as can be seen in panel 1, was more marked in the financial sector given its direct and indirect exposure to turbulence and the strong interdepence of institutions.

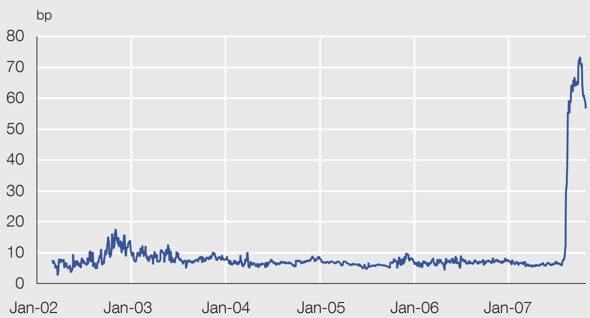
Additionally, some banks had committed themselves to providing liquidity in the event of need to certain financial vehicles (conduits) which had been issuing short-term commercial paper (ABCP) to finance their acquisitions of securities linked to US sub-prime mortgages. The difficulties of these vehicles in obtaining funds in the markets and their consequent recourse to the lines of credit committed by banks gave rise to tensions in most interbank markets of the indutrialised countries, including that of the euro area. Interest rates rose, particularly those for maturities of more than one month, and transactions with these maturities declined in volume. In the euro area, the EONIA rate tended to move away from the minimum bid rate on main financing operations in the opening days of August and, at the same time, as seen in panel 2, the 3-month spread between unsecured transactions (EURIBOR) and secured ones (EUREPO) reached a very high level of more than 70 bp, after having stood at less than 10 bp.

To normalise the situation in these markets, the ECB resorted to a number of measures designed to provide additional liquidity. First, from 9 to 14 August four fine-tuning operations were carried out in which funds were injected via overnight reverse repos, the first of them being an unlimited-volume fixed-rate tender and the others being variable-rate (see panel 3). Also, in addition to the scheduled longer-term financing operations (with 3-month maturities), on 22 August and 11 September two supplementary tenders were conducted with the same maturity. In this same vein, as part of its main financing operations in this period the ECB implemented a more generous liquidity management policy in order to accommodate the desire of institutions to comply in excess with their minimum reserve obligations, especially at the beginning of the reserve calculation period. Thus, as can be appreciated in panel 3, the volumes allocated in these tenders were above the benchmark calculated by the ECB to

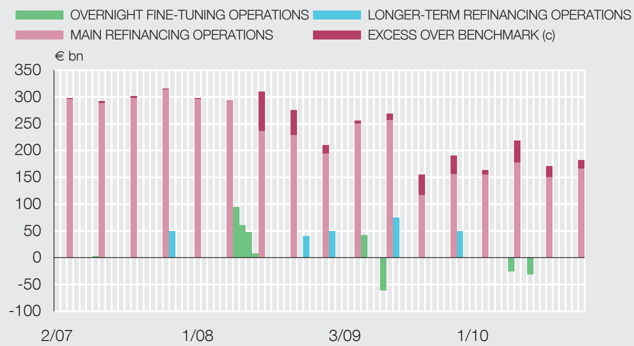
1 FINANCIAL AND NON-FINANCIAL ITRAXX (a)



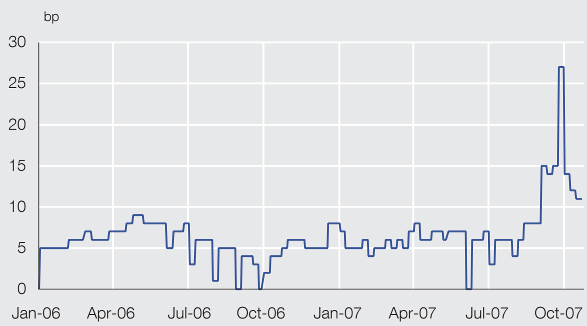
2 3-MONTH EURIBOR-EUREPO SPREAD



3 VOLUMES ALLOTED IN ECB OPEN-MARKET OPERATIONS (b)



4 SPREAD BETWEEN MARGINAL RATE AND ECB MINIMUM BID RATE (d)



SOURCES: ECB and Bloomberg.

a. Indices traded in a basket composed of different types of credit risk insurance.
b. Includes periodic transactions with weekly maturity (main refinancing operations) and 3-month maturity (longer-term refinancing operations), as well as non-periodic fine-tuning operations .
c. Excess between alloted volumes and the benchmark calculated by the ECB for institutions' liquidity needs.
d. Spread between the recorded maximum rate and the minimum bid rate in weekly tenders.

meet the system's liquidity needs. Despite this, the marginal rates of these tenders reached high levels with respect to the minimum rate (see panel 4).

Thanks to these measures, the EONIA did not, on average, depart significantly from the minimum bid rate on main financing operations, although it was more volatile than usual (see Chart 12 in main text). However, the interest rates on unsecured longer-term interbank deposits remained high, considerably above those on transactions backed by public debt securities. Although recently there has been a certain correction, the implicit interest rates on forward transactions at different time horizons suggest that this spread may remain high in the coming months. This seems to indicate that, at the data cut-off date of this article, the problems in this market persist, reflecting banks' greater preception of counterparty risk and their increased precautionary liquidity demands.

construction investment, which declined by 1.6% with respect to Q1, while capital goods expenditure accelerated slightly to 2%. Finally, the net contribution of the external sector increased by 0.2 pp due to the lesser vigour of imports, since exports held at a similar pace to that at the beginning of the year.

The breakdown by branch of activity shows a significant loss of momentum in construction and in agriculture, where there were falls in value added with respect to Q1. In industry, production also slowed, but held at a robust increase of 0.6% with respect to Q1. Retail and wholesale trade and intermediation services showed greater buoyancy.

The moderation of GDP in Q2 was quite widespread across countries. It signifies a slight downward revision of growth in 2007 which has already been included in the latest forecasts of international agencies. In the larger economies this slowdown exhibited some features worthy of note. The German economy's quarter-on-quarter growth of 0.3% was driven by investment in machinery, exports and private consumption. By contrast, as expected, construction activity fell sharply, due largely to its exceptional buoyancy in Q1 because of the favourable weather. The weakness of the French economy, however, reflected a slowdown in exports and, above all, the unexpected stagnation of investment, especially in capital goods. Lastly, Italy's GDP grew by just 0.1%, the main culprit being the external sector.

The labour market recovery continued to firm in Q2, with employment up by 0.5% after Q1 growth was revised upward to 0.6%. The rate of job creation in year-on-year terms stood at 1.7%, albeit with notable differences across sectors. The slowdown in activity and the behaviour of employment resulted in a deceleration in productivity, up 0.8% against 1.4% in Q1.

Wage pressure continued to be contained despite the favourable performance of the labour market (see Chart 9). Year-on-year growth of compensation per employee stood below 2% in Q2, with a slowdown in services to a rate of expansion around 1.2% and less significant changes in industry and construction, where rates above 3% were posted. This meant that, despite the slowdown in productivity, the increase in unit labour costs in the total economy held at a moderate rate, near 1% year-on-year. Meanwhile, the steady growth of the GDP deflator at around 2% led to a further deceleration of business margins.

As regards Q3, the available indicators point to an economic scenario very similar to that in the first half of the year, although there is some discrepancy between the quantitative and the qualitative information, especially on the supply side (see Chart 10). Hence in summer industrial production picked up notably and industrial orders, despite falling off, kept up a high year-

EURO AREA ECONOMIC INDICATORS (a) TABLE 1

	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3 (a)	2007 Q4 (b)
GDP								
Year-on-year growth	2.5	2.9	2.9	3.3	3.2	2.5		
Quarter-on-quarter growth	0.9	1.0	0.6	0.8	0.8	0.3		
European Commission forecasts (c)							(0.3 ; 0.8)	(0.2 ; 0.8)
IPI (d)	3.5	4.3	4.3	4.0	3.9	2.6	*4.1*	
Economic sentiment	102.6	106.8	108.2	109.9	110.0	111.6	109.4	
Industrial confidence	-2.3	2.3	3.7	5.7	5.3	6.3	4.3	
Manufacturing PMI	54.7	57.1	56.9	56.7	55.5	55.3	54.2	*51.5*
Services confidence	14.7	18.7	19.0	19.7	20.7	22.3	20.0	
Services PMI	57.8	59.2	57.3	57.1	57.6	57.5	56.9	*55.6*
Unemployment rate	8.2	7.9	7.8	7.6	7.3	7.0	*6.9*	
Consumer confidence	-10.7	-9.7	-8.3	-7.0	-5.3	-2.3	-3.7	
HICP (annual growth) (e)	2.2	2.5	1.7	1.9	1.9	1.9	*2.1*	
PPI (annual growth) (e)	5.1	5.8	4.6	4.1	2.8	2.2	*1.7*	
Oil price in USD (e)	61.6	68.1	61.2	62.8	62.3	71.8	78.2	*81.7*
Loans to the private sector (annual growth) (e)	10.8	11.0	11.4	10.8	10.6	10.8	11.0	
Euro area ten-year bond yield	3.6	4.0	4.0	3.9	4.1	4.4	4.5	*4.4*
US-euro area ten-year bond spread	1.06	1.08	1.00	0.82	0.67	0.47	0.32	*0.19*
Dollar/euro exchange rate (e)	1.210	1.271	1.266	1.317	1.332	1.351	1.418	*1.431*
Appreciation/depreciation of the dollar/euro (e)	2.6	7.8	7.3	11.6	1.1	2.5	7.7	*8.6*
Dow Jones EURO STOXX Broad index (e)	10.3	4.2	11.9	20.3	3.4	9.9	6.1	*7.6*

SOURCES: Eurostat, ECB and Banco de España.

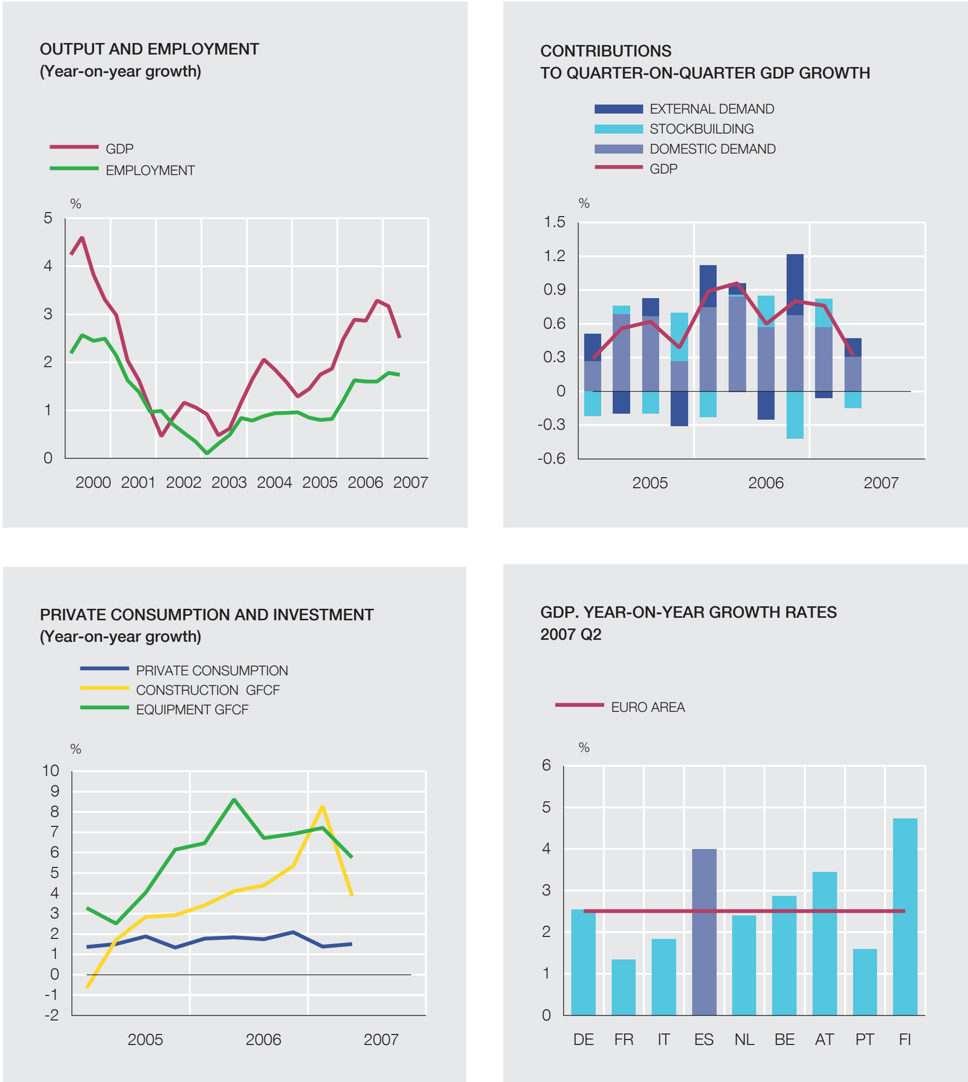
a. Quarterly average. The information in italics does not cover a full quarter.
b. Information available up to 25 October 2007.
c. Quarter-on-quarter growth forecasts.
d. Year-on-year growth rates of working days adjusted data.
e. End-period data. Figures for exchange rates and the stock market are percentage changes over the year.

on-year growth rate. By contrast, confidence indicators, which are more sensitive to financial uncertainty, reacted with a sharp downturn. In September, the deterioration observed during the quarter in both European Commission surveys and purchasing managers indices (PMI) sharpened significantly, although, as illustrated in Box 2, this fall-off was of a size comparable to that in past bouts of turbulence and, on this occasion, the confidence indicators started from a reasonably high level. In October, the preliminary composite PMI figure pointed to a new fall-off in sentiment, despite a recovery of the services sector index. It was also notable that employers' hiring intentions remained at a high level, although easing moderately in manufacturing and services in the third quarter as a whole. The unemployment rate stood at 6.9% in August, similar to the level in June; this represents a fall of nearly one percentage point in the past year.

On the demand side, the private consumption indicators for July to September suggest behaviour in line with that in Q2. Retail sales in July and August and new car sales to September were, on average, higher than in Q2, although with respect to the previous year they were up by nearly 1%. Consumer and retail trade confidence indicators deteriorated due to the financial uncertainty, although remaining at relatively high levels. Turning to investment, capacity utilisation and the order book showed a certain downturn in Q3, although continuing to be consistent with a solid expansion of capital goods expenditure. Finally, regarding foreign trade, the July figures point to highly buoyant exports, while export expectations and the industrial order book remain at high levels.

EURO AREA NATIONAL ACCOUNTS

CHART 8



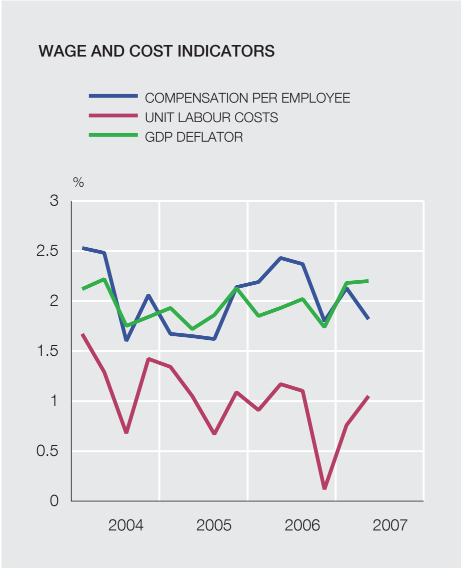
Sources: Eurostat and national statistics.

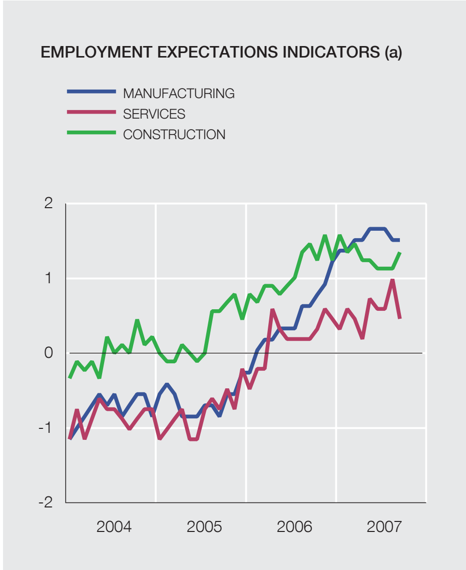
The euro area as a whole is in a relatively favourable position to face the consequences of the financial tension. Notable in this respect are the robust financial situation of the private sector and the strong pace of job creation, and, in regard to investment, the sharp rise in business profits may mitigate the possible adverse effect of the tighter financial conditions. Against this background, the short-term forecasts of international agencies and private analysts coincide in putting expected GDP growth in 2007 at healthy levels of around 2.5%. Nevertheless, downside risks due to the possible impact of the financial turbulence could start to materialise at the end of the year.

In the medium term, the growth outlook has moderated as a result of the change in the financial and economic situation of the euro area. Thus the sustained appreciation of the euro, the higher commodity prices and the tighter financial conditions will tend to slow activity growth, as indicated by the most recent updates of international agencies' forecasts. Moreover, the bout of financial instability following the past summer notably heightened the uncertainty over the long-term growth outlook, since it is still early to assess the macroeconomic impact and, in particular, the extent of the US slowdown and its impact on world trade and exchange rates, the degree of tightening of credit conditions and the possible effects on agents' confidence.

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

CHART 9





SOURCES: Eurostat and European Central Bank.

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

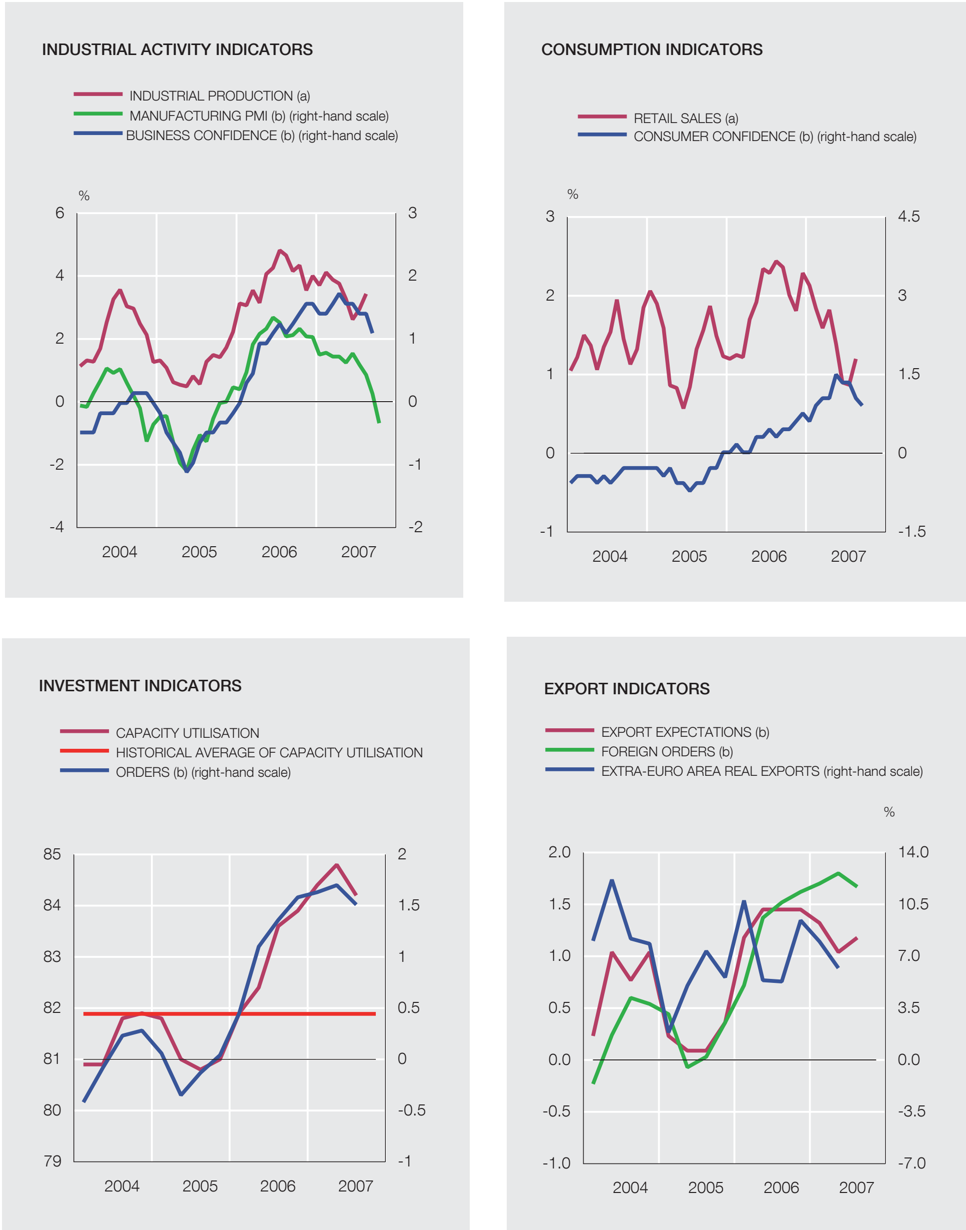
Turning to prices, the year-on-year HICP growth of 2.1% in September was 0.2 pp more than at the end of Q2 (see Chart 11). This behaviour was again strongly influenced by energy, which showed year-on-year growth of 3%, compared with less than 1% in Q2, reflecting the base effect of its behaviour in 2006 and the recent upward energy price trend. The HICP excluding the more volatile components (energy and unprocessed food) grew by 2% year-on-year, up 0.1 pp on June, with notable unevenness among its components. Thus processed food became the most inflationary component, with prices up 3% relative to the same month a year earlier, against a background of high demand pressure in international markets. By contrast, the price of services decelerated by 0.1 pp with respect to June to a pace of 2.5% and that of non-energy industrial goods grew moderately by 1%. Meanwhile, the selling price indicators derived from the September surveys point to an easing of the inflationary outlook for industry and services, albeit within high values. Nevertheless, the European Commission's consumer confidence survey suggests an increase in perceived and expected inflation, which could be partly related to the rising prices of staple consumer products.

The inflation forecasts of international agencies and private institutions for 2007 remain within the range 1.7%-2% and do not exceed 2% for 2008. Although this outlook is compatible with price stability, the upside risks relating largely to the oil price hikes remain in place. Other forces that may act in the same direction are agricultural commodity price movements, possible unannounced increases in indirect taxes or regulated prices and the appearance of wage pressures or increases in margins in markets less exposed to competition. In any event, these risks are more constrained than in the past, due to the foreseeable moderation of activity and to the countervailing effect of the appreciation of the euro.

The current account recorded a surplus of €4 billion from January to August (around 0.1% of GDP), compared with a deficit of €27.4 billion in the same period of 2006 (0.5% of GDP). This swing was caused by the larger surplus on the goods balance (exports were more buoyant than imports, with year-on-year growth of 9.8% and 5.8%, respectively, in the first eight months of the year) and, to a lesser extent, on the services balance, which more than offset

EURO AREA. REAL INDICATORS

CHART 10



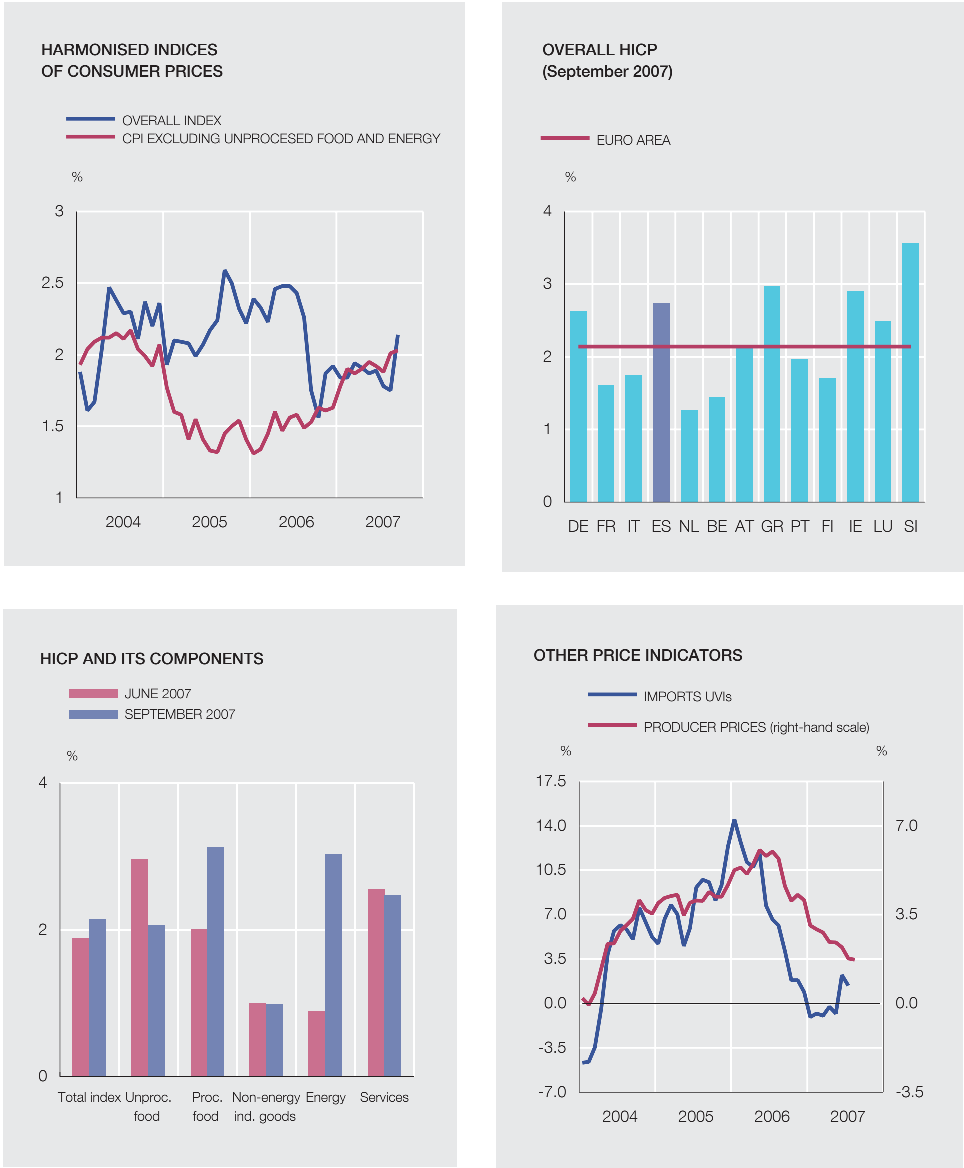
SOURCES: Eurostat and European Commission.

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

the small rise in the deficits on the income and transfers balances. As regards the financial account, the reporting period saw a net inflow of portfolio investment amounting to €242.8 billion (more than twice that in the same period a year earlier), and a net outflow of direct investment of €92.2 billion (against nearly €72 billion in 2006). As a result, the basic balance recorded a surplus of €154.6 billion, far exceeding the €4 billion in the period January-August 2006.

Turning to fiscal policy, the information on the budget outturn points to relatively buoyant tax revenue in the year to date. As a result, the 2007 budget deficit will foreseeably improve more than is envisaged in the stability programmes (see Table 2). Specifically, the deficit of the euro

EURO AREA. PRICE INDICATORS CHART 11
Year-on-year percentage changes



SOURCES: Eurostat and European Central Bank.

area as a whole could stand at around the 1% of GDP estimated by the European Commission in spring, against the 1.4% resulting from aggregation of the programmes. This improvement can be attributed mainly to the German economy, which may post a deficit of around one percentage point below the target of 1.5% of GDP.

The budgets for 2008 currently before Parliament generally point to insufficient progress towards budgetary balance in the countries that are still far from achieving it. In the case of France, the draft budget includes limited expenditure containment measures and a tax cut approved last August, the cost of which for 2008 is estimated at 0.5% of GDP. Thus the budget deficit target would stand at 2.3% of GDP, just 0.1 pp below that for 2007. This target would not comply with the provisions of the code of conduct included in the reformed Stability and Growth Pact (SGP), under which there is a commitment (reiterated by the October ECOFIN Council) to correct the structural balance by at least 0.5% of GDP per year. Moreover, the French government seems to have distanced itself from the Eurogroup's agreement whereby the Member States undertake to

GENERAL GOVERNMENT BUDGET BALANCES
OF EURO AREA COUNTRIES (a)

TABLE 2

% of GDP

	2005	2006	2007 (b)	2007 (c)	2008 (c)
Belgium	-2.3	0.4	0.3	-0.1	-0.3
Germany	-3.4	-1.6	-1.5	-0.6	-0.3
Greece	-5.1	-2.5	-2.4	-2.4	-2.8
Spain	1.0	1.8	1.0	1.4	1.2
France	-2.9	-2.5	-2.5	-2.4	-2.0
Ireland	1.2	2.9	1.2	1.5	0.9
Italy	-4.2	-4.4	-2.8	-2.1	-2.2
Luxembourg	-0.1	0.7	-0.9	0.4	0.6
Netherlands	-0.3	0.6	0.2	-0.7	0.0
Austria	-1.6	-1.4	-0.8	-0.9	-0.9
Portugal	-6.1	-3.9	-3.7	-3.5	-3.2
Slovenia	-1.5	-1.2	-1.5	-1.5	-1.5
Finland	2.7	3.8	2.8	3.7	3.5
MEMORANDUM ITEMS: Euro area (including Slovenia)					
Primary balance	0.5	1.3		1.9	2.1
Total balance	-2.5	-1.5	-1.4	-1.0	-0.8
Public debt	70.3	68.6	68.0	66.9	65.1

SOURCES:European Commission and national stability programmes.

a. Deficit (-) / surplus (+). The deficits that exceed 3% of GDP have been shaded.
b. Targets of the stability programmes presented between the end of 2006 and the beginning of 2007.
c. European Commission forecasts (spring 2007).

achieve their medium-term budgetary objectives by 2010 at the latest. In Italy the budget before Parliament – which envisages a deficit of 2.2% of GDP – does not guarantee compliance with the provisions of the reformed SGP. In Germany, the draft budget does not include major progress in terms of fiscal consolidation once the foreseeable loss of revenue upon the entry into force of the corporate income tax reform in 2008 is taken into account.

3.2 Monetary and financial developments

During the past summer the crisis in the US sub-prime mortgage market had a major impact on the international financial markets. The re-assessment of risks gave rise to significant fluctuations in asset prices, increased volatility and liquidity problems in some markets, although after mid-September there was a certain normalisation.

Against this background, the ECB Governing Council halted the gradual withdrawal of monetary stimulus under way since late 2005, although it stated that upside risks to medium-term price stability were still apparent. The financial market tensions made it advisable to gather and assess further information on the possible implications of this bout of turbulence and led the ECB to hold official interest rates unchanged in its September and October meetings. As a result, the minimum bid rate on main refinancing operations stood at 4% (see Chart 12).

From mid-August the European interbank market saw an increase in liquidity needs, which, along with problems of confidence between institutions, made it necessary for emergency injections of funds by the ECB (for more details, see Box 3). The tensions were manifested in increased volatility of the EONIA and in higher yields at all maturities, despite the fact that expectations of fresh rises in official interest rates had faded. The sharpest rise was in 3-month EURIBOR, which reached 4.8% in September. At the information cut-off date of this bulletin, it stood at 4.6%, very similar to 1-year EURIBOR.

EURO AREA INTEREST RATES

CHART 12

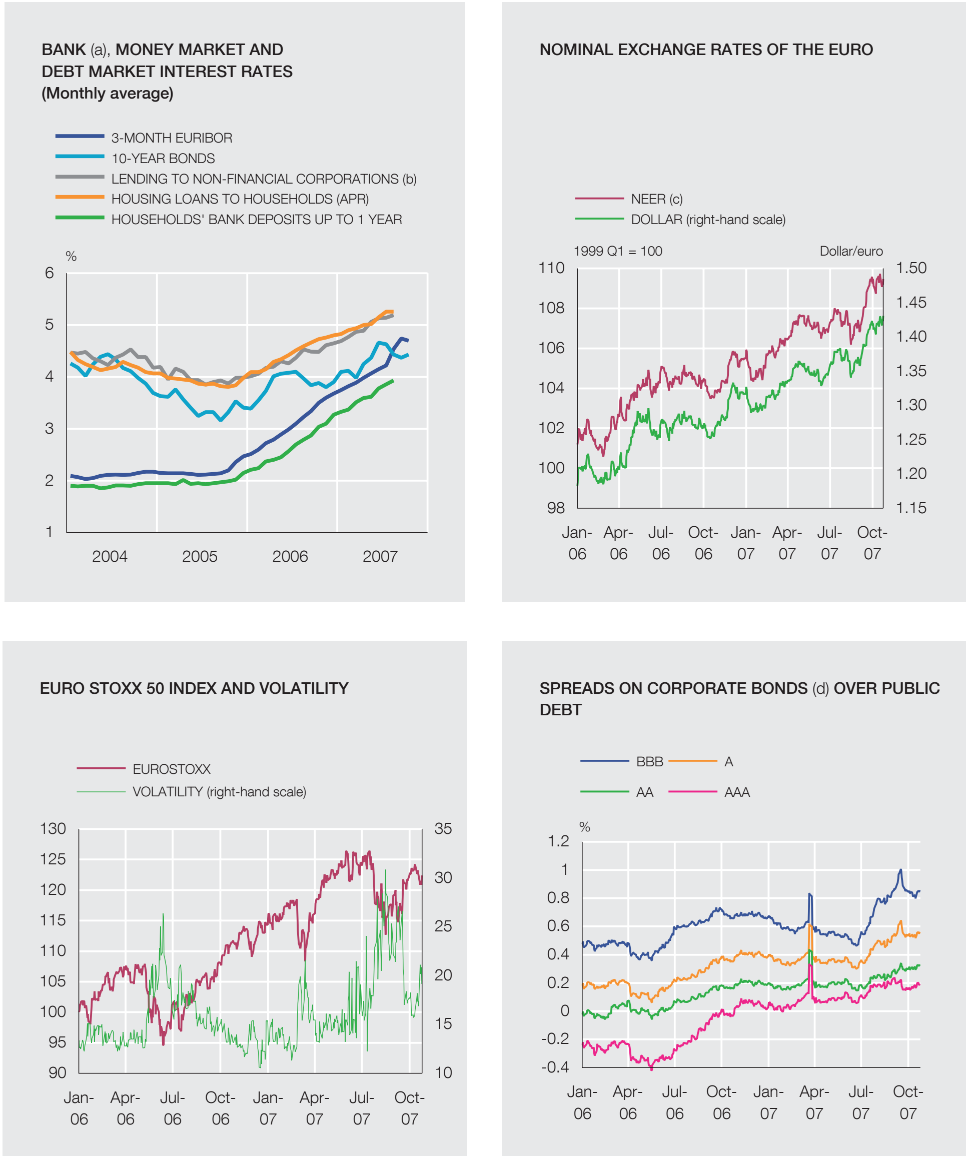
SOURCES:European Central Bank and Banco de España.

a. Estimated using Euribor data.

Public debt acted as a safe haven and the greater demand for it led to a temporary fall in yields in the summer, partially corrected since mid-September. As a result, 10-year bond rates, expressed as the average during Q4 to date, stood at relatively low levels of 4.4% in the euro area, with the spread with respect to the US narrowing to 20 bp. In private fixed income, by contrast, the yield spreads on lower-rated non-financial corporate bonds widened during the summer. In particular, the interest rate on A and BBB rated bonds reached as much as approximately 0.5 pp and 0.7 pp, respectively, above the yield of higher-rated private debt. Although these values are much higher than those seen at the beginning of the year, they are low from a historical standpoint. Asset-backed bond and structured product issues have also been affected, with a significant drop in the volumes issued.

Equity market prices also reacted initially with notable declines and increased volatility, against a backdrop of great uncertainty over firms' exposure to the crisis and its possible impact on the real economy (see Chart 13). The greatest tensions were concentrated in the construction and financial sectors, as a reflection of their exposure to issues of asset-backed securi-

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



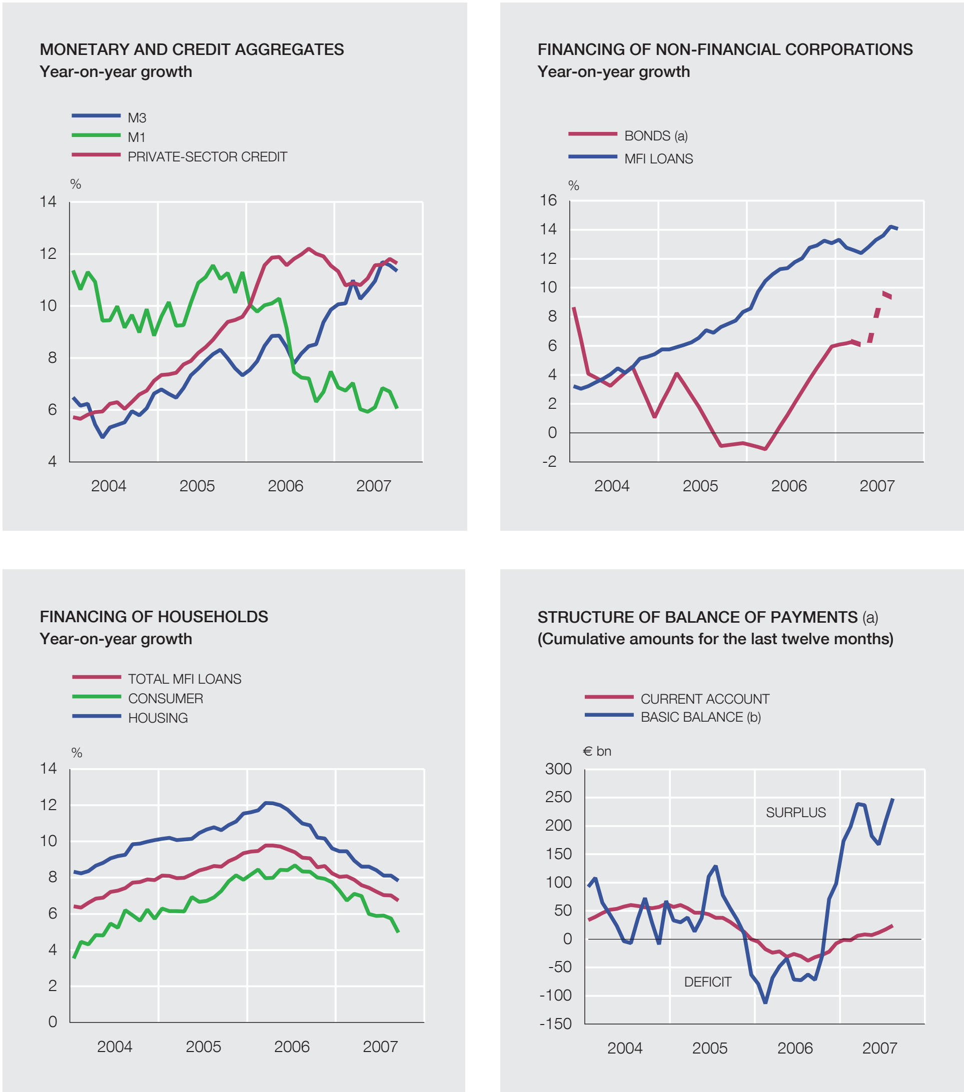
SOURCES: European Central Bank and Banco de España.

a. Interest rate statistics compiled by the ECB for new operations.
b. Interest rates on loans of 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.

ties and structured products, which are the instruments that have most suffered in terms of price and liquidity. Thus, whereas the Eurostoxx index fell by around 4% in August and the first half of September, the bank and financial services firms component dropped by 10% and construction sector share prices were down by around 14%. Following the US Federal Reserve decision to cut interest rates, equity markets progressively stabilised, stock market indices recovered and volatilities decreased. The broad Eurostoxx index rose by more than 7% from the start of the year, in a movement based on continued expectations of favourable corporate earnings.

Instability was also present in the currency markets, where from late August the euro appreciated sustainedly against the dollar. It currently stands at nearly $1.43. In the year to date it has thus risen by nearly 4% in effective terms and by 8.6% with respect to the dollar.

MONETARY AND CREDIT AGGREGATES AND BALANCE OF PAYMENTS CHART 14



SOURCES: European Central Bank and Banco de España.

a. The broken line is an estimate calculated using fixed income held by MFIs.
b. The basic balance is approximated by the sum of the balance on current account and direct and portfolio investment.

The performance of the monetary aggregates to September was a prolongation of their recent behaviour, shaped by a more restrictive monetary policy and a relatively flat yield curve which is sustaining the demand for some liquid assets for investment purposes. Moreover, it cannot be ruled out that the lower risk tolerance has also contributed to sustaining monetary expansion. Thus, in September the year-on-year growth of the M3 monetary aggregate continued to be high (above 11%) with rates varying widely among the asset types (see Chart 14). While the M1 aggregate, which is the most liquid, posted year-on-year growth of 6%, other short-term deposits showed great buoyancy, with increases of more than 15%.

Meanwhile, lending by financial and monetary institutions to the private sector continued to grow in September at a year-on-year rate exceeding 11%. No significant changes in this trend by any type of borrower were discernable. Hence loans to non-financial corporations continued to expand rapidly at more than 14% year-on-year, while those to households prolonged their slowing trend apparent since 2006, with a year-on-year growth rate of 6.7%. This moderation encompassed both house purchase loans, with year-on-year growth of 7.8% in September, and consumer loans, whose growth rate was 5%. It is possible that lending behaviour in August and September was affected by financial market developments. Thus the greater difficulty in issuing securities and repaying bridge loans by non-financial corporations or in removing loans from the balance sheet through securitisation might have pushed lending figures upward. In any event, the October BLS, which includes specific questions on the impact of financial shocks, points to more restrictive credit supply conditions in Q3, becoming tighter towards the end of the year.[1] This tighter credit supply, which is largely due to the lesser availability of the usual sources of financing, is more marked in the case of non-financial corporations and particularly in that of longer-term financing of large corporations. In the case of households, the tightening is slighter and due to deterioration of the property market and of the general economic outlook, against a background in which the demand for house purchase credit continues to show signs of weakening.

1. For more details, see the article *Encuesta sobre Préstamos Bancarios en España: octubre de 2007* (Bank Lending Survey in Spain: October 2007) in the *Boletín Económico* of October 2007.

On QNA estimates, GDP grew in 2007 Q2 by 4% year-on-year, 0.1 pp less than in Q1. In quarter-on-quarter terms there was also a slight slowdown, with growth of 0.9%. Coinciding with the publication of the information for Q2, the INE revised the annual accounts figures back to 2003. At the aggregate level, the GDP growth rate was revised slightly upwards, by 0.1 pp, in 2003, 2004 and 2005, with the rate initially estimated for 2006 remaining unchanged. With regard to the composition of this growth, however, there have been more significant changes in some variables, as well as in the quarterly profile of the accounts.

The information available for 2007 Q3 suggests that GDP slowed by 0.3 pp in that period, to 3.7% year-on-year, with a similar reduction in the quarter-on-quarter rate, to 0.6%. This was the result of less buoyant national demand, which is estimated to have grown by 4.3% year-on-year, 0.3 pp less than in the previous quarter, as a consequence of the moderation of private consumption and of investment in equipment and construction (see Chart 15). Meanwhile, the external sector's contribution to GDP growth improved slightly (by 0.1 pp, to -0.8 pp), as exports were more dynamic than imports.

The mild slowdown in value added growth affected all sectors in Q3, especially construction and energy. The main employment indicators also reflect a certain loss of momentum in relation to the first half of the year. Against this background, apparent labour productivity is estimated to have decelerated slightly in Q3 which, together with the slight increase in compensation per employee, led to a small rise in unit labour costs, although wage settlements and unit labour costs have been lower in the year to date than in 2006. In the case of consumer prices, the year-on-year growth rate of the CPI remained at 2.4% on average in Q3 although, following two months of relatively contained growth, inflation rose to 2.7% in September, as a consequence of the rise in energy prices linked to a base effect and the price rises in processed food, common to other countries.

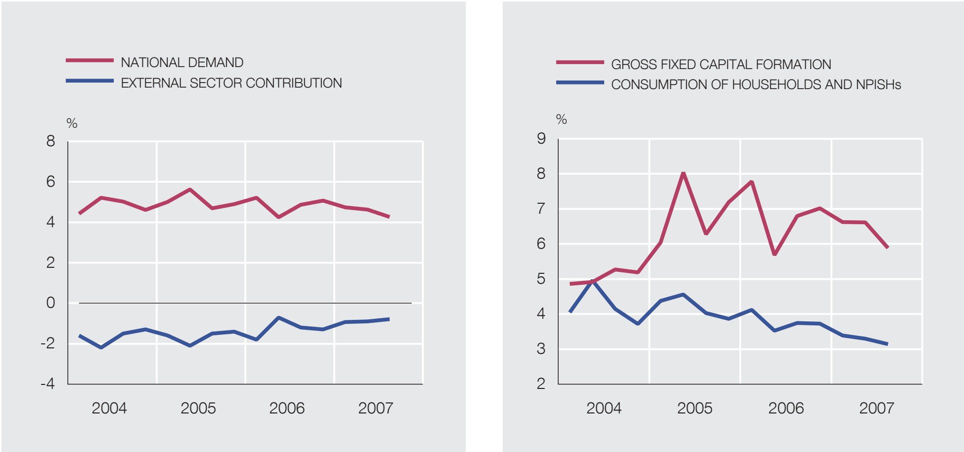
4.1 Demand

In 2007 Q2, the final consumption spending of households and NPISHs grew by 3.3% year-on-year, 0.1 pp less than in the previous quarter, extending the slowdown that began in 2005 (see Chart 16). The most recent conjunctural information points to a continuation of this mild slowdown in Spanish household final consumption in Q3. Specifically, the tax authorities' data on the sales of large corporations in July and August show less buoyant consumption, especially of services. New car registrations fell for the third consecutive quarter, at a year-on-year rate of close to 3% (which was faster than in Q2). As for the confidence indicators, consumer sentiment was relatively stable during the summer, while retail confidence fell in Q3, with an especially negative figure in September, possibly prompted by the uncertainty produced by financial market turbulence.

In 2007 to date, household consumption growth has continued to be sustained by the strength of employment creation and by the moderation of inflation with respect to 2006. Both factors have been conducive to the maintenance of relatively high real income growth rates, according to the non-financial accounts for 2007 Q2, although these accounts also show that the household saving ratio fell to 10% in Q2 (in cumulative four-quarter terms), having stood at 10.5% at end 2006. However, the more contained rate of growth of household real-estate and financial wealth, along with tighter financial conditions can be expected to result in a reduction in the household propensity to consume and greater stability in the saving ratio, following various years of decline.

MAIN DEMAND AGGREGATES (a)

CHART 15

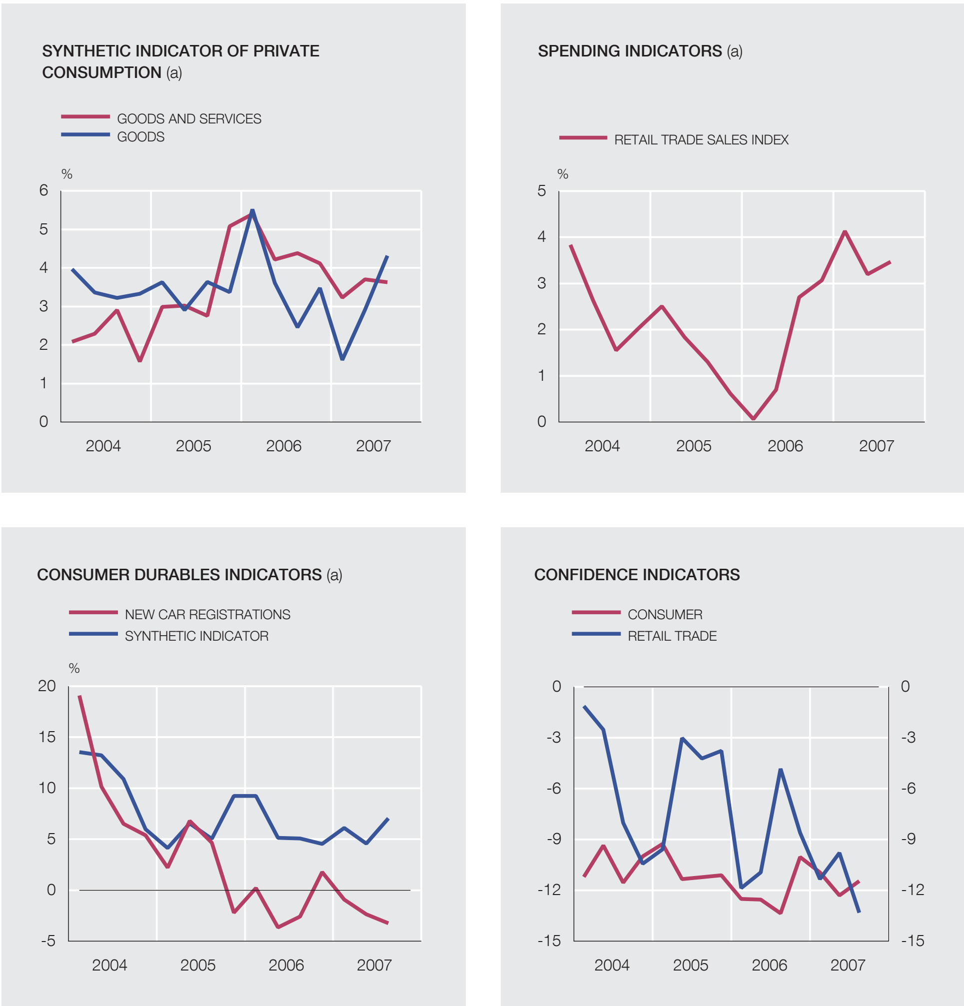


SOURCES: INE and Banco de España.

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

PRIVATE CONSUMPTION INDICATORS

CHART 16

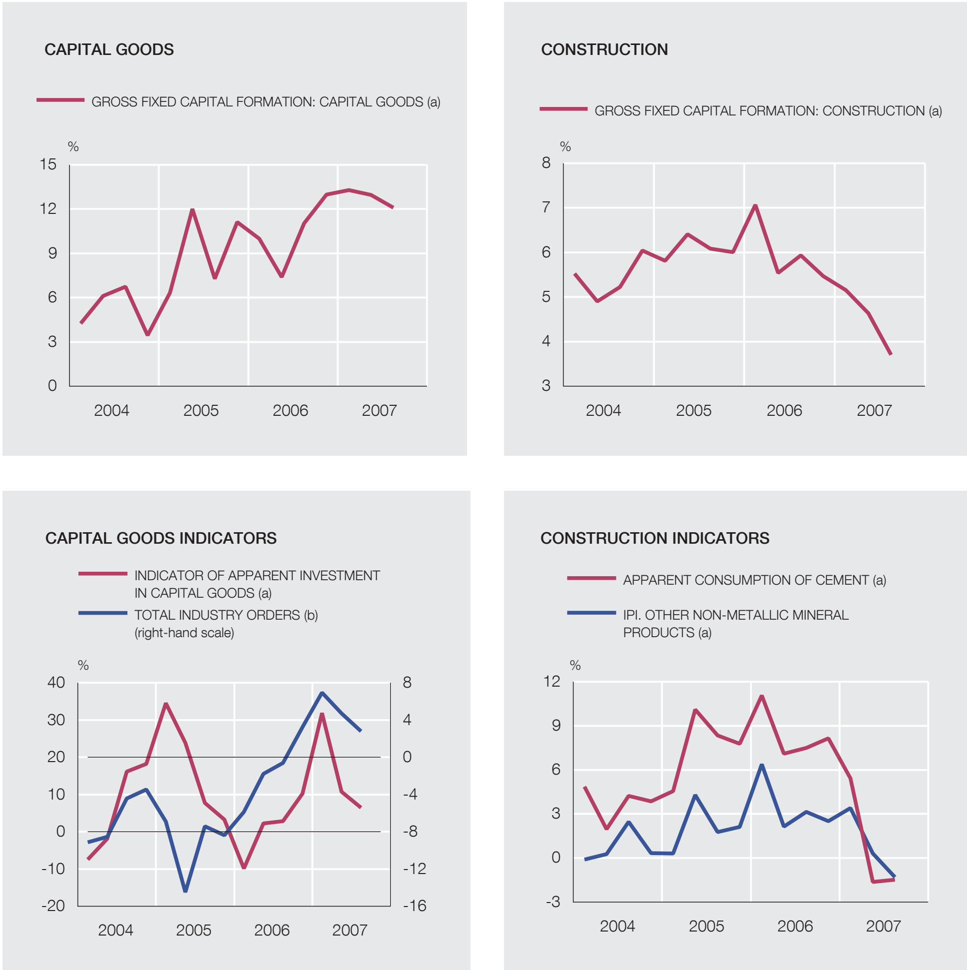


SOURCES: INE, European Commission, ANFAC and Banco de España.

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.

General government final consumption maintained its strength in 2007 Q2, although it slowed by 0.2 pp, to 5.5%. The information available would suggest that this buoyant growth continued in Q3, basically as a result of the information provided on net purchases of goods and services by the State budget outturn.

Gross fixed capital formation remained notably buoyant in 2007 Q2, its year-on-year growth rate remaining unchanged from the previous quarter at 6.6% (see Chart 17). The strong growth in investment in other products (a component linked to real-estate promotion and intermediation and to software acquisition) offset the slight reduction in both investment in equipment and, to a greater extent, in investment in construction, which grew by 13% and 4.6%, respectively, down 0.3 and 0.6 pp from the previous period. The information provided by the indicators for Q3 suggests that the strong growth rate of fixed capital investment declined to around 6%, as a result of a slowdown in investment in construction and spending on equipment, although the latter remained the most dynamic component of demand.

The available indicators of investment in equipment continue to point to an outlook of relative strength, albeit somewhat less strong than in previous quarters. Thus, the indicator of apparent investment, on data to August, showed a moderation of growth, given the reduced strength of imports of such goods. Meanwhile, opinion indicators have shown less optimism, as seen in the business and sentiment indicators for the equipment industry, with a substantial reduction in August in the latter indicator and in the forecast order book. The recent trend in investment in equipment continues to be sustained by buoyant activity and company profits, despite the growth of interest charges caused by higher interest rates and the greater recourse to external sources of financing, as indicated by Central Balance Sheet Data Office data to 2007 Q2. The further rise in the rate of capacity utilisation in Q3 suggests that investment continues to be needed to sustain economic growth. However, the progressive increase in the financing needs of non-financial corporations (which, in cumulative four-quarter terms, reached 9.4% of GDP in 2007 Q2) could act as a brake on their investment plans.

Investment in construction in Q2 continued the slowdown that commenced in early 2006. The conjunctural information available suggests that this trend will continue in 2007 Q3. This is the direction in which the most important contemporaneous indicators (which show less buoyant construction) and the sector's sentiment indicators are pointing. Apparent cement consumption, and other indicators of the production of intermediate products, fell in July and August. Meanwhile, the year-on-year growth rate of Social Security registrations in this industry declined by around three percentage points in Q3, while its registered unemployment rose significantly in year-on-year terms in the same quarter.

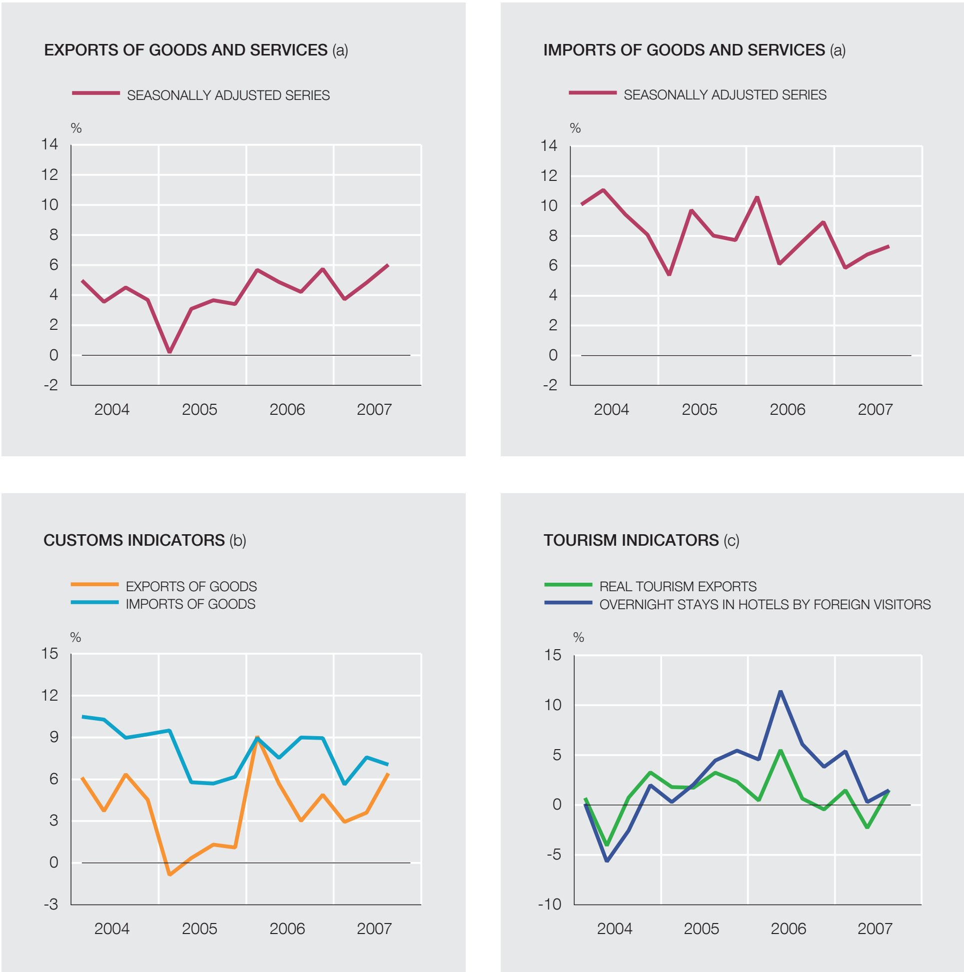
By type of work, investment in housing and other construction slowed in Q2, to rates of 3.7% and 5.7%, respectively. The leading indicators of investment in housing (such as approvals) and the path of demand which may be proxied by transactions suggests that the slowdown in this component continued in Q3. Housing starts also declined, which means that residential investment can be expected to moderate further in future. As regards other construction, the outlook for non-residential building is also of greater moderation in the light of the latest data on approvals for this type of construction. Meanwhile, civil engineering works are expected to maintain some buoyancy, albeit less than in previous quarters, as a consequence of the particularly high official tendering figures in 2006, the execution of which will be reflected in government investment in the current year.

In 2007 Q2, the negative net contribution to GDP growth of net external demand remained unchanged at 0.9 pp. During this period, the year-on-year growth rates of real exports and imports of goods and services rose by around one percentage point to 4.8% and 6.7%, respectively (see Chart 18). In Q3 imports, and especially exports, are estimated to have accelerated, with an improvement of 0.1 pp in the contribution of net external demand to GDP growth. Specifically, exports are estimated to have grown by around 6% year-on-year in Q3, thanks to an across-the-board improvement in their components, with significant growth estimated for sales of non-tourism goods and services, while real tourism receipts are estimated to have recovered from the negative rates seen in Q2. Meanwhile, imports are estimated to have grown by slightly more than 7%, boosted by the decline in their prices in terms of euros, owing to the appreciation of this currency.

According to customs figures for foreign trade, real goods exports performed very positively in July and August, growing at a year-on-year rate of 8.5% over this two-month period, as against 3% in the first half. By product group, the most dynamic items were exports of non-food consumer goods (especially cars) and intermediate goods. In the period January-August, real goods exports grew by slightly more than 4%, which was less than in 2006 (5.6%) and less than the estimated growth in Spain's external markets (see Box 4). By geographical area and in nominal terms, exports grew at a faster rate in July and August in markets outside the EU

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.

(12.6%), with especially high rates recorded in the case of those to China, Russia and its associated countries and the OPEC countries, although these areas still represent only a small part of Spanish foreign trade, while exports to Latin America declined. Within the euro area, exports to France and Italy grew at notable rates of above 10%.

Real exports of tourist services contracted (by 2.3% year-on-year) in 2007 Q2 in line with the unfavourable trend in the main real tourism indicators during that period, partly reflecting the adverse spring weather. The information available for Q3 is more favourable, with a recovery in overnight stays, incoming tourists and nominal spending, according to the tourism expenditure survey (EGATUR). These data warrant expectations of improvement in this sector, which has been somewhat slack since the second half of 2006.

As for real exports of non-tourist services, QNA data show growth of 12.2% in 2007 Q2, as against 6.5% in the previous quarter, in line with the upward trend in the nominal balance of payments indicator in that period. According to the incomplete information of this indicator, the strength of this component of external demand was sustained in Q3, underpinned by the buoyancy of business and transport services.

A DISAGGREGATED ANALYSIS BY GEOGRAPHICAL AREA AND PRODUCT TYPE OF SPANISH GOODS EXPORTS

BOX 4

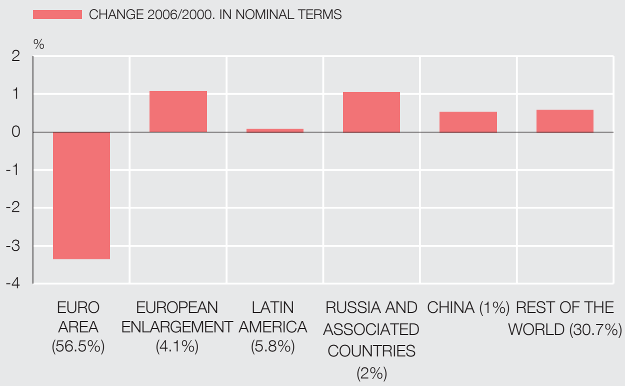
The correction in the negative contribution of net external demand to GDP growth displayed by Spain's quarterly National Accounts data (from -1.6 pp in 2005 to -1.2 pp in 2006 and -0.9 pp in the first half of 2007) is partly explained by the recovery in exports, especially in comparison with their slackness in 2005. Identifying the products and grographical areas underpinning this recovery provides important information on the factors that have governed its course in recent quarters and, therefore, on the possibilities for consolidation of this pattern in future.

The improvement in the sales of goods abroad in 2006 took place worldwide, with exports to non-European Union countries making a notable contribution (see the table below). By contrast, the mild slowdown in the first seven months of 2007 is explained entirely by the correction in goods exports to non-European Union countries, since sales to the euro area grew at a somewhat faster rate than in the previous year. The country-by-country information available in nominal terms, shows the broad-based nature of the recovery in sales to the euro area. By contrast, the behaviour of those to the rest of the world was more mixed, with sales highly buoyant to China, Russia and its associated countries and the EU enlargement countries, which points to a certain diversification of Spanish exports towards markets with more dynamic demand, while those to the American continent have generally displayed moderate growth. The second chart below shows how the structure of Spanish goods exports by geographical area, in nominal terms, changed between 2000 and 2006. While the weight in total Spanish goods exports of sales to the euro area fell by more than three percentage points, the proportion of those to emerging countries and areas increased. This geographical diversification of exports should be viewed positively, particularly at a time, like the present, of uncertainty in the international context, since it reduces exposure to certain markets, while enabling advantage to be taken of the higher growth of the emerging economies. Nonetheless, the euro area is still, by a wide margin, the main destination of Spanish goods exports, accounting for 56% of the total.

The greater orientation of Spanish exports towards emerging areas has helped to stem the decline in Spanish products' external market share. The first chart of the adjoining panel shows that, in recent quarters, the growth rate of Spanish goods exports, in real terms, has drawn nearer to that of world imports, although it is still below it. The deterioration in Spanish export price competitiveness indicators is one of the factors explaining the lower relative buoyancy of Spanish sales abroad, although in recent quarters the fall in manufacturing unit labour costs points to a more favourable price competitiveness performance in future. In addition, it should be noted that the appear-

1 SPAIN'S WORLD EXPORT SHARE, IN REAL TERMS
Year-on-year growth rate, based on a non-centred three-month moving average

2 CHANGE IN THE STRUCTURE OF SPANISH EXPORTS BY GEOGRAPHICAL AREA. 2000-2006 (a)



3 SPANISH EXPORTS BY GEOGRAPHICAL AREA AND PRODUCT

	2005	2006	2007 JAN-JUL
TOTAL EXPORTS, in real terms			
Year-on-year rate of change (%)	0.2	5.6	4.1
CONTRIBUTIONS TO GROWTH (%)			
By geographical area			
— Euro area	-0.8	1.8	2.1
— Rest of the EU	-0.2	0.5	0.0
— Rest of the world	1.0	3.3	1.9
BY PRODUCT GROUP`			
— Consumer goods	-0.8	1.9	0.6
— Equipment	0.6	1.2	-0.2
— Intermediate goods	0.4	2.6	3.6

SOURCES: IMF and Ministerio de Economía y Hacienda.

a. The share of each group of countries in Spanish exports in 2006 is shown in brackets.

ance of emerging countries on international markets has meant that the industrialised economies have generally had difficulty maintaining their export shares.

Analysis of exports by product group shows that non-energy intermediate goods are those that have made the greatest contribution to the growth of goods exports, both in 2006 and in 2007 to date. The country-by-country study confirms the general nature of the growth in the sales of this type of good, since it covers both the main countries of the euro area (Germany in particular) and the new EU enlargement countries and China. The buoyancy of the trade in this type of good is common to other countries and is related to the fragmentation of chains of production and the expansion of world industrial production. Along with non-energy intermediate goods, Spanish exports were sustained by cars in the first seven months of 2007, with a certain diversification in the sales of this sector towards the new EU enlargement countries and towards Russia and its associated countries being discerned. That said, sales to the euro area and, in particular, to France continue to represent a very high proportion of Spanish car exports. The specialisation of Spanish exports in this sector was one of the factors that held back growth in sales abroad in the first few years of the current decade, given the weakness of private consumption in the euro area at that time, while advantage is being taken of the better outlook for consumption in the area at present. Finally, equipment exports have performed least favourably in 2007 to date, primarily on account of the decline in sales of transport equipment.

In short, the latest data on Spain's external trade are compatible with a firming of the recovery in goods exports. The diversification in external sales towards emerging markets, as well as reducing the vulnerability of the external sector to the economic situation in certain areas, will enable them to benefit from the greater buoyancy of demand in these countries. However, this process is necessarily slow and, in the short and medium-term, Spanish export growth will continue to depend mainly on the growth of sales to the euro area, so that its course over the coming quarters will depend upon the behaviour of the relative prices of Spanish production vis-à-vis those of European competitors and on the economic situation in the euro area, which may be jeopardised if the recent financial turbulence affects real activity.

With regard to real goods imports, the QNA data for 2007 Q2 recorded an improvement in their year-on-year rate of growth to 6.3%, from 5.6% in the previous quarter. According to the most recent customs data, real imports continued to accelerate in July and August, owing to the rise in purchases of consumer goods and non-energy intermediate products. In the first eight months of the year real imports remained strong, growing by almost 7%, albeit below their average rate in 2006 (8.6%). Notable during this period was the acceleration in external purchases of equipment, to growth rates of more than 11%, while consumer goods purchases moderated, to around 4%. Meanwhile, imports of non-energy intermediate goods maintained the strength that characterised them in 2006, linked to buoyancy of industrial production.

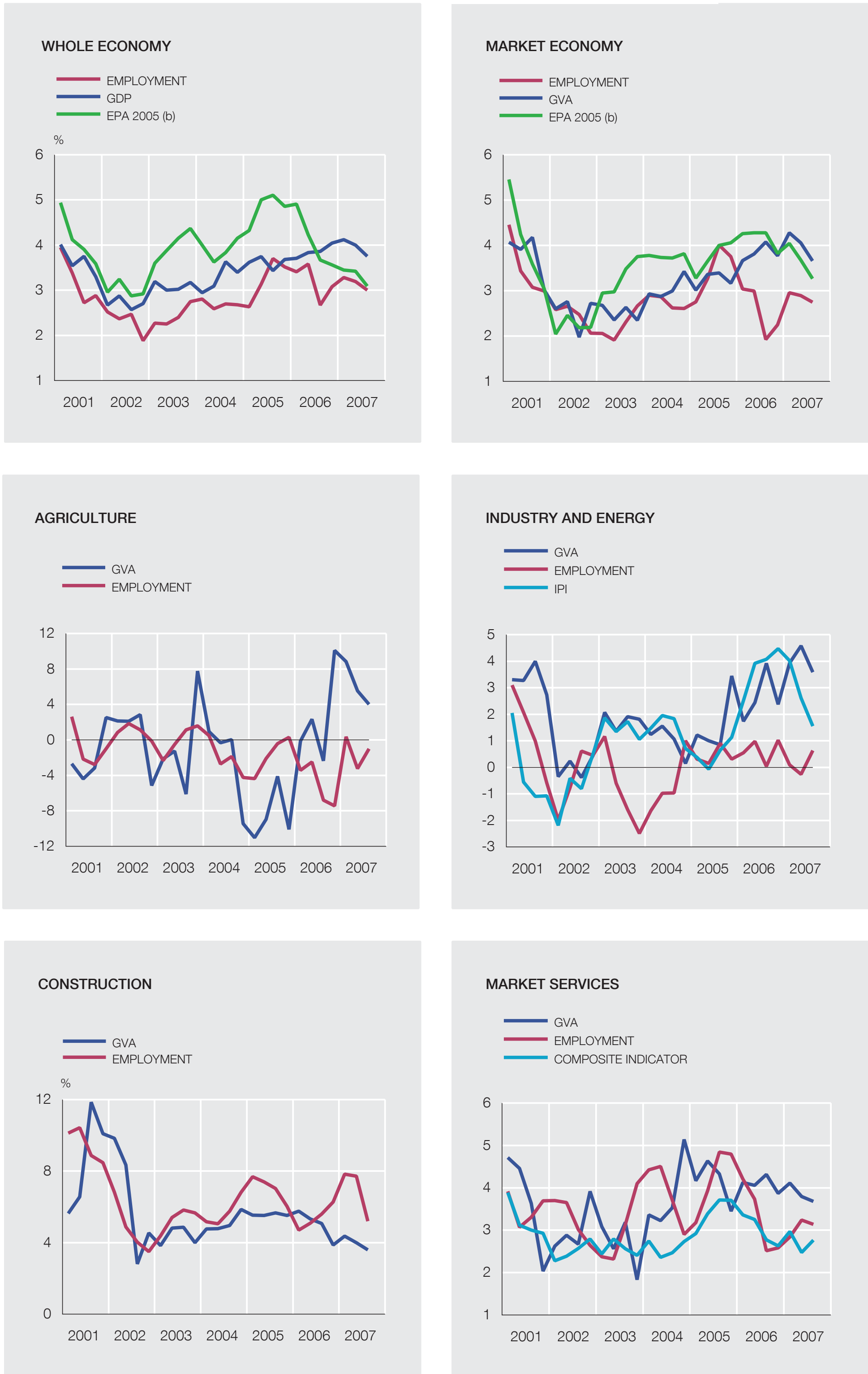
Finally, real services imports accelerated in 2007 Q2, to a year-on-year rate of 8.5%, from 6.8% in Q1. This was a result of the increase in purchases of non-tourist services, in line with the upward trend in the nominal balance of payments indicator. As in the case of imports, transport and business services were the main forces behind this growth. Royalties declined for the fourth consecutive quarter. Real imports of tourist services lost momentum in Q2, in line with the decline in the buoyancy of other components of final consumption demand.

4.2 Output and employment

In 2007 Q2, activity in the market economy was slightly less dynamic, so that its gross value added moderated to a year-on-year rate of 4.1%, 0.2 pp less than in the previous quarter. This loss of strength was experienced across the various sectors (agriculture, industry, construction and market services), with the exception of energy (see Chart 19). According to the available information, in Q3 value added declined by around 0.3 pp year-on-year, also as a result of the lower buoyancy recorded in all sectors, but especially in construction and energy.

Output in agriculture and fishing has recently had the benefit of favourable weather, which was conducive to notable growth in the first half of the year, the heavy floods and storms in the

GROSS VALUE ADDED AND EMPLOYMENT BY BRANCH OF ACTIVITY (a) CHART 19



SOURCES: INE, 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. Employment in terms of full-time equivalent jobs. EPA in terms of persons. For incomplete quarters, the year-on-year rate for the period available within the quarter is taken.
b. Series linked by the Banco de España on the basis of the control survey conducted using the methodology applied until 2004 Q4.

second half of May only partially reversing this effect. Thus, despite having slowed by somewhat more than 3 pp in Q2, its growth rate stood at 5.5%, exceeding that of other productive activities.

Overall, activity in the industrial and energy sectors accelerated by 0.7 pp in Q2 to 4.6%, driven by the energy sector, which offset the moderation in manufacturing output. Specifically, the industrial sectors lost momentum in Q2 in response to the reduced vigour of domestic consumption and other sectors (construction and market services), posting a year-on-year rate of 4.8%, below the notable growth recorded in Q1 (5.5%). The conjunctural information available for Q3 points to continuation of the slowdown in industrial activity. The industrial production index (IPI) grew in July and August by around 0.7% year-on-year, in calendar adjusted terms, as against almost 2.5% in Q2, when its growth was already moderating. The employment indicators, such as the number of Social Security registrations in industry, slowed somewhat in Q3, relative to Q2, albeit mildly, while the European Commission's opinion indicators, like industrial confidence, and those of purchasing managers showed falls in the quarter as a whole. By contrast, non-energy intermediate goods imports, which are strongly linked to industrial activity, accelerated in July and August, while the euro area industrial production index, an indicator closely related to its Spanish equivalent, was also quickening at the beginning of Q3.

Construction, which began the year on an accelerating path, lost momentum in Q2, its rate of growth falling to 4%, down 0.4 pp from Q1. As mentioned in the previous section, this loss of buoyancy reflected the lower pace of building, particularly in the residential investment segment, and can be expected to continue in Q3.

Services were less dynamic in Q2, growing at a year on year rate of 3.9% (down 4.2 pp from Q1). Market and non-market services behaved differently, the moderation of the former predominating over the acceleration in the latter. As for the most recent information, the sales of large corporations, Social Security registrations, the sector's confidence indicator compiled by the European Commission and the index of business activity of the PMI point to a slowdown in market services. Although this pattern is common to all sectors, the loss of momentum in transport and communications, which had until this quarter been the most dynamic, should be noted.

Employment creation in the economy as a whole in 2007 Q2 decelerated slightly, although it remained highly buoyant, with year-on-year employment growth of 3.2%, 0.1 pp less than in the previous quarter. Given the slowdown, of a similar magnitude, in activity in that same quarter the growth of apparent labour productivity remained just below 1% throughout the first half of the year.

In Q3 the indicators continued to point to moderation in employment growth. The number of Social Security registrations, calculated using average data, decelerated by 0.3 pp in Q3, with respect to Q2, to a year-on-year rate of 2.9%. According to the EPA (Labour Force survey) data for Q3, employment grew at a year on year rate of 3.1%, also slowing by 0.3 pp with respect to the previous quarter.

The only sector in which there was a clear acceleration in the rate of job creation in the first half of the year was market services (with an increase of 3.2%, as against 2.8% in Q1), although it should also be noted that employment in construction showed no signs of weakness according to the QNA data, maintaining high rates of job creation, of close to 8%. In contrast, the number of employees in agriculture and industry fell in Q2, in year-on-year terms. The most recent indicators for Q3 point to a slowdown in employment in the market economy, especially in construction, as a result of the reduced buoyancy of activity. In Q3, the slowdown in employment displayed by the EPA was concentrated in construction, where employment grew by 4.9%, almost 3 percentage points less than three months earlier. In services, employment remained highly buoyant (4.2%), as in the previous quarter, the high rate of job creation posted by market sectors being notable (5.1%). Meanwhile, employment in agriculture and industry again recorded negative year-on-year rates in Q3 (of -3% and -0.9% respectively), although in both cases, at a somewhat less intense rate than in the previous quarter. Overall, employment in the market economy grew at a rate of 3.3% in Q3, displaying a slightly more pronounced slowdown than the economy as a whole.

On QNA data, dependent employment remained more buoyant than self-employment in Q2, although the latter ceased declining in Q3, with a small positive change (0.2%). By contrast, dependent employment grew at a year-on-year rate of 2.9%, which rises to 3.2% in the case of the market economy alone. Social Security registrations also showed slower growth in self-employment (1% in Q3) than in dependent (3.1% in that period), although he latter has been decelerating, while the rate of increase in registrations of self-employed workers rose. The EPA data for Q3 show a certain deceleration in dependent employment which grew by 3.1%, down 1 pp from the previous quarter, while the growth rate of self-employment rose to 3.3% year-on-year.

According to the EPA for Q3, the slowdown in employment was passed through to both Spanish and foreign workers although, as in recent years, the employment of foreigners was much more buoyant. By type of contract, in the summer months permanent employment maintained the notable expansion of the previous quarters, with year-on-year growth of 7.3%. Also, the decline in temporary employment that began at the beginning of the year intensified, to a rate of 4.8% year-on-year. As a result, the ratio of temporary to total employment stood at 31.9% in Q3, 2.7 pp less than in the same quarter of 2006, although slightly higher than in Q2. The most recent INEM data on permanent employment show a pattern of slowdown during 2007.

By length of working day, full-time employment (3.4%) continued to grow faster than part-time employment (1%), leading to a fall in the ratio of part-time to total employment, to 11%, 0.3 pp below its level a year earlier.

The rate of growth of the labour force rose in 2007 Q3, to 3%, following the moderation in Q2 (2.8%), as a result of maintenance of the high rate of growth of the population over the age of 16 (1.8%) and the increase in the participation rate, which rose to 59.1%. As usual the female participation rate rose by more than the male one, to reach 49%, 1.2 pp higher than a year earlier, but still significantly below the male rate (69.6%).

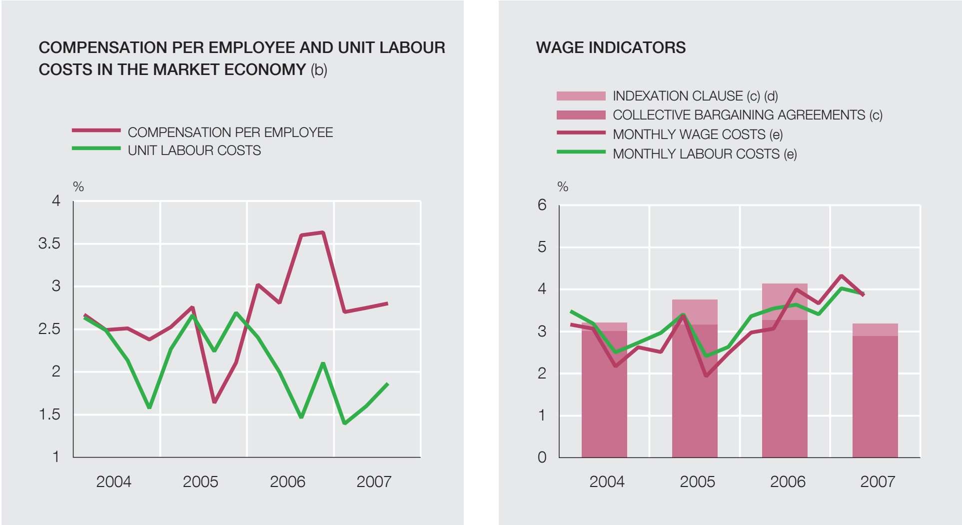
As a result of this rise in the labour force and the above-mentioned slowdown in employment, the number of unemployed persons increased by 31,900 in Q3. This increase entailed a positive annual rate of change (1.5%) in the numbers of unemployed, as against the declines recorded in the first half of the year. However, the rate of unemployment remained unchanged from its Q2 level of 8%, down 0.1 pp from its level in the same quarter of 2006. The behaviour of registered unemployment was also unfavourable in the summer, returning to positive growth rates, which had not been recorded for more than a year. Registered unemployment grew by 1.9% on average in Q3.

4.3 Costs and prices

In the second quarter of 2007, compensation per employee continued to grow at more moderate rates than in 2006 (see Chart 20). Specifically, in the economy as a whole, compensation per employee grew at a year-on-year rate of 2.9%, up barely 0.1 pp from Q1. In the market

WAGES AND LABOUR COSTS (a)

CHART 20



SOURCES: INE, 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 from collective bargaining agreements to September 2007.
d. Previous year's indexation clause.
e. ETCL (quarterly labour costs survey).

economy, the growth of compensation per employee remained somewhat lower, at 2.7%. The information available for Q3 points to the maintenance of growth rates of compensation per employee at around 3%. The information on wage settlements in collective bargaining agreements shows an average rise in 2007, in both newly signed and revised agreements, of around 2.9%, which represents a fall of 0.3 pp with respect to the same period the previous year in the case of revised agreements and of 0.4 pp in that of newly signed ones. The impact of indexation clauses corresponding to 2007 is estimated to be 0.3 pp, much smaller than in the preceding year (0.9 pp). The incidence of these clauses continues to be significant in the present year, affecting about 60% of workers with agreements registered between January and August 2007 (see Box 5).

Unchanged growth rates for compensation per employee, in conjunction with a slight fall in productivity, may have led to a small increase in unit labour costs (ULCs) in Q3 (see Chart 21). It is estimated that this growth of ULCs was not passed through to the growth rate of the value-added deflator, which actually declined slightly, in which case there will have been a certain reduction in operating margins. These results may be extrapolated approximately to the market economy. It should be noted that unit labour costs in industry continued to post negative growth rates in Q3, so that the gross operating surplus continued to widen in this sector.

As regards the final demand deflator, it is estimated to have remained at 2.6% during 2007 Q3, as a result of mixed behaviour among its components. The growth rate of the imports deflator was also unchanged from the previous quarter (0.8%), thanks to the low year-on-year rates of increase in oil prices and the decline in the prices of imported products in euro owing to the appreciation of this currency. As regards the GDP deflator, its growth declined by 0.1 pp, to 3.1%. If confirmed, this would be the lowest rate recorded in recent years.

The moderation in demand deflators observed in recent quarters appears to have continued in Q3, albeit less strongly, especially because of the stagnation of the private consumption

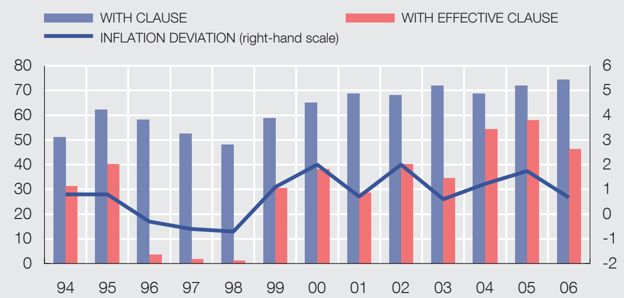
The widespread presence of inflation indexation clauses is one of the distinctive characteristics of the Spanish collective bargaining system. In fact, this is one of the basic elements of the successive Interconfederal Agreements for Collective Bargaining (AINC) which the social agents have been signing since 2002. These clauses operate by giving rise to an ex-post adjustment of wages to actual inflation, when the latter exceeds the projection taken as the reference rate in the agreement.

In 2006, according to preliminary data from the *Anuario de Estadísticas Laborales* (Labour Statistics Annual), agreements with this type of clause affected 74.4% of workers, a similar percentage to previous years (see Charts 1 and 2). As regards the percentage of workers for whom the clause was triggered, it fell from 58% in 2005 to 46.2% in 2006, owing to the fact that the inflation deviation in 2006 was smaller than in 2005. In any event, this percentage is higher than that observed in recent years, with similar inflation deviations to 2001 and 2003, when it reached 29% and 35%, respectively. The successive renewals of the AINC signed since 2002 have not, therefore, significantly increased the percentage of agreements with indexation clauses, but they do seem to be making such clauses progressively more effective. This greater effectiveness is a result of the fact that the inflation threshold above which these clauses are activated has been drawing closer and closer to 2%.

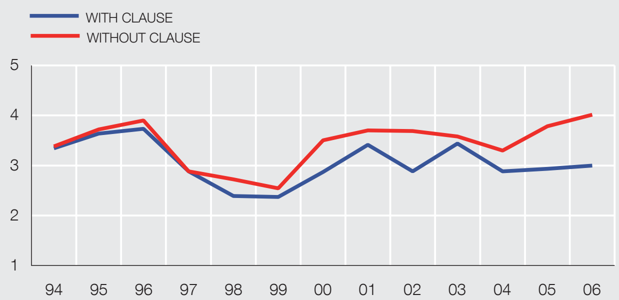
Two effects may be distinguished in the impact of the clauses on wage increases. First, insofar as these clauses can be interpreted as insurance for workers against inflation deviations, their presence might be expected to enable lower ex-ante wage increases to be agreed. In this respect, in 2006 the average initially agreed wage-rate increase was 3.2%, the result of an increase of 3% in agreements including these clauses and of 4% in agreements without such clauses (see Chart 2). Among the agreements including the inflation adjustment mechanism a large difference is appreciated between those agreements in which it is activated and those in which it is not. Thus, the ex-ante wage increase agreed in the former was 2.7%, as against 3.6% in the latter. As in other years, therefore, wage settlement moderation is seen in those agreements that include indexation clauses, and this is even greater when the agreements contain clauses that are eventually activated when the year-end inflation rate is published.

Second, insofar as there is a positive deviation by actual inflation from the inflation thresholds in the agreements, the presence of clauses will lead to an upward adjustment of wage increases. Generally, this second effect has meant that agreements with clauses give rise to higher wage increases than agreements that do not include such clauses (see Chart 4). In 2006, however, the smaller year-end inflation deviation (the CPI again exceeded the official reference rate (3%), but by a substantially smaller amount (0.7 pp) than in the previous year (1.7 pp)) meant that the amount of the revision of the wage increases of agreements with clauses was not large enough for the final wage increase to exceed the wage increase in agreements without a revision mechanism. Thus, the final wage increase was 3.4% in agreements with clauses, as against 4% in those without clauses. If only those agreements with an effective revision mechanism are analysed, the effect of the clause rises to 0.67 pp, i.e. a practically complete pass-through of the 2006 inflation deviation.

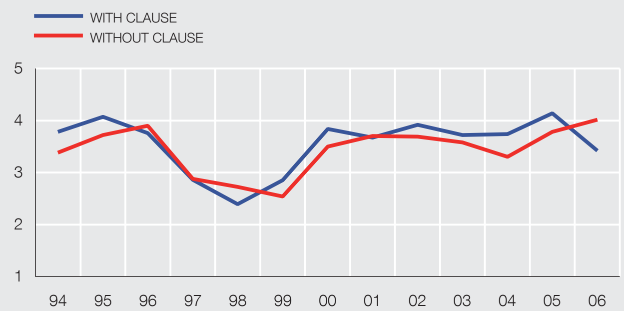
1 PERCENTAGE OF WORKERS WITH CLAUSE



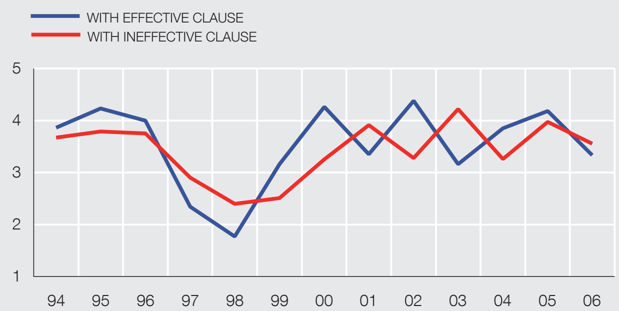
2 INITIAL WAGE INCREASES



3 FINAL WAGE INCREASES



4 FINAL WAGE INCREASES



SOURCES: INE and Ministerio de Trabajo y Asuntos Sociales

THE EFFECT OF INDEXATION CLAUSES IN 2006

BOX 5

In 2006, the presence of indexation clauses led to an overall upward revision of 0.3 pp in the wage increases agreed in collective agreements, which was significantly smaller than the 0.9 pp revision in 2005. In terms of the compensation per employee estimated in the National Accounts, this smaller impact of indexation clauses in 2006 will help to moderate wage growth in 2007, when the back-pay generated is received. In the event, this has indeed been reflected in the data for the first half of the year, with average growth of 2.7% in the market economy, as against 3.3% estimated for 2006. This wage moderation has been favoured, again this year, by the presence of negative wage drift linked to the high rate of job creation and the lower average wages paid to new labour market entrants.

In short, indexation clauses enable more moderate initial wage increases to be agreed, but subsequently involve automatic adjustment of wages to past inflation, which introduces a high degree of stickiness into wage increases and inflation rates. At moments like the present, when large increases occur in energy prices, the widespread presence of indexation clauses means that wages may incorporate these price rises, hampering the necessary adjustment of the economy to such shocks.

deflator in Q2, while the progressive slowdown in the construction deflator is estimated to have continued. During Q3, the consumer price index grew at a year-on-year rate of 2.4%, although this was the result of mixed behaviour across its components. The growth rates of unprocessed food and non-energy manufactured products were 1.6 pp and 0.3 pp lower respectively in Q3 than in the previous quarter, at 4.2% and 0.5%. In the case of industrial goods, the favourable behaviour of the prices of electronic and computer products, which continued to post reductions in their year-on-year rates, and of cars was notable. As regards unprocessed food prices, their deceleration was mainly a result of the smaller increases in some meat prices. Services inflation improved by only 0.1 pp (3.8%), while processed food inflation rose by 0.7 pp to 2.9%, bread and milk prices and the smaller falls in oil prices contributing to this acceleration. The year-on-year rate of decline in energy prices became less pronounced as a result of the rise in the price of crude oil during the quarter. In fact, the price of oil, after falling in August, rose in September to almost 78 dollars per barrel, a price that was exceeded by a wide margin in October, when it was above 80 dollars. In any event, the rise in the euro against the dollar helped to moderate the impact of rising oil prices. Consequently, the CPI excluding unprocessed food and energy remained unchanged at 2.5% (see Chart 22).

Inflation in Spain, as measured by the HICP, was 2.4% in Q3, while in the euro area as a whole it was 1.9%, so that the differential vis-à-vis the euro area remained at a three-year low, even improving by 0.1 pp with respect to the previous quarter (see Chart 23). By component, while the unprocessed food and services differentials narrowed in Q3, the acceleration of processed food prices in Spain led to a 0.3 pp increase in the corresponding differential. Meanwhile, the sharper slowdown in energy prices in the euro area reduced the negative differential that was being recorded for this component. Finally, the year-on-year growth rate of non-energy industrial goods prices slowed in Spain, while remaining unchanged in the euro area, so that the price increases of this component continued to be lower in Spain.

The producer price index (PPI) grew at moderate rates of around 2.3% in July and August, albeit rising to 3.4% in September. The increase in the latter month was marked by the greater dynamism of the producer prices of consumer goods (especially food) and by the increase in energy prices, which had been growing at negative rates for several months. Meanwhile, the producer prices of equipment grew during the period at slightly more than 3%. In the euro area as a whole the behaviour of producer prices to August was somewhat more favourable, so that the negative differential for Spain was around 0.6 pp. Finally, the index of prices for farm produce began to move downwards in May and June, and continued to do so over the follow-

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

SOURCES: INE and Banco de España.

a. Percentage change on a year ago based on QNA seasonally adjusted series.

ing months. Further increases in cereal prices were offset by the reductions in most meat prices.

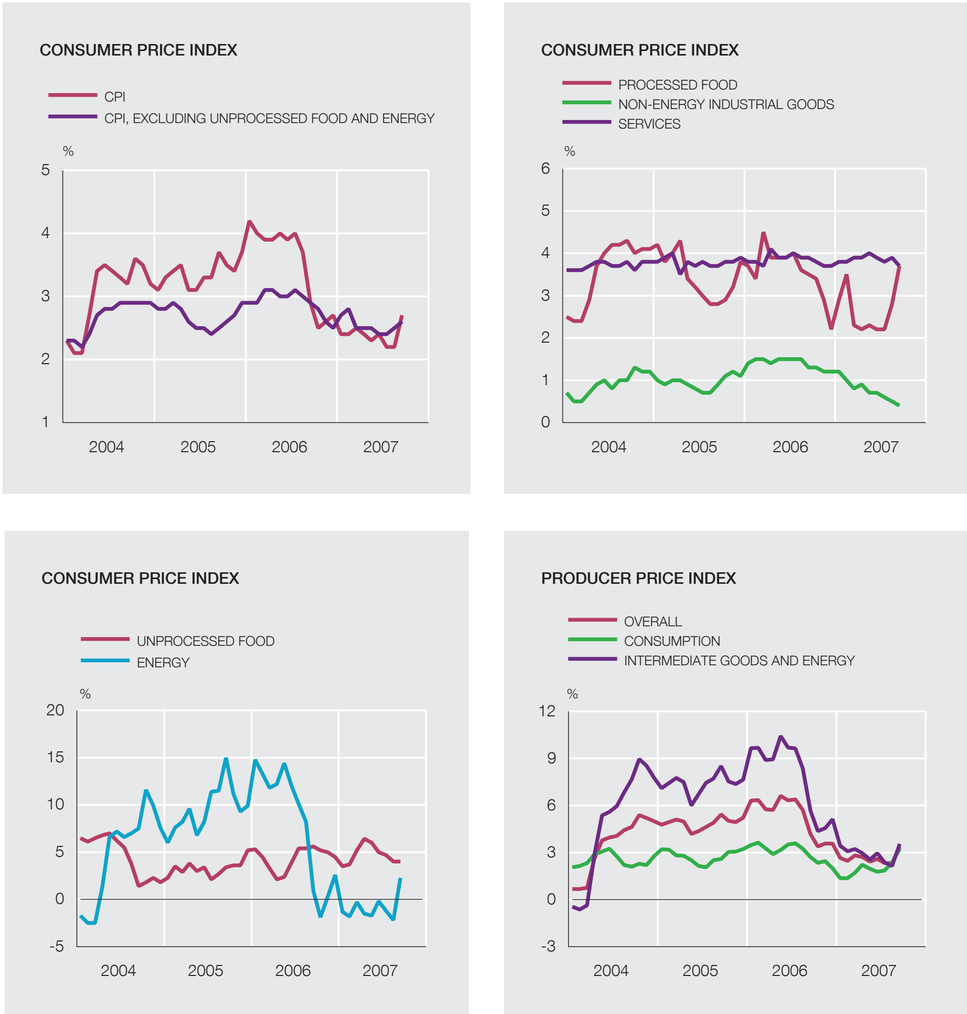
4.4 The State budget

On 21 September, the Spanish government's Council of Ministers approved the draft State budget (PGE) for 2008, which includes a target surplus for general government as a whole of 1.15% of GDP. This target does not include the deficit permitted by the Budget Stability Law for regional government investment (0.25% of GDP), although it does include that of the State (0.20%) and that of local government (0.05%) in that year. The draft PGE confirms the projections established in the latest Stability Programme Update and the Budgetary Stability Targets approved last June for 2008-2010. At the same time, the PGE forecasts that the year-end balance, in National Accounts terms, of the general government sector will be a surplus of 1.3% of GDP, a slight improvement on the initial forecast. By sub-sector, central government will post a surplus of 0.3% of GDP, while both the regional and local governments will end the year with deficits of 0.05% of GDP. As regards the Social Security system, its accounts are forecast to show a surplus of 1.1% of GDP.

The budget also offers an outturn projection of State revenues and expenditure in 2007. In accordance with National Accounts methodology, the outturn projection envisages a State surplus of €2,101 million (0.2% of GDP), which rises to €7,486 million in cash-basis terms, significantly exceeding the surplus of €3,620 million projected in the initial budget document.

PRICE INDICATORS (a)
Spain

CHART 22



SOURCE: INE.

a. Year-on-year percentage change based on the original series.

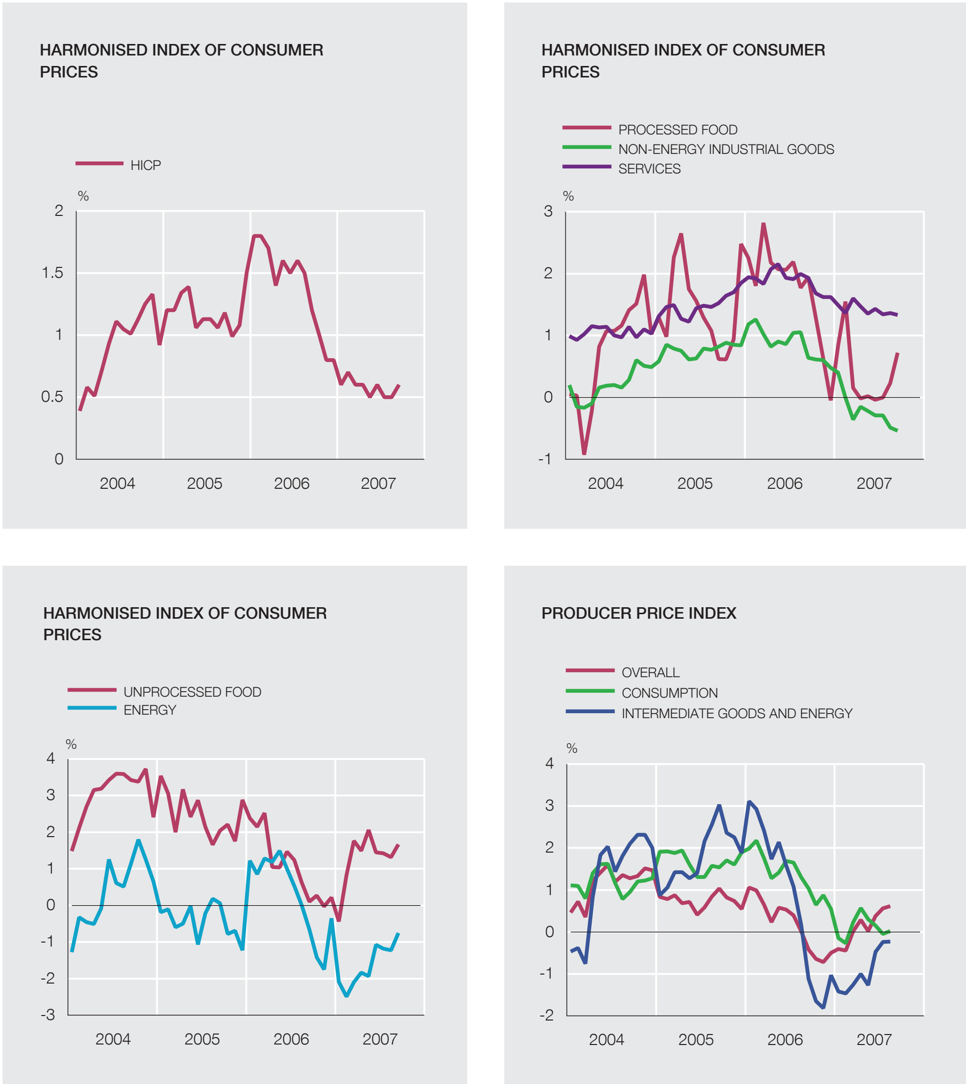
This improvement would be a consequence of the larger revenues from direct taxes and other revenues, especially profits and dividends.

Information is also available on the budget outturn to September. According to this information, the State accounts showed a surplus of €12,857 million (1.2% of GDP), in National Accounts terms, which exceeded the surplus of €10,716 million (1.1% of GDP) in the same period of 2006 (see Table 3), owing to growth of 10.8% in resources, while uses increased by 9.7%. In cash-basis terms, the surplus was €10,169 million, which exceeded that of €6,913 million recorded in the same period of the previous year. Revenues increased by 11.9%, while payments accelerated to 9.3%. These results point to a higher surplus for the year as a whole than the budget outturn projection.

To analyse revenue, information is available on receipts from the main taxes, both the portion assigned to the State, the only one shown in Table 3, and that corresponding to the ordinary-regime regional governments. This aggregate information is more illustrative for evaluating tax receipts. The figures for total receipts indicate that tax revenues accelerated slightly in Q3 as a consequence of the behaviour of direct taxes, while indirect taxes decelerated. Other reve-

PRICE INDICATORS CHART 23

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



SOURCES: Eurostat and Banco de España.

a. Year-on-year percentage change based on the original series.

nues, meanwhile, maintained virtually unchanged their high growth rates of the first half of the year. The growth rates of receipts of both personal income tax (with a 16.4% increase to September) and corporate income tax (with an increase of 31.8%) rose further in this quarter with respect to the first half of the year. In the first case they were underpinned by the withholdings on income from work (with growth of around 10%) and, in the second case, by the growth of net tax payable (which was not affected by the reform, since it corresponds to the previous year's profits). Both taxes were also influenced by the growth in withholdings on income from capital (which grew by 42.7%) and the withholdings on gains on mutual funds (with growth of 73.3% to September). Receipts of both taxes will have to slow drastically in the final quarter, which appears unlikely, if the outturn projection for growth in the whole of 2007 of 6.9% in the personal income tax and 12.5% in the corporate income tax is to be fulfilled. As regards indirect taxes, VAT decelerated notably, to 1.9%, basically as rebates were made earlier. As a result, the rate of growth of VAT receipts is expected to accelerate in the final months of the year, to around 5.5%, according to the outturn projection. Excise duties have been posting sustained rates of growth throughout the year, of around 7%, a certain recovery with respect to the weak

STATE BUDGET OUTTURN

TABLE 3

EUR m and %

	Outturn 2006	Percentage change 2006/2005	Outturn projection 2007	Percentage change 2007/2006	Outturn JAN-JUN Percentage change 2007/2006	Outturn 2006 JAN-SEP	Outturn 2007 JAN-SEP	Outturn Percentage change
	1	2	3	4 = 3/1	5	6	7	8 = 7/6
1 REVENUE	141,846	10.1	151,329	6.7	12.7	99,683	111,524	12.7
Direct taxes	81,130	14.8	87,716	8.1	18.0	54,929	65,957	18.0
Personal income tax	*41,451*	*15.3*	*43,000*	*3.7*	*15.3*	*30,780*	*33,978*	*15.3*
Corporate income tax	*37,207*	*14.5*	*41,842*	*12.5*	*22.5*	*22,280*	*29,372*	*22.5*
Other (a)	*2,472*	*11.5*	*2,874*	*16.3*	*30.3*	*1,869*	*2,606*	*30.3*
Indirect taxes	48,328	8.3	49,739	2.9	6.9	36,520	35,950	6.9
VAT	*35,424*	*10.7*	*35,491*	*0.2*	*5.5*	*27,006*	*24,940*	*5.5*
Excise duties	*9,895*	*1.0*	*11,015*	*11.3*	*14.4*	*7,251*	*8,588*	*14.4*
Other (b)	*3,009*	*7.0*	*3,233*	*7.5*	*4.2*	*2,264*	*2,422*	*4.2*
Other net revenue (c)	12,388	-8.2	13,874	12.0	17.1	8,234	9,617	17.1
2 EXPENDITURE	130,375	6.2	143,843	10.3	8.0	92,771	101,354	8.0
Wages and salaries	22,209	7.4	23,859	7.4	6.6	15,912	16,937	6.6
Goods and services	3,799	12.1	4,319	13.7	19.3	2,386	2,788	19.3
Interest payments	15,619	-12.4	14,607	-6.5	-12.9	13,139	12,182	-12.9
Current transfers	72,225	11.9	79,560	10.2	9.8	51,490	57,581	9.8
Investment	9,037	0.7	11,357	25.7	18.3	5,466	6,314	18.3
Capital transfers	7,487	2.0	10,141	35.4	25.4	4,377	5,552	25.4
3 CASH-BASIS BALANCE (3 = 1 – 2)	11,471	—	7,486	—	—	6,913	10,169	—
MEMORANDUM ITEM: NATIONAL ACCOUNTS (EDP)								
Resources	147,201	13.1	156,377	6.2	12.4	102,898	113,983	12.4
Uses	142,422	10.8	154,276	8.3	7.0	92,182	101,126	7.0
NET LENDING (+) OR BORROWING (–)								
	4,779	—	2,101	—	—	10,716	12,857	—
(as a percentage of GDP)	0.5	—	0.2	—	—	1.1	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.
c. Includes charges and other revenues, current transfers, profits and dividends, capital transfers and other unclassified transactions.

increases of previous years. The outturn projection envisages a certain slowdown in receipts, to growth of 4.1% in the year as a whole. Finally, the items grouped under other revenues were highly buoyant to September, owing, above all, to the profits and dividends and to the capital transfers from the ERDF. The outturn projection envisages a certain slowdown in the last quarter, partly due to charges, for which a negative rate of change is forecast for the year as a whole.

With regard to State expenditure, the acceleration in Q3 was marked by that in current expenditure, specifically, interest payments and current transfers. Meanwhile the growth rates of wages and salaries and goods and services (the latter owing to the strong growth in spending linked to the electoral process in the first half of the year) moderated. Capital expenditure continued to increase at high rates, especially in the case of capital transfers. The outturn projection envisages a slight acceleration in total expenditure in the final quarter, which would be linked to expenditure on wages and salaries, interest and, above all, the capital expenditure items.

The Social Security system posted a surplus of €10,800 million in the period January-July 2007, up 20.1% on the same period a year earlier, which was a more favourable result than in the period to April. Both revenues and payments have accelerated in recent months to 9% and 7%, respectively.

Revenue from social security contributions increased by 7.5% to July, the same rate as recorded to April. The growth in the number of Social Security registrations has slowed in recent months, reaching a rate of 2.6% to September 2007, below the rate recorded for the whole of the previous year, highlighting a certain loss of buoyancy in the labour market.

Turning to expenditure, there was a mild slowdown in that on contributory pensions, which increased by 6.5% to July, as against 6.7% to April and in marked contrast to the 8.5% increase budgeted for the year as a whole. The growth rate in the number of contributory pensions has stabilised at around 1.3%, below the average rate in 2006 (2.3%). Meanwhile, expenditure on sickness benefits slowed significantly, to 3.8% in July, well below budget.

As regards the SPEE (National Public Employment Service), the data for which are not included in the adjoining table, contributions received increased by 6.7% to May, above budget, while rebates on contributions in respect of employment-promoting contracts increased by 15.4% to the same month, in this case below budget.

SPEE expenditure on unemployment benefits grew in August by 5.8%, in cumulative year-on-year terms (less than the 7.6% increase recorded in 2006 as a whole and also less than the increase of 6.5% budgeted for the year as a whole), while the number of beneficiaries increased by 12.1% in the same period (as against 3% average growth in 2006). In addition, registered unemployment, which increased by 2.1% year-on-year to August, accelerated further in September to 2.6%, in contrast to the average fall of 1.1% in 2006. This gave rise to a further increase in the coverage ratio, which stood at 71.8% in August 2007, as against 66.6% at end-2006.

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		
	2006	2007	% change	% change	2006	2007	% change
	1	2	3 = 2/1	4	5	6	7 = 6/5
1 REVENUE	97,547	106,142	8.8	8.5	59,652	65,008	9.0
1.1 Social security contributions (c)	90,625	97,942	8.1	7.5	55,556	59,738	7.5
1.2 Current transfers	5,295	5,963	12.6	13.8	3,177	3,588	13.0
Other (d)	1,628	2,237	37.5	38.6	920	1,682	82.8
2 EXPENDITURE	90,562	98,390	8.6	6.4	50,657	54,208	7.0
2.1 Wages and salaries	2,165	2,253	4.1	-2.7	1,242	1,252	0.8
2.2 Goods and services	1,733	1,807	4.2	0.0	986	990	0.4
2.3 Current transfers	86,133	93,743	8.8	6.7	48,276	51,551	6.8
Contributory pensions	*73,832*	*80,099*	*8.5*	*6.7*	*41,592*	*44,301*	*6.5*
Sickness benefits	*6,656*	*7,313*	*9.9*	*8.7*	*3,604*	*3,741*	*3.8*
Other benefits	*5,646*	*6,331*	*12.1*	*4.5*	*3,080*	*3,509*	*13.9*
2.4 Other (e)	530	588	10.8	68.2	152	415	172.7
3 BALANCE	6,986	7,752	11.0	14.8	8,995	10,800	20.1

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 2007.
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.

BALANCE OF PAYMENTS: MAIN COMPONENTS (a) TABLE 4

EUR m

		JANUARY-JULY	
		2006	2007
CREDITS	Current account	177,693	197,505
	Goods	101,138	108,660
	Services	47,043	51,847
	Tourism	22,290	23,041
	Other services	24,753	28,806
	Income	21,347	27,482
	Current transfers	8,166	9,515
	Capital account	3,370	3,243
	Current + capital accounts	181,063	200,748
DEBITS	Current account	227,405	257,587
	Goods	145,951	157,160
	Services	35,315	39,857
	Tourism	7,026	7,676
	Other services	28,289	32,181
	Income	33,712	45,393
	Current transfers	12,427	15,177
	Capital account	863	934
	Current + capital accounts	228,268	258,521
BALANCES	Current account	-49,711	-60,082
	Goods	-44,812	-48,500
	Services	11,728	11,991
	Tourism	15,264	15,366
	Other services	-3,536	-3,375
	Income	-12,366	-17,911
	Current transfers	-4,261	-5,661
	Capital account	2,507	2,309
	Current + capital accounts	-47,204	-57,773

SOURCE: Banco de España.

a. Provisional data.

4.5 The balance of payments and capital account

In the first seven months of 2007, the overall balance on current and capital account was a deficit of €57,773 million, up 22.4% on the same period of the previous year (see Table 4). The current account deficit widened by 20.9% in this period, to €60,082 million, basically owing to the widening that took place in Q2. Meanwhile, the surplus on capital transactions declined by 7.9% to €2,309 million. The balances of the main components of the current account deteriorated in the first seven months of 2007, with the exception of services, which improved, as a result of the growth in the tourism surplus and the partial correction of the other services deficit. The trade deficit continued to widen, albeit at a more moderate rate (8.2%), while the income deficit increased significantly (45%).

In fact, the moderate expansion in the trade deficit in the period January-July contrasts with the strong deterioration seen in recent years. This is because the energy bill fell in this period, in line with the trend in oil prices on international markets and with the appreciation of the euro against the dollar, since the non-energy trade imbalance widened at a faster rate than in 2006.

As for the services balance, the first seven months of the year showed a slight improvement in the surplus relative to the previous year, stemming from a modest recovery in net tourism revenues and a small correction in the other services deficit. Nominal tourism revenues increased by 3.4% to July, less than the average rate in the previous year, reflecting their slackness in Q2, although, according to the available conjunctural indicators, they recovered slightly over the summer. Tourism payments, meanwhile, increased by 9.2% in the period January-July, in line with the average increase in 2006. Yet, despite the rise during the summer, they continue to follow a path of slowdown, in step with the trend in their main determinants. As for other services, revenues were more buoyant than payments, with growth rates of 16.4% and 13.8%, respectively.

The income deficit widened notably in the first seven months of 2007, to €17,911 million, a deterioration of €5,545 million in relation to the level in the same period of the previous year. Both revenues and payments were highly expansionary in the first seven months of 2007, with year-on-year growth rates of 28.7% and 34.7%, respectively. By institutional sector, financial institutions and, in particular, other resident sectors saw their deficits expand notably, while there was a mild correction in the general government deficit.

Current transfers showed a deficit of €5,661 million in the period January-July 2007, up €1,400 million from that recorded in the same period of the previous year. Revenues increased by 16.5% year-on-year, thanks to the favourable trend in EU flows connected to the European Social Fund, as well as other transfers received by the private sector. Meanwhile, the buoyancy of payments exceeded that of receipts, reflecting the significant growth in both the payments made by the public sector and those made by other resident sectors, the notable growth in migrant remittance payments (25.4%) standing out.

Finally, the capital account surplus amounted to €2,309 million in the first seven months of 2007, a decline of 7.9% with respect to the same period of the previous year. This deterioration is basically explained by the decline in the revenues received by general government, mainly in relation to debt forgiveness and from the Cohesion Fund. This offset the expansionary behaviour of structural funds received from the ERDF.

5 Financial developments

5.1 Highlights

Financial developments in the Spanish economy in 2007 Q3 were influenced by the bout of turbulence on international financial markets arising from the increase in defaults on US subprime mortgage loans. Higher liquidity requirements associated with the refinancing difficulties of certain vehicles that were investing in mortgage-backed securities were, in conjunction with the confidence crisis, reflected in a rise in interbank market interest rates. Consequently, in September the one-year Euribor averaged a rate of 4.72%, 21 bp higher than in June.

The turbulence also hit other financial markets. On credit markets there was a widespread repricing of risk, which pushed premiums higher and was more pronounced for the lowest-quality securities. In any event, credit spreads had dropped to historically low levels and, therefore, recent developments to a certain extent represent a process of normalisation, albeit a sudden one. As a result of heightened uncertainty, some investors showed greater preference for safer assets, and government debt yields fell. Stock prices became more volatile at the same time as valuations dropped more sharply for banks and construction companies (see Chart 24). However, after the main central banks intervened to alleviate the credit squeeze, some of the abovementioned movements were fully or partially reversed. Government debt yields rose again, credit risk premiums fell and stock prices increased. On the cut-off date of this article, the Madrid Stock Exchange General Index was 1.7% higher than at the end of June, with gains of 7.3% for the year as a whole, similar to those reached in the same period by the EuroStoxx Broad Index (7.7%) and by the S&P 500 of US firms (8.5%). Conversely, forward interest rates on interbank markets remained high even though part of the rise was corrected.

Against this backdrop, private-sector financing conditions tightened in Q3. As for households, between June and August (the last month for which information is available) interest rates on bank loans for house purchases rose 23 bp and those on consumer and other loans climbed 45 bp. The price of funds provided by banks to companies increased by 25 bp over the same period and the cost of fixed-income issues was up by 10 bp (in the long-term bracket) and by 23 bp (short-term). In contrast, the indicator which approximates the cost of own funds dropped slightly. According to the latest Bank Lending Survey (BLS), conducted in September, financial turbulence contributed to tightening loan qualifying standards, especially for corporations. Institutions expected the credit supply to continue to be increasingly more restrictive in the last three months of the year, partly as a result of greater difficulties in obtaining funds on the markets, as anticipated by these intermediaries.

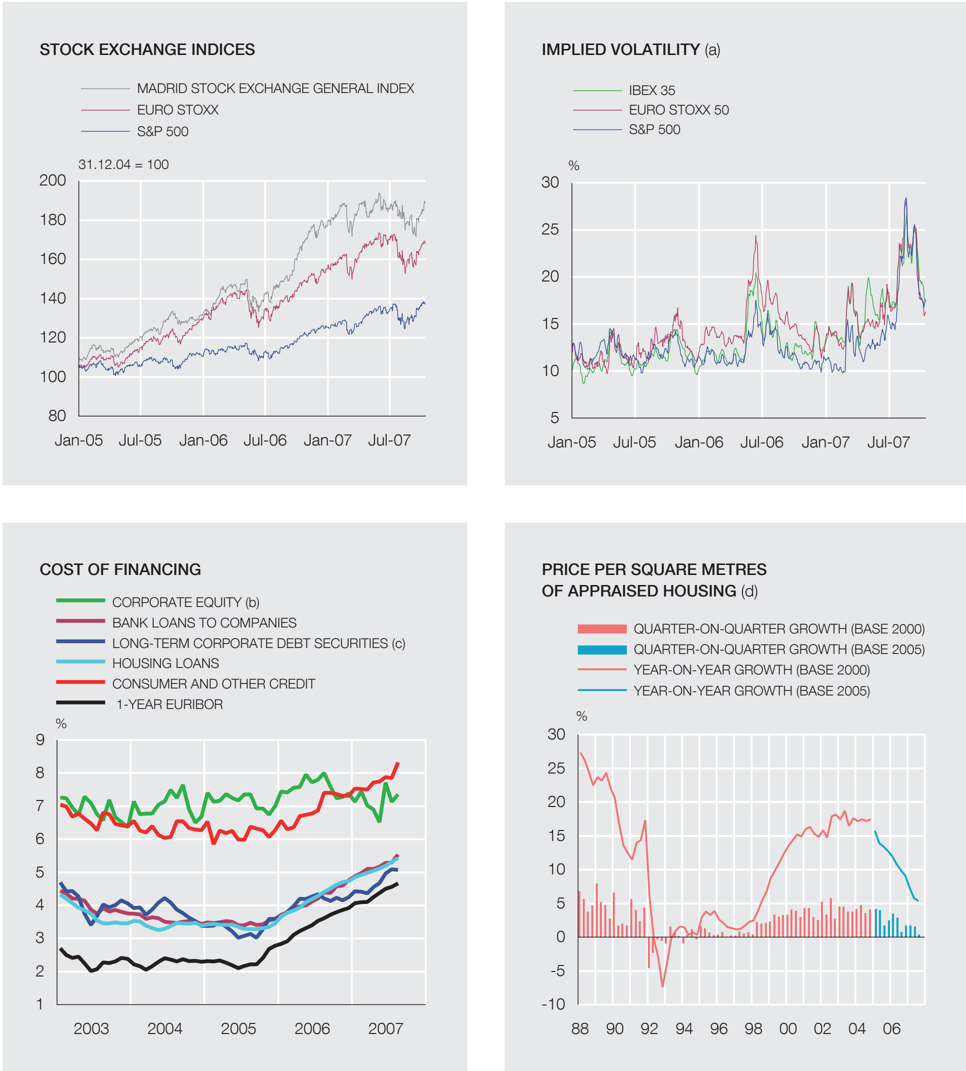
On the latest Spanish Ministry of Housing figures, year-on-year growth in appraised unsubsidised housing stood at 5.3% in 2007 Q3, 0.5 pp lower than in June and 4.5 pp lower than in the same period a year earlier. Thus, the gradual normalisation of prices on property markets continues.

In this setting, the deceleration in private-sector debt in the preceding months continued. For households, the year-on-year growth rate in credit posted a rise of nearly 16%, just over 0.5 pp less than in June. The breakdown of credit by purpose shows that the expansion of liabilities was more moderate in both house-purchase loans and in consumer and other loans, with growth rates of around 17% and 14%, respectively. The provisional data to September indicate that these trends will continue.

Corporate debt grew by around 24% in August in comparison with the same period a year earlier and was just under 0.5 pp lower than the figure for the end of Q2. The provisional infor-

FINANCING CONDITIONS AND ASSET PRICES

CHART 24



SOURCES: Bloomberg, Credit Trade, Datastream, MSCI Blue Book, Ministerio de la Vivienda and Banco de España.

a. Five-day moving averages.
b. The cost of equity is based on the three-stage Gordon dividend discount model.
c. The cost of market-based long-term debt is calculated as the addition of the average 5-year CDS premium for the non-financial corporations to the 5-year euro swap rate.
d. New statistic from 2005.

mation for September indicates that the deceleration in corporate borrowing continued in that month. The latest data on the breakdown of credit for June show that funds earmarked for construction and real estate services slowed, although they continue to grow at a brisk pace, which was more or less offset by more buoyant funds borrowed by the other sectors and, in particular, by industry, whose funds increased by 20% in year-on-year terms in comparison with 15% in March.

Although household liabilities slowed, they continued to outpace growth in household income. Consequently, between March and June, the debt and debt burden ratios rose once again, this being due also in the latter case to the rise in interest rates (see Chart 25). On the provisional data available, these trends continued in Q3. However, the recovery in gross saving, in cumulative twelve-month terms, prevented another reduction in the sector's saving capacity, after stripping out debt repayment obligations. In line with this trend, the sector's net borrowing

INDICATORS OF THE FINANCIAL POSITION OF HOUSEHOLDS AND NPISHs CHART 25

SOURCE: Banco de España.

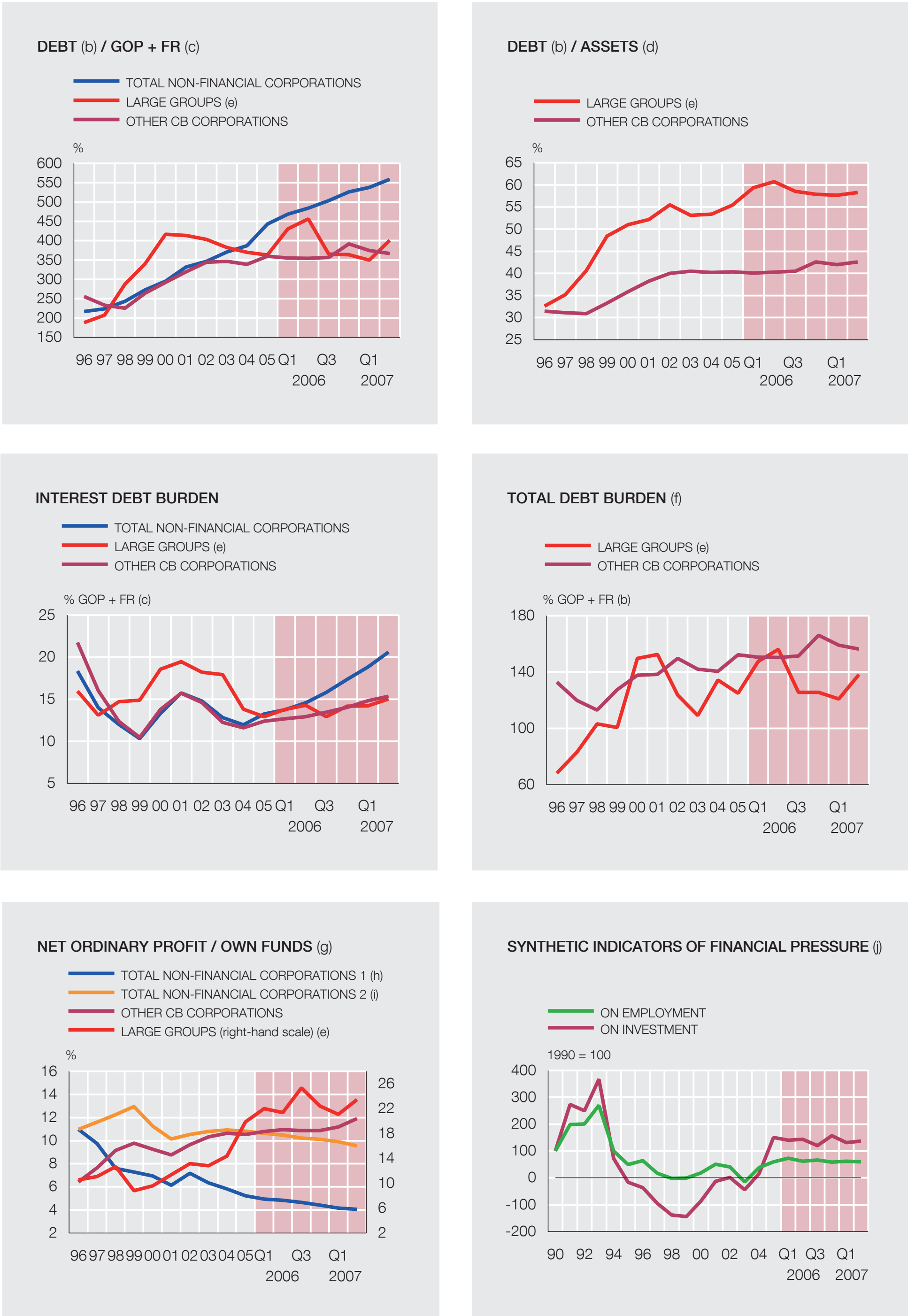
a. From 1999, the sectoral National Accounts data corrrespond to the CNE base 2000. For prior periods, an estimate consistent with this base is used.
b. Includes bank credit and off-balance-sheet securitised loans.
c. Assets 1 = Total financial assets – "other".
d. Assets 2 = Assets 1 – shares (excluding 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 from 2005.

indicated by the Financial Accounts did not show significant changes. Households' net wealth progressed at a similar pace to their revenue and, consequently, in relation to gross disposable income (GDI), it remained around the comfortable levels seen in the first half of the year.

Corporate aggregate debt and debt burden ratios also remained on a rising course in Q2, a trend which, on the provisional data available, continued in the summer months. Higher financial costs curbed the sector's income growth, resulting in slightly lower returns on capital. On Financial Accounts data, the sector's net borrowing continued to increase in the same period to 10.5% of GDP in cumulative twelve-month terms. The sample of companies reporting to the Central Balance Sheet Data Office Quarterly Survey (CBQ), in which larger companies have a sizeable weight, reveals that debt and interest payments followed a similar path. The effect of this on the indicators of financial pressure on investment and employment was, however, offset by the improvement in earnings (which was particularly pronounced in the industrial sector) and, consequently, they remained at similar levels to March (see Chart 26).

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.

NET FINANCIAL TRANSACTIONS
Four-quarter data

TABLE 5

% GDP

	2002	2003	2004	2005	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2
National economy	-2.7	-2.9	-4.8	-6.5	-7.2	-7.8	-8.1	-8.3	-8.7
Non-financial corporations and households and NPISHs	-3.3	-3.8	-5.1	-8.2	-9.7	-10.4	-10.6	-11.1	-12.1
Non-financial corporations	*-4.0*	*-3.9*	*-4.5*	*-6.9*	*-7.5*	*-8.4*	*-9.0*	*-9.4*	*-10.5*
Households and NPISHs	*0.7*	*0.1*	*-0.6*	*-1.3*	*-2.2*	*-2.0*	*-1.6*	*-1.7*	*-1.6*
Financial institutions	1.2	1.0	0.6	0.7	0.6	0.6	0.6	0.7	1.1
General government	-0.5	-0.2	-0.4	1.0	1.9	2.0	1.8	2.1	2.3
MEMORANDUM ITEM:									
Financing gap of non-financial corporations (a)	-8.5	-8.2	-8.7	-11.1	-14.3	-15.6	-15.9	-13.8	-15.6

SOURCE: Banco de España.

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

The increase in the shortfall in corporations' funds was not entirely offset by the improvement in the financial saving of other sectors which, on the latest Financial Accounts data for Q2, drove the nation's net borrowing higher to the equivalent of 8.7% of GDP in cumulative twelve-month terms (see Table 5). The funds required from the rest of the world to cover the Spanish economy's expenditure in excess of its income continued to be channelled basically through the financial system.

In short, the financial position of households and corporations has not changed significantly in recent months. And this, in conjunction with the strength of credit institutions, is a major factor of the Spanish economy's resilience against the recent turbulence on international financial markets. In particular, the favourable situation of the Spanish financial system and the high quality of the securities issued are factors which contribute to cushioning the effect of this turbulence on the availability and cost of borrowing for households and corporations (see Box 7). However, in view of Spain's high requirements of foreign capital, this episode could, if prolonged, ultimately affect the terms of these agents' borrowing.

5.2 Households

In 2007 Q3 household financing conditions tightened. In line with money market developments, the interest rates on new credit transactions for house purchases increased by 23 bp between June and August, at the same time as those on consumer and other purpose loans rose 45 bp (see Chart 24). According to the latest BLS conducted in September, financial institutions were more restrictive than in the preceding three months regarding qualifying standards for both types of loans and augured further tightening in the closing months of the year, due partly to the difficulties of raising funds on wholesale markets.

Tougher financing conditions contributed to the ongoing gradual slowdown in household debt, with the result that the rate of increase of this variable fell by approximately 0.5 pp to 16% in August. By purpose, the diminished dynamism of liabilities was visible both in house purchase loans and in funds earmarked for consumption and other purposes, whose growth rates dropped to below 17% and 14%, respectively. On BLS projections, financial institutions anticipate that in 2007 Q4 weaker growth in loans to this sector will continue as a result of lower expected demand and less generous credit standards.

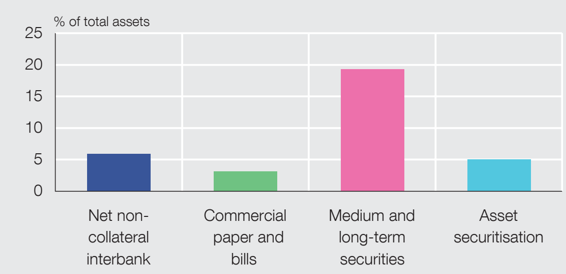
During the summer months, the problems caused by the growing number of sub-prime mortgage defaults in the United States and uncertainty over the holders of these assets, and the securities linked to them, resulted in a widespread re-assessment of global credit spreads and in fewer investors and intermediaries being prepared to lend funds, even to apparently solvent institutions (such as, for example, Northern Rock in the United Kingdom). Consequently, the financial position of a large number of international banks has been affected in three ways: firstly, as a result of losses associated with their direct and indirect exposure to US sub-prime mortgages; secondly, by the increased use of credit line commitments to various vehicles (conduits, SIVs) ; and, thirdly, by the difficulties of obtaining fresh funds on wholesale markets, including the interbank market. In this setting, an important debate has arisen about the possible impact that this deterioration in the capital and liquidity of these international financial intermediaries might have on private-sector financing conditions and its macroeconomic implications. The purpose of this box is precisely to analyse this aspect applied to Spanish credit institutions.

In this respect, the initial point to be made is that the first two ways in which this episode can affect Spain are essentially irrelevant, since Spanish credit institutions' direct and indirect exposure to the US sub-prime market is absolutely marginal and there are no financing commitments to structured vehicles which invested in these assets. Consequently, the analysis will focus on the third channel (the difficulties of obtaining new financing on wholesale markets).

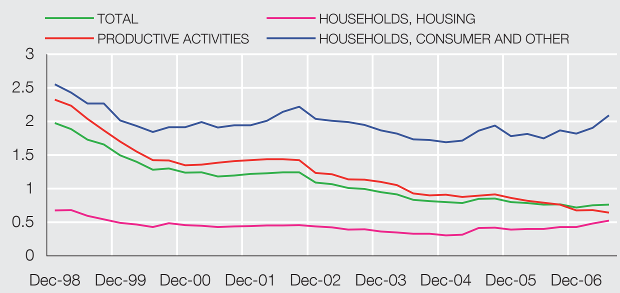
With credit in recent years consistently outgrowing traditional funds (customer deposits), institutions were forced to resort to a greater extent to the markets. They regularly borrow funds through this channel, both to refinance liabilities which are maturing and to obtain new funds to increase their assets. However, as shown in panel 1, the bulk of wholesale financing was obtained through medium and long-term securities and securitisation, this latter channel also entailing, first and foremost, the issue of securities at these terms (95% of the outstanding amount). Accordingly, in June 2007 the outstanding amount of the two means mentioned accounted for approximately 25% of assets, in comparison with the figure of under 10% represented by the sum of the non-collaterised net debit position in the interbank market plus short-term securities (6% in the interbank market and 3% in commercial paper and bills). Also, 77% of the debt raised on the interbank market related to foreign banks which, in addition to representing only 7% of total credit to households and firms, had the financial backing of their parents. Therefore, the short-term refinancing requirements of domestic banks are relatively small, which explains why they have hardly been affected by recent money market tensions.

1. These vehicles invested in assets linked to US subprime mortgages with financing obtained through the issue of short-term securities.

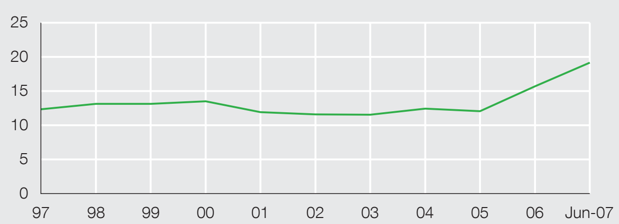
1 FINANCING ON MARKETS. JUNE 2007 (a)



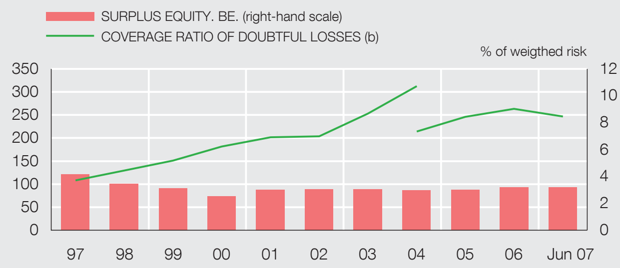
2 DOUBTFUL ASSETS. CREDIT TO ORS (a) (b)



3 RETURN ON EQUITY (a)



4 SOLVENCY AND PROVISIONS (a)



SOURCE: Banco de España.

a. Individual data except for solvency which is calculated at consolidated level.
b. In June 2004 the volume of doubtful loans increased and the coverage ratio changed due to the implmentation of Accounting Circular 4/2004.

In the medium and long term, Spanish institutions' ability to continue to increase credit more than deposits will be determined by the conditions in which they can finance themselves on the fixed-income markets. The availability and cost of these funds will essentially hinge on the risk for investors of the securities issued by these institutions. Mention should be made in this connection of the soundness of the Spanish financial system, characterised by high-quality assets, high rates of return and solvency, and ample provisioning for doubtful loans with the provisions built up during the boom years (see panels 2 to 4). The quality of assets is backed, moreover, by the fact there is no "sub-prime" segment in Spain comparable to that in the United States. The percentage of doubtful mortgage loans, though on the increase, is notably small (see panel 2). Part of the reason for this is certainly that Spanish institutions did not use securitisation as a means of removing credit risks from their balance sheets, since the vast majority are still on-balance-sheet; rather, they used it as an alternative source of financing, which has avoided a conflict of interest between the institution which originates the credit and that which ultimately bears the risks.

This favourable financial position should, once the worst of the crisis is over, allow Spanish institutions to continue obtaining funds on international markets, perhaps at a higher cost than in the past, but within levels that can be assumed given current returns. It is worth bearing in mind that the gap between growth in credits and that in deposits had already been narrowing since before the summer as a result of the interest rate rise in the Eurosystem and the subsequent decline in the demand for loans. Consequently, the need to resort to the markets to obtain funds is tending to ease off compared with the previous years. Potential risks lie, in any event, in the possibility that current tensions will not be resolved within a reasonable period of time.

According to the latest Financial Accounts data for 2007 Q2, purchases of financial assets by households slowed slightly and in cumulative annual terms accounted for 10.3% of GDP, 1 pp less than in March (see Table 6). As for the breakdown by instrument, the preference for lower-risk instruments (cash and deposits) continued. In particular, there was a continuing and significant increase in term deposits, which are included under the heading of other deposits and fixed-income securities (the flows hereunder amounted to 7.2% of GDP). By contrast, net mutual fund subscriptions were once again negative of the order of 0.6% of GDP. Lastly, households continued to sell shares in net terms (0.2% of GDP), while the weight of saving in the form of insurance technical reserves held steady (1.5% of GDP).

The still-high dynamism of borrowing spurred on continued growth in the household debt ratio, albeit at a lesser pace. It stood at approximately 130% of GDI in June (see Chart 25). This development, together with the rising course of interest rates in recent months, pushed the associated debt burden higher, with the result that as at the same date it stood at approximately 17% of GDI.

However, the favourable trend in gross saving, in cumulative twelve-month terms, stemmed the ongoing decline in households' ability to save, once borrowing expenses had been stripped out, although this variable remained negative. In the same vein, on Financial Accounts data, net household borrowing as a percentage of GDP in Q2 remained at around the same levels as three months earlier in cumulative annual terms. Finally, the latest information on household net wealth for June shows few changes relative to their GDI and, accordingly, this ratio remains at comfortable levels.

5.3 Non-financial corporations

Financing conditions were also tighter for corporations in Q3 (see Chart 24). Interest rates on bank loans of up to €1 million rose by 16 bp between June and August, whereas those on higher amounts climbed 19 bp. Similarly, according to the BLS, institutions were more demanding in all conditions applied to new transactions in comparison with the preceding three months, while they expected, as with households, that credit standards would become tighter until the end of the year, partly as a result of the difficulties of obtaining funds on wholesale markets. Higher risk premiums meant that, although government debt yields declined, the

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

TABLE 6

% GDP	2003	2004	2005	2006	2007	
				Q4	Q1	Q2
HOUSEHOLDS AND NPISHs						
Financial transactions (assets)	8.6	9.5	10.1	11.7	11.3	10.3
Cash and cash equivalents	4.1	3.9	-13.0	3.2	2.2	1.8
Other deposits and fixed-income securities (a)	-0.3	1.2	18.8	5.9	6.8	7.2
Shares and other equity (b)	0.5	0.3	0.2	-0.9	-0.1	-0.2
Mutual funds	2.3	1.5	1.9	0.2	-0.5	-0.6
Insurance technical reserves	1.8	1.8	1.9	1.6	1.6	1.5
Of which:						
Life assurance	*0.7*	*0.7*	*0.7*	*0.6*	*0.6*	*0.6*
Retirement	*0.9*	*0.8*	*1.0*	*0.8*	*0.8*	*0.8*
Other	0.1	0.6	0.4	1.7	1.3	0.7
Financial transactions (liabilities)	8.5	10.1	11.5	13.3	13.0	11.9
Credit from resident financial institutions (c)	9.2	10.8	12.3	13.0	12.5	11.7
House purchase credit (c)	*7.0*	*8.7*	*10.2*	*9.9*	*9.3*	*8.9*
Consumer and other credit (c)	*2.2*	*2.1*	*2.2*	*3.1*	*3.1*	*2.7*
Other	-0.7	-0.8	-0.8	0.3	0.6	0.3
NON-FINANCIAL CORPORATIONS						
Financial transactions (assets)	12.1	12.3	17.2	22.5	19.4	20.1
Cash and cash equivalents	0.9	1.0	2.0	2.2	1.7	1.2
Other deposits and fixed-income securities (a)	1.2	0.3	1.5	2.4	2.7	4.3
Shares and other equity	7.4	6.4	7.2	10.3	7.8	8.9
Of which:						
Vis-à-vis the rest of the world	*4.5*	*3.8*	*3.9*	*6.8*	*4.2*	*5.6*
Other	2.6	4.7	6.5	7.7	7.3	5.7
Financial transactions (liabilities)	16.0	16.8	24.0	31.5	28.8	30.6
Credit from resident financial institutions (c)	6.1	8.3	12.9	17.7	17.7	17.9
Foreign loans	2.6	0.7	2.1	3.3	1.2	2.7
Fixed-income securities (d)	-0.2	0.0	0.3	1.8	1.2	0.8
Shares and other equity	4.9	4.2	3.4	2.1	2.2	3.3
Other	2.5	3.6	5.4	6.7	6.5	5.9
MEMORANDUM ITEM: YEAR-ON-YEAR GROWTH RATES (%):						
Financing (e)	15.8	16.3	21.2	24.2	21.1	20.6
Households and NPISHs	19.1	20.2	20.9	19.6	18.3	16.4
Non-financial corporations	13.4	13.2	21.4	27.9	23.3	23.9

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 financial 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.

cost of short-term and long-term fixed-income issues rose by 23 bp and 10 bp, respectively. Conversely, the indicator which approximates the cost of own funds declined slightly, since lower stock market valuations were offset by a downward revision of long-term earnings growth expected by analysts.

In this setting of tighter financing conditions, corporate debt slowed slightly, although it continued to grow at a high rate of approximately 24% in August, in year-on-year terms, just under 0.5 pp lower than the June figure. By instrument, this development was due above all to the easing back in credit from resident institutions, which is the largest item.

As for the breakdown of credit by productive activity, the latest data referring to June show a further deceleration in funds earmarked for real estate services and construction which, however, remain the most expansionary sectors, with respective year-on-year growth rates of 42% and 24%. This weakening was practically offset by a higher rate of expansion in funds raised by other services (22%, 2 pp up on Q1) and, especially, industry, whose loans grew 20% in year-on-year terms as against 15% in March, which is in line with the greater economic dynamism of this branch.

The volume of corporate asset-side transactions increased in June 2007 to more than 20% of GDP in cumulative twelve-month terms (up 0.7 pp on the previous quarter). By instrument, the bulk of purchases were of shares and other equity, although the relative significance of deposits and fixed-income securities continued to increase (see Table 6).

On Financial Accounts data, corporate liabilities continued to grow in Q2 more quickly than financial assets and, consequently, this sector's net borrowing rose to 10.5% of GDP in cumulative twelve-month terms (see Table 5). This increase, together with the rise in financial acquisitions in the rest of the world, triggered greater growth in the financing gap, an indicator which approximates the funds required to bridge the difference between gross corporate saving and gross capital formation plus permanent foreign investment.

The high pace of growth in corporate borrowing in Q2 led to a further increase in the sector's debt-to-earnings ratio (see Chart 26). Together with the higher cost of funds, this prompted further growth in interest payments[2]. The rise in financial costs curbed the increase in the sector's income, resulting in a slight fall in the return on capital.

The latest information from the sample of companies reporting to the CBQ, among which large corporations predominate, also shows an increase in the debt and debt burden ratios in Q2. However, the impact of these developments on the synthetic indicators of financial pressure on employment and investment was offset by the improved return on equity of these corporations, which remained around its March levels. By branch of activity, industrial sector earnings were particularly notable, as reflected in the marked recovery in profitability which prevented the attendant debt ratio from increasing, despite the dynamism of borrowed funds.

Lastly, in Q3 analysts revised upwards their projections of earnings growth at listed non-financial corporations over the next twelve months, revising long-term projections downwards, although in this latter case the pace of growth remains above 8% (see Chart 27).

5.4 General government

General government net lending in June stood in cumulative twelve-month terms at 2.3% of GDP, 0.2 pp higher than in Q1 2007 (see Chart 28). By instrument, there was an increase in the outstanding balance of deposits net of lending, a net redemption of short-term securities and a net issue of medium and long-term securities. The fall in the debt ratio meant that, despite the rise in the cost of funds, interest payments relative to GDP remained at 1.6%.

5.5 The rest of the world

In 2007 Q2 the net debit balance of the nation's financial transactions increased again to stand, in cumulative four-quarter terms, at 8.7% of GDP, compared with 8.3% in March. By sector, firms increased their net borrowing by approximately 1 pp of GDP, household net borrowing did not show any significant changes and both general government and financial institutions increased their surplus, although they could not offset in full the increased shortfall of firms.

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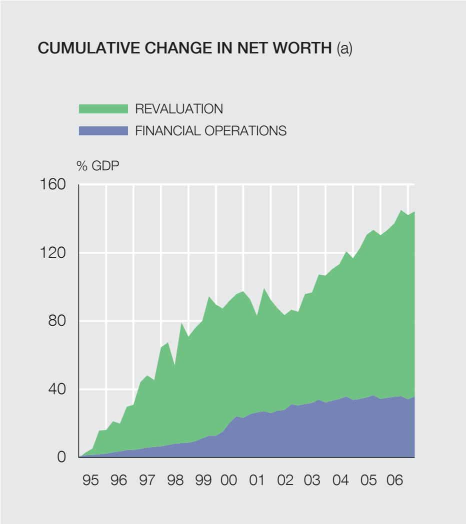
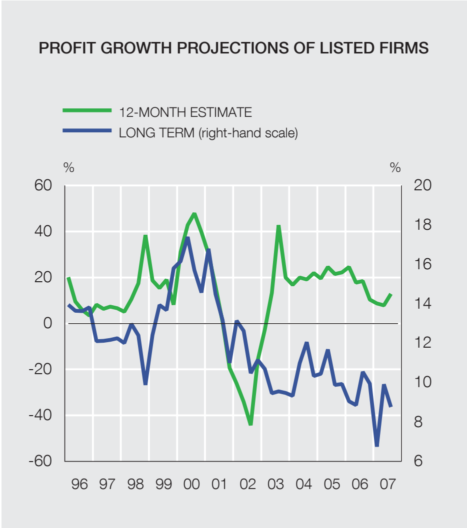
2. The estimate of company interest payments was revised. The new series shows a lower level, yet with a similar profile to the previous level.

OTHER FINANCIAL INDICATORS OF NON-FINANCIAL CORPORATIONS

CHART 27



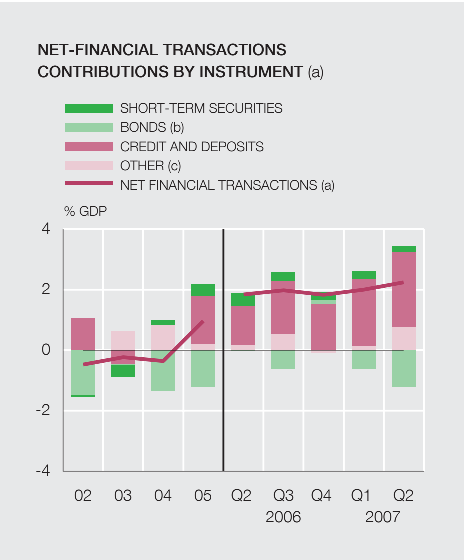


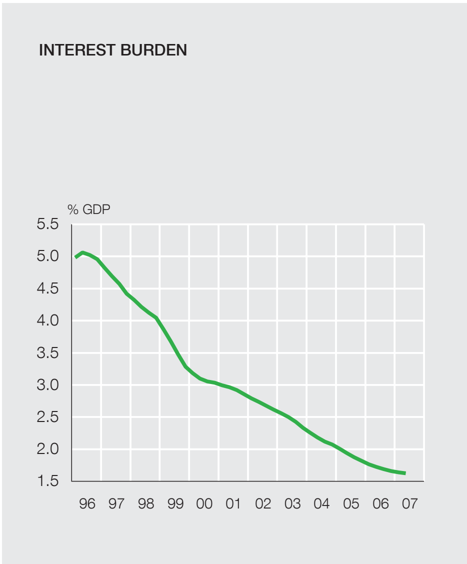
SOURCES: I/B/E/S and Banco de España.

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



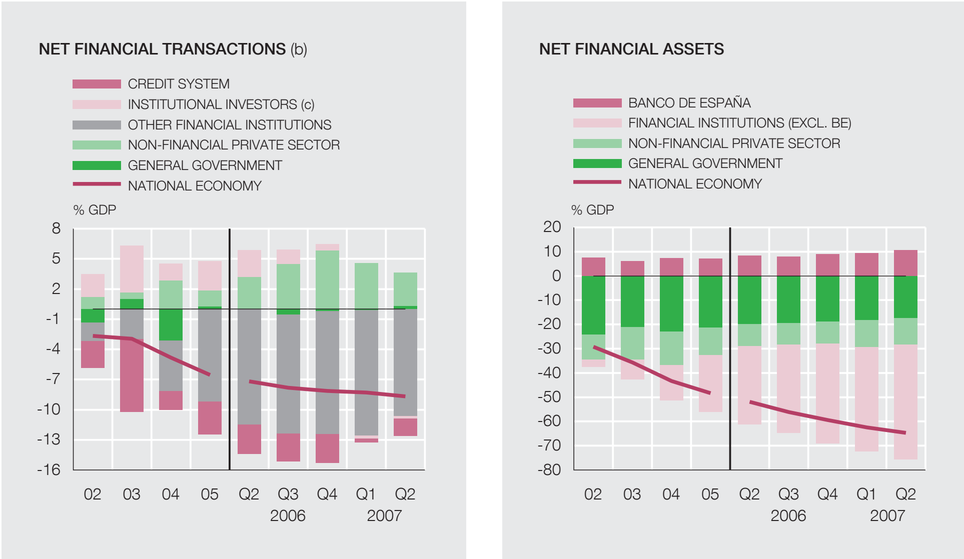


SOURCE: Banco de España.

a. A postive (negative) sign denotes an increase (decrease) in assets or a decrease (increase) in liabilites.
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.

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.

Financial institutions, particularly those other than credit institutions (FVCs and the subsidiaries of financial and non-financial firms specialising in securities issuance), continued to channel most funds received from abroad, although in relation to previous quarters, the relative weight of funds obtained by the latter declined in favour of the credit system. Overall, the new net liabilities raised by this sector amounted to 15.2% of GDP, up 0.2 pp on March 2007 (see Chart 29).

Capital inflows grew in Q2 to 25.4% of GDP in cumulative twelve-month terms (see Table 7). The bulk of these funds continued to be invested in securities other than shares, meaning that these instruments and, more specifically, those issued by financial institutions, remained the principal vehicle channelling the foreign saving needed to cover the Spanish economy's borrowing requirements, although the amount fell with respect to March by 2.1 pp of GDP. In contrast, non-residents' investments in loans and acquisitions of shares and other equity increased, a fact partly linked to the rise in foreign direct investment in Spain. Furthermore, the financing raised through the interbank market increased, although these flows continued to show a net credit balance.

The acquisition of foreign assets also grew and accounted for 16.7% of GDP in cumulative twelve-month terms, 3 pp more than in March. By instrument, net purchases of fixed-income securities, shares and other equity increased. This was linked to the recovery in direct investment in the rest of the world, which amounted to 5.8% of GDP, 1 pp higher than the previous quarter.

As a result of the developments in financial inflows and outflows, and of the changes in asset prices and in the exchange rate, the value of net liabilities accumulated vis-à-vis the rest of the world continued to increase (see Chart 29). By sector, this was basically a result of the increase

FINANCIAL TRANSACTIONS OF THE NATION
Four-quarter data

TABLE 7

% GDP

	2003	2004	2005	2006	2007	
				Q4	Q1	Q2
NET FINANCIAL TRANSACTIONS	-2.9	-4.8	-6.5	-8.1	-8.3	-8.7
FINANCIAL TRANSACTIONS (ASSETS)	13.1	13.3	18.4	16.4	13.7	16.7
Gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0
Cash and deposits	0.7	3.2	2.2	5.5	7.3	6.3
Of which:						
Interbank (a)	*0.5*	*0.7*	*3.1*	*3.4*	*6.1*	*4.7*
Securities other than shares	6.5	1.8	8.8	-1.2	-1.0	2.2
Of which:						
Credit institutions	*3.5*	*1.0*	*6.6*	*-2.0*	*-1.5*	*1.4*
Institutional investors (b)	*3.5*	*0.3*	*2.2*	*0.7*	*0.5*	*0.3*
Shares and other equity	4.7	6.8	5.1	9.2	5.9	7.5
Of which:						
Non-financial corporations	*4.5*	*3.8*	*3.9*	*6.8*	*4.2*	*5.6*
Institutional investors (b)	*1.1*	*0.8*	*0.9*	*1.2*	*0.2*	*0.5*
Loans	0.3	0.8	1.1	2.1	0.9	0.3
FINANCIAL TRANSACTIONS (LIABILITIES)	16.0	18.1	24.9	24.5	22.0	25.4
Deposits	6.9	1.7	5.6	0.3	0.4	3.6
Of which:						
Interbank (a)	*5.3*	*5.0*	*7.2*	*0.6*	*0.4*	*4.1*
Securities other than shares	5.3	12.4	15.8	21.3	20.4	18.3
Of which:						
General government	*-1.0*	*2.7*	*0.2*	*1.3*	*1.0*	*0.6*
Credit institutions	*3.5*	*4.6*	*6.3*	*7.7*	*6.8*	*7.0*
Other non-monetary financial institutions	*2.8*	*5.1*	*9.3*	*12.3*	*12.6*	*10.6*
Shares and other equity	1.1	2.7	0.9	-0.7	-0.3	0.4
Of which:						
Non-financial corporations	*1.3*	*1.7*	*1.0*	*-1.1*	*-0.2*	*0.6*
Loans	2.8	1.3	2.3	3.5	1.4	3.0
Other, net (c)	-0.9	-0.6	-0.9	-0.6	-0.3	-0.2
MEMORAMDUM ITEMS						
Spanish direct investment abroad	3.2	5.8	3.7	7.3	4.8	5.8
Foreign direct investment in Spain	2.9	2.4	2.2	1.6	1.6	2.1

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.

in the debit balance of financial institutions (excluding the Banco de España), which exceeds 47% of GDP; these agents have played a key role in the channelling of saving from the rest of the world to the Spanish economy.

26.10.2007.

Results of non-financial corporations to 2007 Q2

Overview[1]

The information gathered by the Central Balance Sheet Data Office Quarterly Survey (CBQ) to 2007 Q2 confirms that the productive activity of reporting non-financial corporations continued to expand in this period. Consequently, gross value added (GVA) grew by 6.8% in nominal terms (see Table 1 and Chart 1), 0.5 pp higher than the increase in the first half of 2006. In the first half of the year, this positive trend was based on robust industrial activity, boosted in turn by strong investment in capital goods and buoyant industrial exports. Analysis of the quarterly profile of GVA shows a slight slowdown in 2007 Q2 (basically at firms in the wholesale and retail trade and in the transport and communications sectors) which may be reflecting less robust private consumption in this period, as indicated by alternative sources (mainly QNA data). Lastly, the only CBQ sectoral aggregate in which GVA decreased in the period to 2007 Q2 was oil refining, as in 2007 Q1, in a setting in which crude oil prices remained at even lower levels than in the first half of 2006.

Personnel costs increased by 4.8% in the first half of 2007, slightly down on the rate of 5.1% recorded the previous year, as a result of more contained growth in employment and a moderately rising trend in average compensation. The increase in employment in the first six months of 2007 at the firms in the sample amounted to 1.2% (1.6% in 2006) which, nevertheless, has been affected by a specific operation referred to below. Average compensation remained on a moderate growth path (3.6%), for practically all sectors of activity, although the rate of change was slightly higher than that recorded in the first half of 2006 (3.4%). The analysis of employment by sector shows that its growth in the first six months of 2007 was based on wholesale and retail trade, industry and other services firms. However, the 0.6% rate of change in the wholesale and retail trade was considerably lower than in 2006 as a result of the slowdown in activity in this aggregate. Conversely, of note is the expansive performance of the industrial sector, where job creation quickened as the year unfolded and rose to a marginally positive rate of 0.2% for the first half of 2007 as a whole, in line with the trend in productive activity in this sector.

As a result of the expansion of activity in the first half of 2007, together with the trend in personnel costs described above, growth in gross operating profit climbed to 8.2% in the same period, 1 pp higher than the rise a year earlier. As in 2007 Q1, financial costs and revenue grew strongly by 34.6% and 19.8%, respectively, for the first six months as a whole. Strong growth in financial costs arose due to the rise in interest rates and the attendant gradual pass-through to corporate financial costs, as well as to the impact of firms' greater recourse to external sources of financing.

A large share of the growth in corporate indebtedness in the first half of 2007 arose from transactions undertaken in late 2006, although to 2007 Q2 there were further buyouts and takeovers, which due to their volume and financing largely through borrowed funds, contributed to a further increase in corporate debt levels. This behaviour was centred on the aggregate of large multinationals reporting to the CBQ. However, the increasing weight of the debt burden in the business cost structure is not having a significant effect on earnings or investment decisions. This is partly attributable to the compensatory effect of the rise in financial revenue on

1. This article was prepared with the information from the 732 corporations which to 14 September collaborated with the Central Balance Sheet Data Office by sending in their quarterly data. The GVA of these corporations represents 13.5% of the total GVA for the non-financial corporations sector.

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

TABLE 1

	CBA STRUCTURE	CBA		CBQ (a)		
DATABASES	2005	2004	2005	06 Q1-Q4/ 05 Q1-Q4	06 Q1-Q2/ 05 Q1-Q2	07 Q1-Q2/ 06 Q1-Q2
Number of corporations		8.984	8.623	819	854	732
Total national coverage		32.0%	30.1%	14.3%	14.6%	13.5%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT (including grants)	100.0	8.3	10.5	10.6	14.1	4.9
Of which:						
Net amount of turnover and other operating income	*136.9*	*8.8*	*11.8*	*9.6*	*14.1*	*2.2*
2. INPUTS (including taxes)	68.3	8.6	13.1	12.7	18.2	4.0
Of which:						
Net purchases	*40.8*	*11.9*	*15.0*	*13.6*	*19.6*	*2.4*
Other operating costs	*27.6*	*4.9*	*11.5*	*6.8*	*8.5*	*7.2*
S.1. GROSS VALUE ADDED AT FACTOR COST [1-2]	31.7	7.5	5.2	6.5	6.3	6.8
3. Personnel costs	16.5	4.7	5.9	5.1	5.1	4.8
S.2. GROSS OPERATING PROFIT [S.1-3]	15.2	10.8	4.4	7.5	7.2	8.2
4. Financial revenue	3.0	14.5	33.9	46.3	10.2	19.8
5. Financial costs	2.5	-3.7	12.7	38.5	30.6	34.6
6. Depreciation and operating provisions	6.0	2.7	1.3	1.6	2.5	-0.8
S.3. ORDINARY NET PROFIT [S.2 + 4-5-6]	9.7	23.0	11.9	16.3	4.8	8.8
7. Capital gains and extraordinary revenue	4.1	-32.5	37.5	52.5	32.4	-35.6
8. Capital losses and extraordinary expenses	3.6	-3.3	39.2	-26.8	-21.9	-21.6
9. Other (net provisioning and income tax)	3.2	-16.3	-0.3	65.3	141.9	-8.2
S.4. NET PROFIT [S.3 + 7 - 8 - 9]	7.0	18.9	19.3	33.9	-3.2	2.7
		19.8	22.2	41.5	30.5	30.1
NET PROFIT/GVA (S.4/S.1)	Formulas (c)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	8.2	8.8	9.4	7.4	8.0
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	3.6	3.7	4.0	3.8	4.4
R.3 Ordinary return on equity (before taxes)	S.3/E	11.9	13.1	14.4	10.6	11.5
R.4 ROI - cost of debt (R.1 - R.2)	R.1–R.2	4.5	5.1	5.4	3.6	3.6

SOURCE: Banco de España.

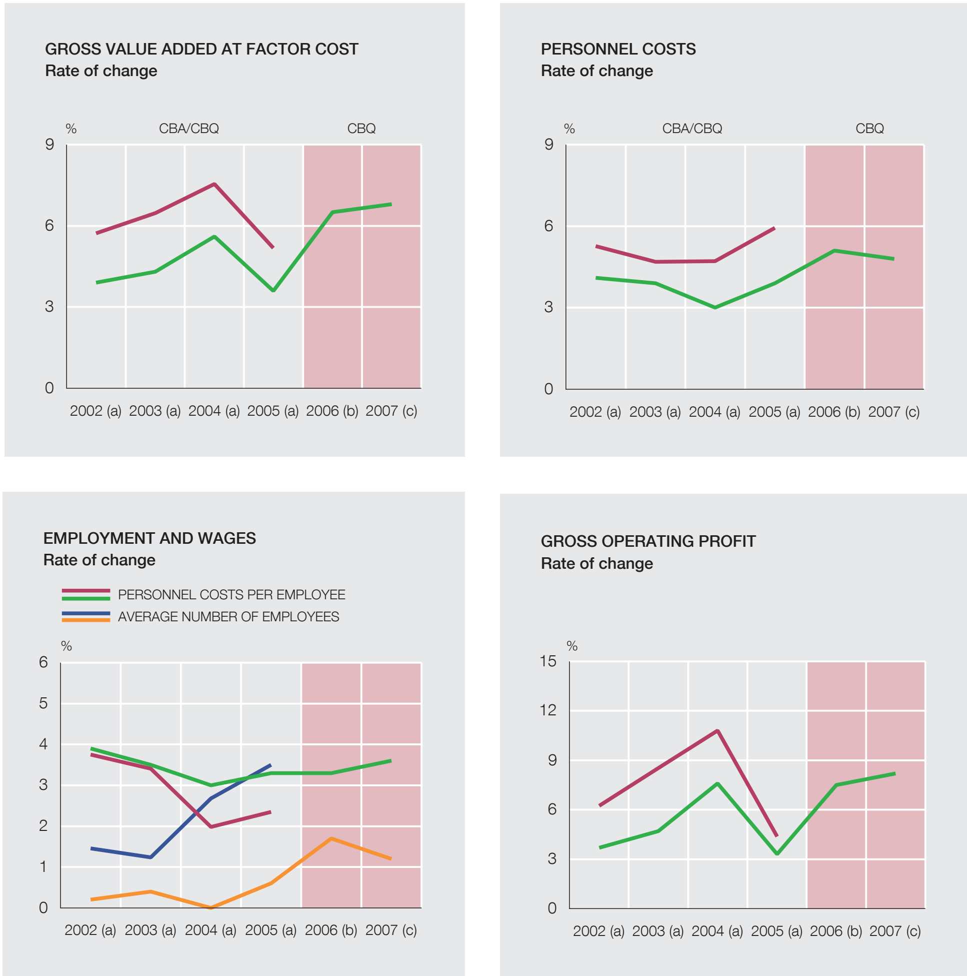
a. All the data in these columns have been calculated as the weighted average of the quarterly data.
b. Rate not significant or not calculable because the relevant figures are of opposite sign.
c. The variables in the formulas are expressed as absolute values. NA = net assets (net of non-interest-bearing 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.

the sample as a whole (19.8%), especially at large multinationals, due largely to the higher dividends received from foreign subsidiaries.

Consequently, ordinary net profit (ONP) was markedly expansive (8.8%), considerably higher than one year previously (4.8%), and pushed profitability levels higher than in 2006 to 8% in the first half of 2007. As a result of the pass-through of interest rate rises to corporate costs, the ratio which measures the cost of debt clearly increased in the first half of 2007 to 4.4%, 0.5 pp up on the previous year. Although the higher cost was accompanied by the above-mentioned increases in profitability ratios, the difference between the two (ROI – cost of debt) remained very positive (3.6), which is identical to that for the first half of 2006, thus confirming an ongoing favourable situation for all non-financial corporations. This positive difference shows that investment conditions are propitious. The propensity of non-financial corporations to invest is underlined by the data gathered by the Central Balance Sheet Data Office, making it possible to approximate the calculation of the rate of change in gross fixed capital formation

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

CHART 1



REPORTING NON-FINANCIAL CORPORATIONS		2002	2003	2004	2005	2006	2007
Number of corporations	CBA	8,418	8,834	8,984	8,623	—	—
	CBQ	850	837	825	808	819	732
% of GDP of the sector non-financial corporations	CBA	29.0	29.9	32.0	30.1	—	—
	CBQ	15.4	15.0	14.9	14.5	14.3	13.5

SOURCE: Banco de España.

a. The 2002, 2003, 2004 and 2005 data are the average data of the four quarters of each year (CBQ) in relation to the previous year for the corporations reporting to the annual survey (CBA).
b. Average of the four quarters of 2006 in relation to the same period in 2005.
c. Average of the first two quarters of 2007 in relation to the same period in 2006.

in tangible assets, which grew 5.9% in the first half of 2007, 1.5 pp higher than in the whole of the previous year (4.2%).

Finally, an analysis of the change in extraordinary results in the first half of 2007 shows a strong decrease in expenses and revenue in comparison with 2006. Since the drop in revenue was sharper than in expenses, the 2.7% growth in net profit was lower than the above-mentioned growth rate of 8.8% posted for ONP. In any event, the change in the final surplus in the first half of 2007 was an improvement upon the same period a year earlier when it recorded a fall of –3.2%. The positive trend in the generation of surpluses by non-financial corporations is re-

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

CHART 1

REPORTING NON-FINANCIAL CORPORATIONS		2002	2003	2004	2005	2006	2007
Number of corporations	CBA	8,418	8,834	8,984	8,623	—	—
	CBQ	850	837	825	808	819	732
% of GDP of the sector	CBA	29.0	29.9	32.0	30.1	—	—
non-financial corporations	CBQ	15.4	15.0	14.9	14.5	14.3	13.5

SOURCE: Banco de España.

a. 2002, 2003, 2004 and 2005 data are the average data of the four quarters of each year (CBQ) in relation to the previous year for the corporations reporting to the annual survey (CBA).
b. Average of the four quarters of 2006 in relation to the same period in 2005.
c. Average of the first two quarters of 2007 in relation to the same period in 2006.

flected in the high percentage represented by net profit relative to GVA, which remained around 30%, similar to the first half of 2006.

In short, the information supplied by the Central Balance Sheet Data Office confirms that the productive activity of non-financial corporations remained expansive in the first half of 2007 thanks mainly to the upturn in industry, which benefited from capital goods investment and highly buoyant exports, thus offsetting the slowdown detected in certain other sectors such as the wholesale and retail trade, influenced by the signs of weaker private consumption. The foregoing enabled job creation to remain steady against a backdrop of wage moderation. The strong increase in financial costs, which were driven upwards by interest rate rises and higher debt levels, was somewhat alleviated by the increase in financial revenue in view of the rise in the inflow of dividends from foreign subsidiaries. Consequently, the high pace of profit generation and high returns continued at firms and exceeded those obtained a year earlier. Therefore, notwithstanding the upward trend in interest rates, the difference with respect to the cost of borrowing remained positive and was identical to that for the same period a year earlier.

Activity

The non-financial corporations reporting to the CBQ posted highly buoyant productive activity in the first half of 2007 as shown by the data complied by the CBQ for this period. Thus, gross value added (GVA) grew 6.8% in the period analysed (see Table 1 and Chart 1), exceeding the previous year's rate of 6.3%, and is the highest growth rate in GVA posted in the first half of a year since 2000. As in 2007 Q1, this rise was against a background of very low rates of change in production and inputs resulting from the effect of oil prices on sales and purchases of the refining sector. The expansion of activity was based on a strong upturn in the industrial sector (see Table 2.A and Box 1), which was highly influenced by growth in capital goods investment, and took up the boton from other sectors with weaker GVA growth such as wholesale and retail trade, and transport and communications. The latter bore the brunt of the signs of a slight slowdown which, according to alternative sources, has seemingly become apparent in private consumption, especially in 2007 Q2. As for external activity, both exports and imports remained highly buoyant, particularly benefiting the industrial sector, an aggregate in which net external demand (exports less imports) made a clearly positive and higher contribution to output growth with respect to the first half of 2006.

A more thoroughgoing analysis of the detail by sector highlights the industrial sector since, for the reasons discussed in the preceding paragraph (expansion of capital goods investment and growth in exports), it is the sector in which this positive trend is more noticeable. Its GVA increased 16.4% in the first half of 2007, in comparison with 3.6% a year earlier, and this performance was extensive to almost all of its sub-aggregates. Table 3 confirms the expansive impact of external activity on industrial corporations which, due to more buoyant exports, led to a highly positive rate of change in net external demand (7.2%). The GVA of the transport and communications sector also continued to grow in the first half of 2007 (5.1%), slightly exceeding growth one year earlier, although the quarterly profile shows a slight slowdown resulting from the gradual weakening of private consumption, especially in 2007 Q2. This factor also had an even stronger effect on the wholesale and retail trade sector. Although this sector's GVA for the period analysed continued to increase by 2.6%, it did not exceed the increase of 6.6% achieved a year earlier. GVA growth in the energy sector was also more moderate in the first half of 2007 than in the same period of the previous year (3.9% as against 8.8%). However, this trend is solely due to the performance of the oil refining sector, whose GVA has deteriorated considerably (–21%) to date in 2007. This is the result of both lower average oil prices in the first half of 2007, in comparison with the same period in 2006 (see Chart 2), and the gradual narrowing of operating margins in the sector observed since 2005. Nevertheless, the upward trend in crude oil prices over these months has offset this situation and, if it lasts, it would reverse conditions in the sector in future quarters. Electric utilities (which make up the other large energy aggregate) continued to grow at high rates (their GVA increased 10.2% in the first half of 2007) similar to those for 2006, thanks to the sound performance of electricity demand (which according to REE data rose 2.7% in this period) and to the lower generation costs borne by these utilities (in the first half of 2007, 37% more electricity was generated than in 2006 using hydro-electric power stations, which have lower generation costs). Lastly, the data from large construction firms reporting to the CBQ show that this sector has been less buoyant in recent months following years in which it had been one of the main engines of economic growth. The information from reporting firms in the construction sector is not de-

VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND COMPENSATION PER EMPLOYEE TABLE 2.A
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS
Growth rate of the same corporations on the same period a year earlier

	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)		
	2005	06 Q1-Q4	06 Q1-Q2	07 Q1-Q2	2005	06 Q1-Q4	06 Q1-Q2	07 Q1-Q2	2005	06 Q1-Q4	06 Q1-Q2	07 Q1-Q2	2005	06 Q1-Q4	06 Q1-Q2	07 Q1-Q2
Total	5.2	6.5	6.3	6.8	3.5	1.7	1.6	1.2	5.9	5.1	5.1	4.8	2.3	3.3	3.4	3.6
SIZE																
Small	4.3	—	—	—	-0.6	—	—	—	4.6	—	—	—	5.2	—	—	—
Medium	4.5	6.7	7.2	4.9	2.0	1.2	1.4	2.3	5.9	5.5	5.8	4.5	3.9	4.2	4.3	2.2
Large	5.3	6.4	6.2	6.9	3.9	1.7	1.6	1.1	6.0	5.1	5.1	4.9	2.0	3.3	3.4	3.8
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	12.1	6.3	8.8	3.9	-0.7	-1.3	-1.4	-0.9	4.6	3.0	4.4	4.0	5.4	4.4	5.9	4.9
Industry	0.2	8.2	3.6	16.4	-0.8	-0.6	-1.4	0.2	2.3	2.6	1.8	3.4	3.2	3.2	3.2	3.2
Wholesale and retail trade	5.0	6.7	6.6	2.6	5.2	2.9	3.6	0.6	6.9	7.1	7.5	2.1	1.6	4.1	3.8	1.5
Transport and communication	3.8	4.8	4.6	5.1	1.2	-0.2	-0.2	-0.4	4.7	4.2	3.8	4.8	3.4	4.4	4.0	5.2

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 TABLE 2.B
Details based on changes in staff levels

		TOTAL CBQ CORPORATIONS 07 Q1 - Q2	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations		732	472	260
PERSONNEL COSTS				
Initial situation 06 Q1-Q2 (€m)		12,767.7	6,711.2	6,056.6
Rate 07 Q1-Q2/ 06 Q1-Q2		4.8	9.4	-0.3
AVERAGE COMPENSATION				
Initial situation 06 Q1-Q2 (€)		21,467.6	20,014.7	23,345.6
Rate 07 Q1-Q2/ 06 Q1-Q2		3.6	3.8	4.2
NUMBER OF EMPLOYEES				
Initial situation 06 Q1-Q2 (000s)		595	335	260
Rate 07 Q1-Q2/ 06 Q1-Q2		1.2	5.4	-4.3
Permanent	Initial situation 06 Q1-Q2 (000s)	491	262	229
	Rate 07 Q1-Q2/ 06 Q1-Q2	2.1	6.1	-2.6
Non-permanent	Initial situation 06 Q1-Q2 (000s)	104	73	31
	Rate 07 Q1-Q2/ 06 Q1-Q2	-3.1	2.8	-17.1

SOURCE: Banco de España.

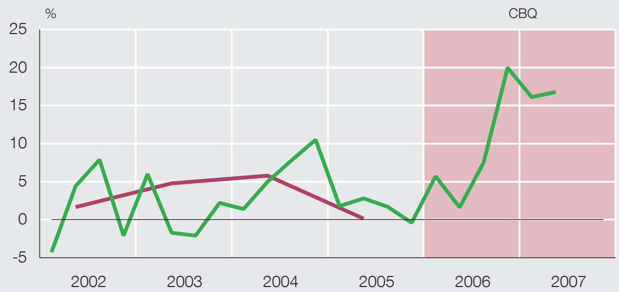
tailed separately in the tables in this article and is included in “activities with low coverage” because the sector is highly fragmented and, consequently, the performance of large corporations is less representative of this aggregate as a whole.

Finally, the data in Chart 3 make it possible to analyse the distribution of firms on the basis of the increases in their GVA, irrespective of their size and sector of activity. The main conclusion which can be drawn is that there are no significant changes, although slight growth can be

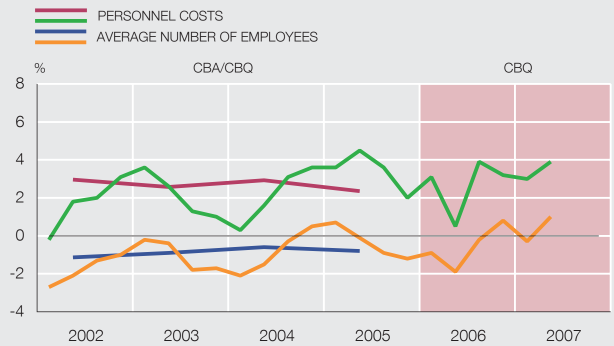
Activity in the industrial sector in the first six months of 2007 was very buoyant, resulting in 16.4% nominal GVA growth. This was considerably higher than the 3.6% rise in the same six-month period of the previous year thanks both to strong investment in capital goods and the sound performance of exports. These positive developments affected practically all industrial sub-sectors but, most particularly, the manufacture of glass, ceramics and metals and chemical industries sectors, whose GVA climbed 30.7% and 13.4%, respectively. The pace of growth in activity only declined in two sub-sectors: the manufacture of electrical and optical equipment and other manufacturing industries. There were moderate increases in GVA in both cases in the first half of 2007 (4.7% and 2.6%, respectively), which were lower than in the same period a year earlier. The increase recorded in personnel costs in the first half of 2007 (3.4%) was considerably higher than in 2006 (1.8%), basically due to the change of trend in employment to date in 2007. Consequently, in the first half of 2007 the average number of employees at industrial companies increased slightly (0.2%), in contrast with the decrease in the same period a year earlier (–1.4%). This improvement in employment data was stronger in 2007 Q2 and extended to almost all sub-sectors except for chemical industries and the manufacture of transport equipment, which continued to feel the effects of certain staffing adjustments at big companies belonging to these aggregates. Average compensation rose 3.2% in the first half of 2007, practically unchanged on the rate recorded a year earlier, and confirms the consolidation of the climate of wage moderation prevailing in this sub-sector and in the sample as a whole. Sharp growth of activity extended to ordinary profit, resulting in strong growth of 32.9% in gross operating profit and of 50.8% in ordinary net profit (ONP) in the first six months of 2007. The increase in ONP was anchored by the strong rise in financial revenue bolstered by sizeable inflows of dividends against a backdrop of notable growth in financial expenses due to the reasons discussed above for the other corporations (knock-on effect of rate rises and higher debt). For these reasons, in the first six months of 2007 industrial corporations posted a clear increase in return on investment of up to 11% and of up to 15.6% in the case of return on equity. Both ratios were

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

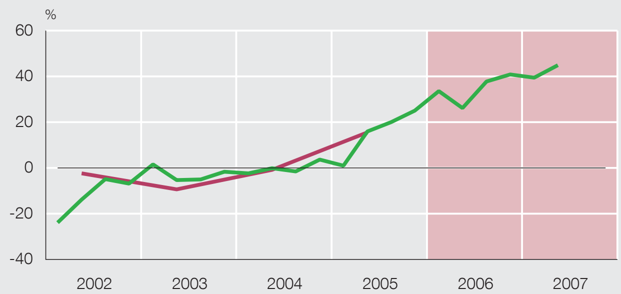
GROSS VALUE ADDED AT FACTOR COST
Rate of change



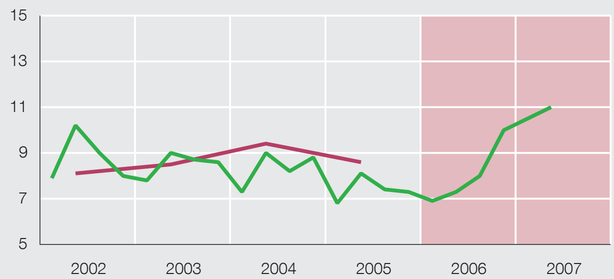
EMPLOYMENT AND WAGES
Rate of change



FINANCIAL COSTS
Rate of change



RETURN ON INVESTMENT
Ratios



REPORTING INDUSTRIAL CORPORATIONS		2002				2003				2004				2005				2006				2007			
Number of corporations	CBA	2,715				2,624				2,517				2,332				—				—			
	CBQ	391	378	369	357	367	362	354	346	352	342	335	333	323	311	304	295	323	308	293	270	290	212	—	—
% of GDP of the sub-sector industrial corporations	CBA	26.6				27.2				28.6				26.3				—				—			
	CBQ	19.7	20.7	18.8	18.5	18.8	19.1	17.1	17.8	19.5	19.7	17.8	19.1	18.9	19.6	16.8	17.7	18.7	18.1	16.3	17.1	16.8	12.3	—	—

SOURCE: Banco de España.

considerably higher than in the previous year. Although the cost of debt climbed slightly to 3.9%, that did not prevent the ROI-cost of debt spread from widening to 7.1, double the figure recorded in the same period in 2006. These data indicate the propensity of corporations in this sector to invest, as indicated by information available in the CBQ, according to which gross fixed capital formation in tangible assets climbed by nearly 20% in the first half of 2007. In short, the information provided by this aggregate confirms the favourable current situation of the industrial sector, whose activity is expanding, enabling it to maintain a high level of generation of surpluses and investment which are beginning to feed through into increases in employment.

seen in the percentage of firms with higher GVA in the first half of 2007 (63.2%) than in 2006 (62.2%). This indicates that the expansion in activity was widespread, covering a majority and an increasingly broad range of firms in the CBQ sample.

Employment and personnel costs

In the first half of 2007 personnel costs grew 4.8%, 0.3 pp down on a year earlier (5.1%). This modest reduction is the result of a weaker rise in employment than in the previous period of reference (the first half of 2006), although the rates of change remained significantly positive (1.2% in 2007, in comparison with 1.6% the previous year). Growth in average compensation continued to be moderate at approximately 3.6%, slightly higher than in the same period a year earlier.

As mentioned above, the CBQ data available for the first half of 2007 on the workforces of non-financial corporations have shown a slight slowdown in job creation which, however, is strongly affected by the adjustments and restructuring at large firms, mainly in the transport and communications sector. If these firms were stripped out of the aggregate, the rate of change would rise substantially. The data of the aggregate, excluding the two main firms affected, would grow to 1.8% in the first half of 2007 which, in any event, is slightly lower than the 2% growth that would be obtained a year earlier. By type of employment (see Table 2.B), permanent employment grew 2.1% to the detriment of temporary employment, whose rate of change was –3.1% since non-permanent jobs were converted into permanent ones at certain firms in the sample. If the trend by sector is analysed, the data on industrial firms, which after several quarters of negative rates have managed to return to the path of job creation, are significant. Although these increases are quantitatively low (0.2%), they represent a change in trend which is part of the positive performance of activity in this group of companies. The wholesale and retail trade sector was, out of the major sectors analysed in this article, once again that which reported the most positive data (0.6%). It was only exceeded by other service corporations which, due to their lower weight in the total sample, are not represented in the summary tables. This rise is, however, considerably lower than a year earlier (3.6%), thus confirming that the slowdown detected in the analysis of the productive activity in this sector has spread to job creation. Moderate job cuts were recorded in the other two sectors included in Table 2.A (energy and transport and communications), as is customary. The energy and water sector recorded a negative rate of change (–0.9%) for the first half of 2007, in line with previous quarters, since the processes of reorganisation and adaptation of electric utilities for operating in a deregulated market, which have been under way for several years, continued. Lastly, the rate of change in employment in the transport and communications sector was also slightly negative (–0.4%), this being accounted for by the strong influence on the employment data of the above-mentioned workforce restructuring processes that have pulled the aggregate data down. Net of this effect, the employment data in the transport and communications sector would change radically to increase by 1.4%, which is much more in keeping with the expan-

PURCHASES AND TURNOVER OF CORPORATIONS REPORTING DATA ON PURCHASING SOURCES AND SALES DESTINATIONS

Structure and rates of change

TABLE 3

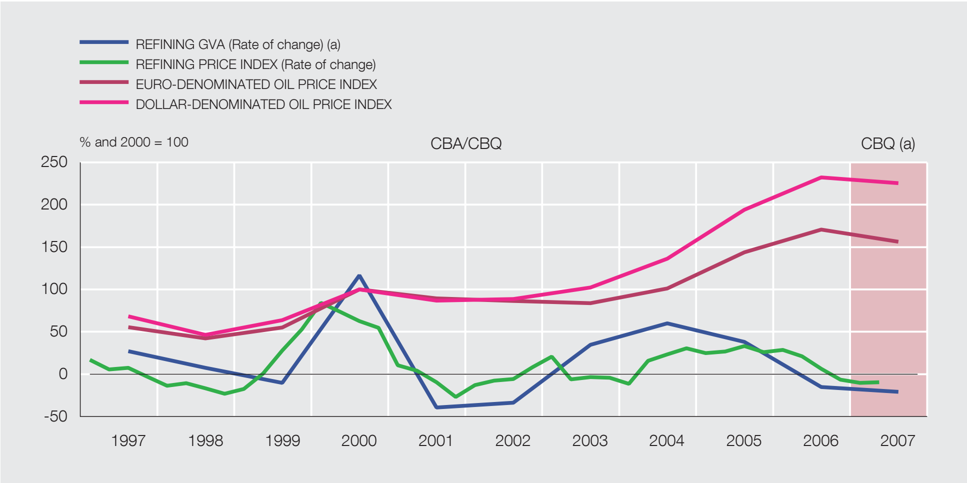
		CBA	CBQ (a)	
		2005	06 Q1-Q2	07 Q1-Q2
Total corporations		8,623	732	732
Corporations reporting source/destination		8,623	697	697
Percentage of net purchases according to source	Spain	69.9	82.3	80.2
	Total abroad	30.1	17.7	19.8
	EU countries	15.4	13.8	15.4
	Third countries	14.7	3.9	4.5
Percentage of net turnover according to destination	Spain	86.2	91.3	90.8
	Total abroad	13.8	8.7	9.2
	EU countries	10.0	6.5	6.5
	Third countries	3.8	2.3	2.6
Change in net external demand (exports less imports), rate of change	Industry	-16.3	-8.0	7.2
	Other corporations	-37.3	-12.0	-21.0

SOURCE: Banco de España.

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

IMPACT OF OIL PRICES ON THE REFINING SECTOR

CHART 2



SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio (monthly price report).

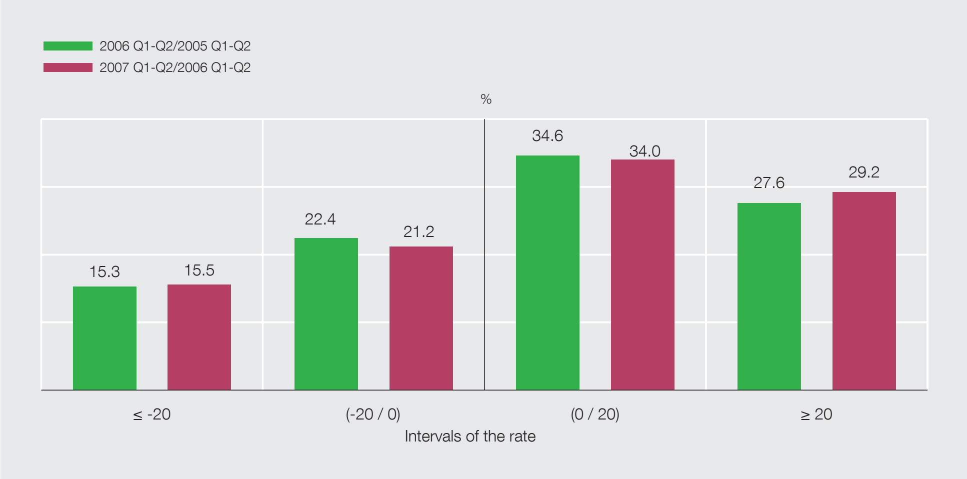
a. 2007 data relate to the CBQ.

sion of its activity. Lastly, the data in Table 4 reveal a significant increase in the percentage of firms at which employment grew (climbing from 60.8% in the first half of 2006 to 64.6% in the same period of the current year), thus confirming that job creation has been extended to an increasing number of sample firms.

Average compensation grew 3.6% in the first half of 2007, at a slightly higher rate than in the same period of the previous year (3.4%). The analysis of the trend in this item in various sectors of activity seems to confirm that the climate of wage moderation prevailing recently has

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

CHART 3



SOURCE: Banco de España.

PERSONNEL COSTS, EMPLOYEES AND AVERAGE COMPENSATION
Percentage of corporations in specific situations

TABLE 4

	CBA		CBQ (a)			
	2004	2005	05 Q1 - Q4	06 Q1 - Q4	06 Q1 - Q2	07 Q1 - Q2
Number of corporations	8,984	8,623	808	819	854	732
PERSONNEL COSTS	100	100	100	100	100	100
Falling	28.0	26.5	29.0	27.0	24.7	26.1
Constant or rising	72.0	73.5	71.0	73.0	75.3	73.9
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	31.5	30.6	40.8	39.0	39.2	35.6
Constant or rising	68.5	69.4	59.2	61.0	60.8	64.4
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	44.1	43.1	49.3	48.5	48.8	43.8
Higher or same growth (b)	55.9	56.9	50.7	51.5	51.2	56.3

SOURCE: Banco de España.

a. Weighted average of the relevant quarters for each column.
b. Twelve-month percentage change in the CPI for the CBA and quarter-on-quarter percentage change in the CPI for the CBQ.

continued; a contributing factor is the restraint shown by inflation. By sector, there is clearly different behaviour between those aggregates in which employment has increased and those in which jobs were destroyed. Aggregates creating employment include wholesale and retail trade, and industrial firms that posted a more moderate rise in average compensation with below-average rates of change (1.5% and 3.2%, respectively). Aggregates which destroyed jobs include the energy and transport and communications sectors, which posted clearly higher wage increases in the first half of 2007 (4.9% and 5.2%, respectively) both due to the effect of higher variable compensation at energy-sector companies and the costs associated with redundancies at certain large firms in the transport and communications sector. A similar conclusion can be drawn from the data in Table 2.B which, irrespective of the sector, confirm that firms which destroyed employment most in the first half of 2007 had the highest increases in average compensation (4.2%) in comparison with firms whose average number of employees remained the same or increased, at which the rise in average compensation was 3.8%.

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

TABLE 5

	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)		
	2005	06 Q1 - Q4	06 Q1 - Q2	07 Q1 - Q2	2005	06 Q1 - Q4	06 Q1 - Q2	07 Q1 - Q2	2005	06 Q1 - Q4	06 Q1 - Q2	07 Q1 - Q2	2005	06 Q1 - Q4	06 Q1 - Q2	07 Q1 - Q2
Total	4.4	7.5	7.2	8.2	11.9	16.3	4.8	8.8	8.8	9.4	7.4	8.0	5.1	5.4	3.6	3.6
SIZE																
Small	3.9	—	—	—	7.9	—	—	—	6.7	—	—	—	3.0	—	—	—
Medium	2.5	8.4	9.0	5.4	3.8	18.0	18.5	-4.5	7.5	7.7	7.8	7.6	4.0	4.1	4.6	3.5
Large	4.6	7.4	7.1	8.3	12.8	16.3	4.3	9.2	9.0	9.4	7.4	8.0	5.3	5.4	3.6	3.6
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	14.6	7.2	10.0	3.9	39.7	2.8	3.6	1.0	9.5	10.3	8.7	9.2	6.1	6.7	5.1	5.1
Industry	-2.8	15.5	5.9	32.9	0.8	34.1	12.9	50.8	8.6	9.0	7.4	11.0	4.9	5.0	3.6	7.1
Wholesale and retail trade	2.5	6.1	5.4	3.1	4.1	8.0	4.8	2.3	11.1	8.1	7.7	7.6	7.5	4.4	4.3	3.3
Transport and communications	3.3	5.2	5.2	5.3	5.9	9.9	9.9	9.8	11.9	12.1	11.8	12.2	7.8	7.9	7.6	7.9

SOURCE: Banco de España.

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

Profits, rates of return and debt

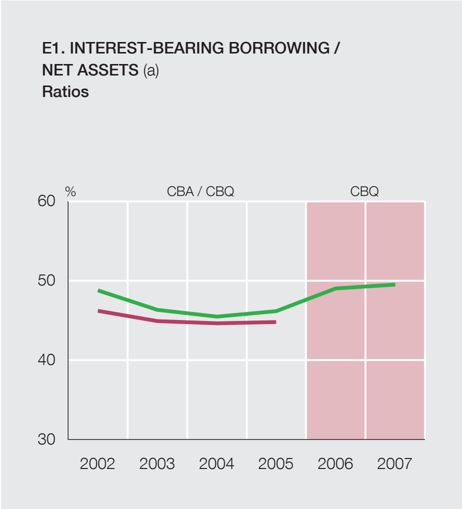
As a result of the trend described in activity and personnel costs in the first half of 2007, gross operating profit grew 8.2% in this period (Table 5), nearly 1 pp higher than in the first six months of 2006. Nevertheless, as discussed when analysing GVA, the quarterly profile shows a slight slowdown in the second part of the six-month period. Financial revenue and financial costs continued to increase very sharply by 19.8% and 34.6%, respectively, for the period under analysis. This strong increase in financial revenue is accounted for by dividends received from foreign subsidiaries, which made it possible to absorb higher financial expenses. Due to the inclusion of large multinationals in the sample, for the reporting non-financial corporations aggregate, financial revenue was equal to financial costs (for the first six months of 2007 the weight of both in the total value of production was 4.9%). The growing weight of financial costs in the profit and loss account is attributable to the pass-through of interest rate rises to corporate financial costs and greater recourse to external financing as shown in the following table:

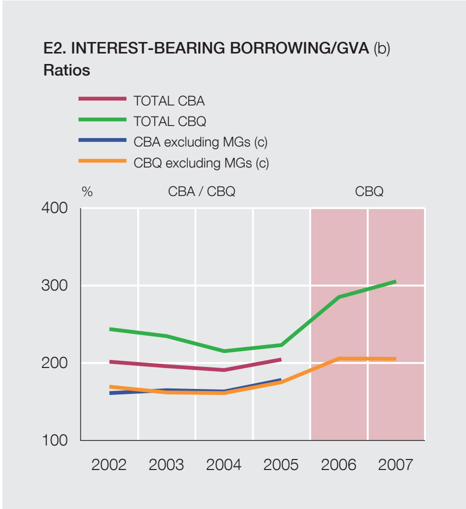
	Q1-2 07/Q1-2 06
Change in financial costs	**34.6%**
A. Interest on borrowed funds (1 + 2)	*35.2%*
1. Due to the cost (interest rate)	17.8%
2. Due to the amount of interest-bearing debt	17.4%
B. Commissions and cash discounts	*–0.6%*

Consequently, the increase in financial costs was due equally to interest rate rises and new financing. As regards the latter, the rise in borrowed funds, which compares two static situations between June 2007 and June 2006, is accounted for by sizeable share purchase transactions in the last few months of 2006 plus new acquisitions in the first half of 2007 which have intensified the effect of this component on the growth of financial costs. In order to analyse corporate debt levels and the overall financial position in greater detail, Chart 4 shows the performance of the ratios “E1 (interest-bearing borrowing/net assets)”, “E2 [(consolidated) interest-bearing borrowing/GVA] and the ratio of the “interest burden [interest on borrowed funds/GOP + financial revenue]”. Firstly, the analysis of the three aforementioned ratios for the sample total indicates a worsening of the finan-

DEBT RATIOS

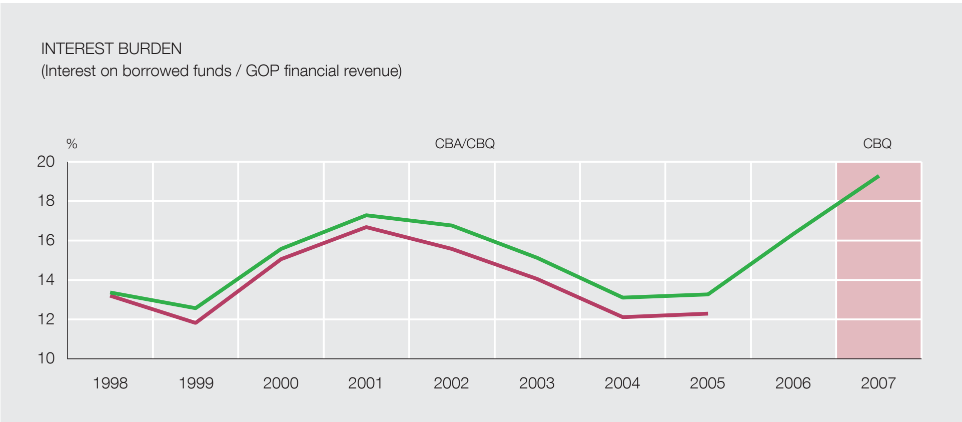
CHART 4





	2002	2003	2004	2005	2006	2007
CBA	46.2	44.9	44.6	44.8		
CBQ	48.8	46.3	45.5	46.2	49.0	49.5

	2002	2003	2004	2005	2006	2007
CBA	201.5	195.8	190.8	204.6		
CBQ	243.6	234.7	215.3	223.3	285.2	305.5
CBA excl. MGs	161.1	165.0	163.0	177.9		
CBQ excl. MGs	169.3	162.0	161.3	175.4	205.6	205.4



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
CBA	13.2	11.8	15.1	16.7	15.6	14.0	12.1	12.3		
CBQ	13.4	12.6	15.6	17.3	16.8	15.1	13.1	13.3	16.3	19.3

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 balance sheet figures. Interest-bearing borrowing includes an adjustment to eliminate intra-group debt (approximation of consolidated debt).
c. MGs: sample corporations belonging to the main reporting multinational groups. Large construction sector companies are not included.

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)	
		06 Q2 - Q1	07 Q2 - Q1	06 Q2 - Q1	07 Q2 - Q1
Number of corporations		854	732	854	732
Percentage of corporations by profitability bracket	R <= 0%	22.3	21.4	25.8	26.5
	0% < R ≤ 5%	22.8	19.8	16.5	14.0
	5% < R ≤ 10%	15.2	16.9	12.1	12.0
	10% < R ≤ 15%	11.8	12.7	8.5	10.0
	15% < R	28.0	29.3	37.1	37.6
MEMORANDUM ITEM: Average return		7.4	8.0	10.6	11.5

SOURCE: Banco de España.

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

cial position in the last two years (2006 and 2007), which has been particularly sharp in the case of the interest burden (the ratio of interest on borrowed funds to recurrent business income to finance them, namely gross profit plus financial revenue) as a result of the above-mentioned transactions. The E2 indicator Chart, which provides details for the total aggregate excluding large multinational companies, precisely those which have been involved in the main financing operations referred to above, shows that: a) the financial position of the rest of the sample did not deteriorate in 2007 (in practice the ratio remained unchanged, 0.2% lower than in 2006), and b) the level of debt is substantially lower at the other companies (by approximately 100 pp, 305.5% for the total sample and 205.4% excluding the large multinationals). In any event, these variables must be analysed together with the trend in the return on the assets in which the new financing was invested in order to obtain a broader evaluation of the level of exposure of non-financial corporations. As will be seen, this situation has been accompanied by an improvement in returns and has not decreased firms' ability to generate funds.

The performance of financial costs and revenue pushed ordinary net profit (ONP) upwards by 8.8% in the first half of 2007 which was considerably higher than a year earlier (4.8%) and as a result returns remained high, even above the levels posted in the previous year. Consequently, the return on investment stood at 8% in comparison with 7.4% in 2006, and the return on equity rose to 11.5%, almost 1 pp higher than in the previous year. Furthermore, all sectors recorded similar or higher returns on investment than in the first half of 2006. Table 6 also confirms the positive performance of returns on investment and equity, which triggers a shift by firms towards the higher return segments. As for the cost of debt, ratio R2 continued its rising trend of recent quarters and stood at 4.4% for the first half of 2007, slightly more than 0.5 pp higher than its level a year earlier. In any event, as a result of the growth in returns, the difference between ratio R1 (return on investment) and R2 remained stable with very positive values (3.6), confirming the favourable current situation of Spanish firms. Lastly, the data gathered by the Central Balance Sheet Data Office are consistent with this statement[2]. Thus, the gross fixed capital formation in tangible assets of the firms which make up the CBQ sample

2. As a result of the information provided by the corporations on the basis of their accounting data, the concept of "gross fixed capital formation" can be considered a proxy. Caution is warranted in relation to the conclusions which may be drawn from analysing this variable because it shows strong quarterly volatility.

grew 5.9% in 2007 Q2, higher than the increase of 4.2% for the whole of 2006. Noteworthy among all the sectors is the industrial sector, since it was the most buoyant in this area, with the result that investment in this aggregate rose by 19.5% in the period analysed.

Finally, an analysis of extraordinary results shows a sharp drop in expenses and especially in revenue in the first half of 2007, since no particularly significant operations were recorded in this period unlike the previous year. Since the fall in extraordinary revenue is higher than that in extraordinary expenses, there was weaker growth in final net profit which climbed 2.7% in the first six months of 2007, an improvement on the data obtained in the first half of the previous year (–3.2%). In any event, it is worth underlining that the above-mentioned 2.7% increase is in addition to a flow of results which is extremely high; in effect, Table 1 shows that net profit as a percentage of GVA remained above 30% in the first half of 2007.

In short, the productive activity of Spanish firms remained highly buoyant in the first half of 2007. It was underpinned by the strong expansion of the industrial sector against a background of slightly weaker private consumption, which did not prevent employment from growing at rates similar to 2006 and, on the whole, the CBQ firms continued to generate surpluses at a high rate and reported sizeable returns. In this setting, despite higher financial costs, which have been offset by the soundness of financial revenue from dividends from abroad, firms stepped up their buoyant investment, thus confirming the current positive position of Spain's corporate sector.

17.9.2007.

Introduction

The Latin American economies have continued to show dynamic growth to date in 2007, fuelled by the favourable financing conditions in place to mid-July (see Chart 1) and by continuing high prices for the main commodities exports. So far, the turbulence that has recently affected global financial markets has had but a limited impact on the region, despite the fact that it has traditionally been very exposed to episodes of financial volatility. Improved economic and financial fundamentals have placed Latin America in a much sounder position than in the past to withstand this turbulence, though it cannot be ruled out that it may have an impact on growth.

Aggregate GDP growth in the region was 5.2% year-on-year in Q1 and 5.6% in Q2, in line with average growth for 2006, though slightly below that posted in Q3 and Q4 last year. This slight easing of growth has been foreseeable, given the maturation of an expansionary cycle dating back over five years and which marks the longest growth phase since the 60s in Latin America. Further, much of this slowdown originated in the sluggishness of activity in Mexico, which felt the impact from Q1 of lower growth in its main trading partner, the United States. Brazil also posted unexpectedly low growth at the start of the year, but this was offset by robust activity in Q2. In the remaining countries economic activity continued to be very buoyant (see Table 1), which, judging by the higher frequency indicators, has run into the start of Q3.

Inflation continued to behave favourably throughout the period, although it rose moderately from April, mainly as a result of higher food prices, which pushed aggregate inflation up to a year-on-year rate marginally over 5% in the summer months. Nonetheless, core inflation held stable at around 4.5%. Against this background, monetary policies, which had moved on divergent paths until March, tended to tighten in most countries, with the notable exception of Brazil, which suggests a firming of the upward interest rate cycle in the region. Overall, inflation developments may continue to be viewed as favourable, in a setting in which many of the recent pressures on prices can be explained by the rise in the more volatile components. However, given the high weight of these prices in consumption patterns, the narrowing of output gaps in several countries and a more complex financial setting, the more cautious bias to monetary policy stance appears to be fully warranted, so as to avoid second-round effects.

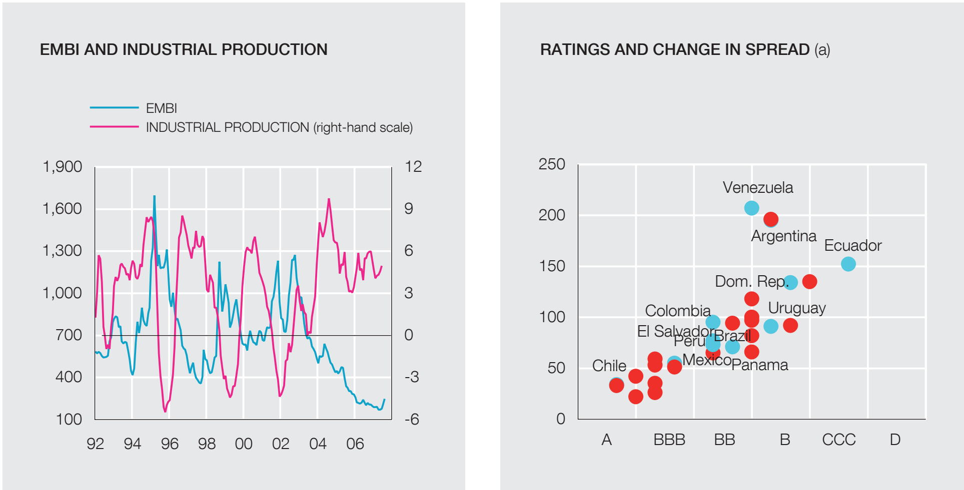
The change in international financial markets in July and August curtailed the benign trend seen until then, which had only been punctuated by brief bouts of higher volatility. The sharp increase in risk aversion in mid-July, originated by the crisis on the US sub-prime mortgage market, affected virtually all risk-bearing assets, including those on emerging markets. The Latin American financial markets had performed particularly favourably since the start of the year, with capital inflows stepping up in some countries. However, they did not prove immune to the process of risk reappraisal and the flight to quality. This change in tack translated into a more pronounced decline in stock markets than on the developed markets, a relatively limited widening of sovereign spreads (except in Argentina and Venezuela) and a rapid reversal of the appreciation by the main currencies since the start of the year, in a movement which initially showed elements of contagion. Nonetheless, the deterioration in the main financial indicators was contained in the subsequent weeks, marking a substantial change from similar bouts of instability in the past.

The comparatively favourable performance of Latin American financial markets reflects the perception of less vulnerability to external shocks that stems from the improved fundamentals

LATIN AMERICA: SOVEREIGN SPREAD AND ACTIVITY

Basis points and quarterly moving average of the year-on-year rate

CHART 1



SOURCES: JP Morgan and national statistics.

a. Change in spread between the high and the low reached between 18 July and 7 September.

in most of the economies in the region. The greater credibility of economic policies, the decline in inflation rates, improved fiscal positions, external surpluses, the reduction in exchange-rate exposure of financial liabilities, the flexibility of exchange rates and the substantial accumulation of reserves, which have in recent years been behind a very significant improvement in credit ratings, endow the Latin American economies with a sound base that should suffice to mitigate the effects of any future tightening of external conditions. In any event, an orderly reappraisal of risk may be beneficial from the standpoint of financial and economic stability, insofar as it helps correct possible excesses in the valuation of certain assets and strengthen caution on the part of these countries' authorities and agents. A more balanced distribution of growth between the United States, Europe and Asia (where China is playing a leading role, with growing relevance for Latin America) is a further factor of strength in the face of greater financial volatility. All these factors suggest that economic growth in the region should be sufficiently sound as to accommodate, without excessive problems though probably with some slowing, the persistence of financial uncertainty on global markets. In this respect, it is no coincidence that the countries with less sound economic fundamentals have been penalised by the markets to a greater extent (see Chart 1).

Though it is still premature to evaluate accurately the scope of this new period of financial turbulence, it cannot be ruled out that, in the medium term, the difficulties in global credit markets will have a relatively lasting effect on qualitative – but crucial – matters for the functioning of financial market, such as risk aversion. A generalised increase in risk aversion, portfolio shifts as a result of losses on other markets or diminished availability of credit may check the volume of capital inflows into the region. Latin America, as a commodities exporting region, is particularly vulnerable to a scenario characterised by a sharp slowdown in world growth and the simultaneous tightening of financing conditions.

Economic and financial developments

EXTERNAL ENVIRONMENT

Until July, the external environment remained clearly positive for developments in the Latin American economies, against a backdrop of sound growth in the world economy (see Chart 2) and favourable financial conditions. In the United States, GDP quickened substantially in Q2, though it continued to reflect the depth of the real estate adjustment and it did not dispel doubts over the possible continuation of lower private consumption growth in the sec-

LATIN AMERICA: MAIN ECONOMIC INDICATORS

TABLE 1

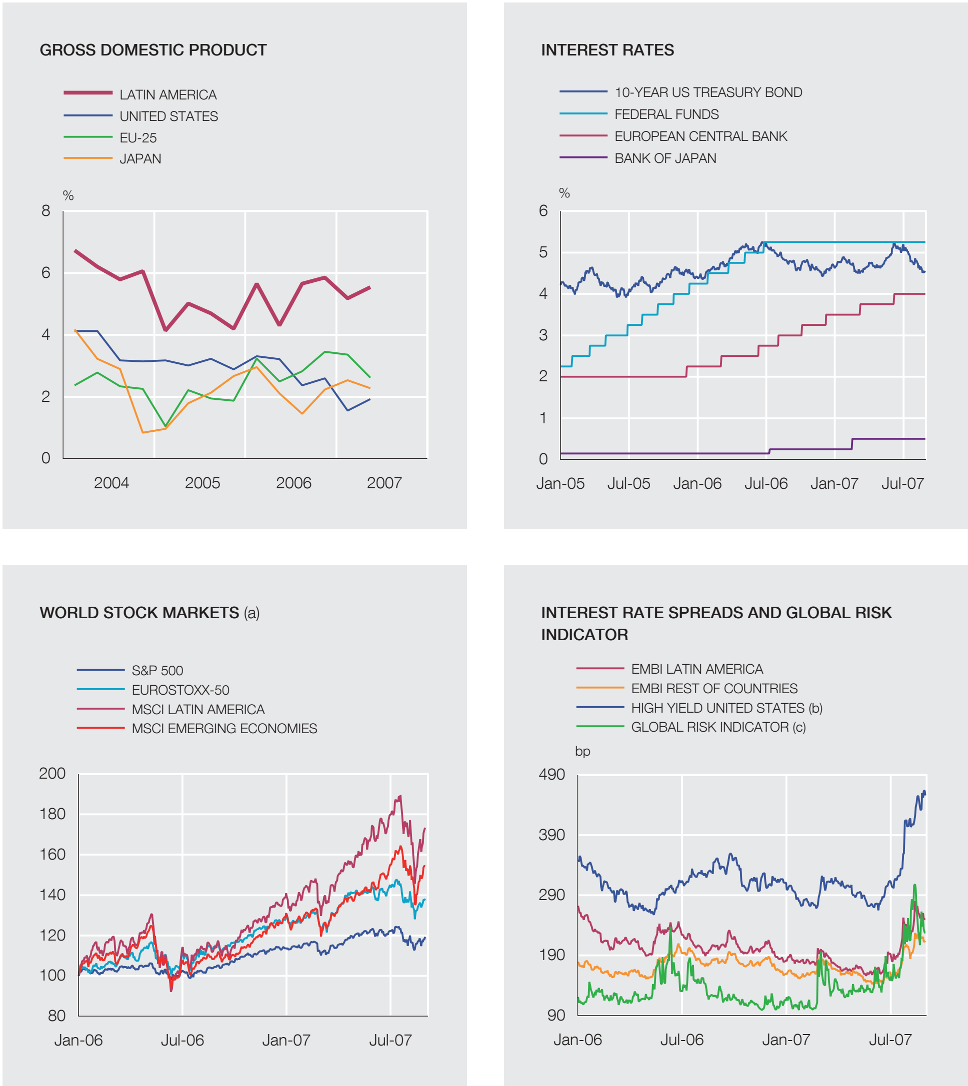
	2003	2004	2005	2006	2005		2006				2007	
					Q3	Q4	Q2	Q2	Q3	Q4	Q1	Q2
GDP (year-on-year change)												
Latin America (a)	2.3	6.2	4.5	5.4	4.7	4.2	5.6	4.3	5.6	5.8	5.2	5.6
Argentina	8.8	9.1	9.1	8.5	9.2	9.0	8.8	7.7	8.7	8.6	8.0	8.7
Brazil	1.2	5.7	3.0	3.7	3.1	3.1	4.0	1.5	4.5	4.8	4.4	5.4
Mexico	1.4	4.2	2.8	4.8	3.1	2.5	5.5	4.9	4.5	4.3	2.6	2.8
Chile	4.0	6.0	5.7	4.0	5.2	4.2	5.0	4.0	2.6	4.3	5.8	6.1
Colombia	3.8	4.9	6.7	6.7	5.9	1.5	5.3	6.3	7.6	7.7	8.3	7.2
Venezuela	-7.6	19.4	10.3	10.3	10.2	10.9	9.8	9.4	10.1	11.8	9.1	8.9
Peru	4.1	5.1	6.7	7.6	6.5	7.9	7.9	5.8	8.6	8.1	8.0	7.6
Uruguay	2.3	12.0	6.6	7.1	5.6	6.9	7.1	7.9	7.2	6.1	6.7	4.8
CPI (year-on-year change)												
Latin America (a)	10.9	6.0	6.3	5.2	6.0	6.0	5.8	5.1	5.0	4.8	4.9	5.0
Argentina	14.9	4.4	9.6	10.9	9.8	11.7	11.6	11.4	10.6	10.1	9.5	8.8
Brazil	14.8	6.6	6.9	4.2	6.2	6.1	5.5	4.3	3.8	3.1	3.0	3.3
Mexico	4.6	4.7	4.0	3.6	4.0	3.1	3.7	3.1	3.5	4.1	4.1	4.0
Chile	2.8	1.1	3.1	3.4	3.3	3.8	4.1	3.8	3.5	2.2	2.7	2.9
Colombia	7.1	5.9	5.1	4.3	4.9	5.1	4.3	4.0	4.6	4.3	5.3	6.2
Venezuela	31.4	21.7	16.0	13.7	15.4	15.2	12.6	11.2	14.6	16.1	19.1	19.5
Peru	2.3	3.7	1.6	2.0	1.2	1.3	2.4	2.3	1.8	1.5	0.4	0.8
Uruguay	19.4	9.2	4.7	6.4	3.9	4.8	6.4	6.4	6.6	6.2	7.0	8.1
PUBLIC-SECTOR BALANCE (% GDP) (b)												
Latin America (a) (b)	-1.9	-0.7	-0.6	-0.5	-0.5	-0.6	-0.7	-0.6	-0.4	-0.5	-0.2	-0.2
Argentina	0.4	2.5	1.4	1.7	1.2	1.4	1.4	1.5	1.8	1.7	1.5	1.4
Brazil	-3.3	-2.3	-2.8	-2.9	-2.2	-2.8	-3.2	-3.0	-3.1	-2.9	-2.4	-2.1
Mexico	-0.7	-0.3	-0.1	0.1	0.0	-0.1	0.2	0.4	0.4	0.1	0.7	0.3
Chile	-0.8	2.4	4.7	8.0	4.4	4.7	6.1	6.6	7.9	8.0	7.9	8.7
Colombia	-2.6	-0.6	-0.5	-0.5	-1.7	-0.5	0.2	0.6	1.8	-0.5	…	…
Venezuela	-4.4	-2.0	2.4	-1.5	4.1	2.4	-1.3	-5.5	-3.7	-1.5	…	…
Peru	-1.8	-1.3	-0.7	1.4	-0.3	-0.7	-0.1	0.7	1.0	1.4	1.5	1.2
Uruguay	-2.9	-2.0	-0.8	-0.6	-1.6	-0.8	-0.2	-0.6	-0.6	-0.6	-1.0	0.2
PUBLIC DEBT (% GDP) (b)												
Latin America (a) (b)	52.0	48.0	40.3	38.6	40.9	40.3	40.4	38.6	39.0	38.6	38.6	…
Argentina	129.9	120.3	66.8	59.8	66.6	66.8	69.0	59.1	59.9	59.8	62.0	…
Brazil	52.4	47.0	46.5	44.9	46.6	46.5	46.6	45.5	45.0	44.9	44.8	44.3
Mexico	22.9	21.3	20.8	22.7	22.6	20.8	21.7	21.3	23.9	22.7	23.1	5.0
Chile	12.5	10.0	6.8	5.2	7.6	6.8	6.2	5.5	5.4	5.2	4.9	5.0
Colombia	50.7	47.0	46.6	44.9	46.1	46.6	46.9	47.7	45.6	44.9	43.6	…
Venezuela	56.9	53.3	48.2	41.9	50.1	48.2	36.1	38.2	40.0	41.9	39.0	37.3
Peru	47.0	44.3	37.8	32.6	38.1	37.8	36.1	35.0	33.1	32.6	30.8	30.0
Uruguay	108.2	100.7	83.8	70.9	82.5	83.8	73.1	74.9	75.5	70.9	74.7	…
CURRENT ACCOUNT BALANCE (% GDP)												
Latin America (a)	1.0	1.4	1.8	1.9	1.6	1.8	2.0	2.0	2.0	1.9	1.7	1.6
Argentina	5.9	2.2	2.9	3.5	2.4	2.9	3.6	3.3	3.2	3.5	3.5	3.1
Brazil	0.8	1.8	1.8	1.3	1.7	1.8	1.5	1.3	1.4	1.3	1.3	1.4
Mexico	-1.4	-0.9	-0.6	-0.3	-0.9	-0.6	-0.2	-0.2	-0.3	-0.3	-0.7	-0.8
Chile	-1.0	2.2	1.1	3.6	0.9	1.1	1.7	2.8	3.9	3.6	4.8	5.4
Colombia	-1.2	-0.9	-1.5	-2.3	-1.5	-1.5	-1.7	-2.0	-1.9	-2.3	-2.9	…
Venezuela	13.8	15.3	22.3	19.5	20.7	22.3	23.6	24.2	22.5	19.5	17.1	14.6
Peru	-1.5	0.0	1.4	2.8	0.9	1.4	1.0	1.3	2.2	2.8	2.9	2.9
Uruguay	-0.8	0.0	0.2	-2.2	-0.1	0.2	0.2	-0.3	-1.0	-2.2	-1.9	…
EXTERNAL DEBT (% GDP)												
Latin America (a)	45.1	38.5	26.5	22.4	28.8	26.5	25.4	23.2	23.2	22.4	23.4	…
Argentina	119.6	107.6	59.1	47.5	61.4	59.1	56.1	48.1	49.1	47.5	51.0	…
Brazil	36.7	28.9	19.2	16.2	22.5	19.2	17.6	15.8	15.4	16.2	16.5	…
Mexico	21.6	18.9	15.4	13.0	17.2	15.4	15.2	15.4	15.3	13.0	13.6	…
Chile	50.9	41.7	33.5	32.0	37.2	33.5	32.8	31.5	33.1	32.0	30.1	29.6
Colombia	43.4	35.0	28.4	26.5	28.9	28.4	30.0	28.9	28.2	26.5	29.0	…
Venezuela	50.3	42.5	39.3	29.6	38.6	39.3	31.3	28.9	29.2	29.6	31.3	33.6
Peru	47.1	42.0	35.3	28.2	36.4	35.3	34.3	28.8	29.3	28.2	29.4	27.6
Uruguay	98.0	87.6	68.6	54.6	67.3	68.6	58.6	59.3	59.0	54.6	56.7	…

SOURCE: IMF, Banco de España and National Statistics Offices.

a. Aggregate of 8 represented countries
b. 2006 estimated.

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

CHART 2



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

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

ond half of the year. Prices eased and core inflation dipped to rates deemed comfortable by the monetary authority. In Japan, economic growth moderated appreciably in Q2, while in the euro area the pace of growth also eased somewhat. The counterpoint was in the emerging economies, and particularly in China, where the already dynamic rate of expansion stepped up further, although the rise in inflation prompted a progressive tightening of Chinese monetary conditions. In the developed economies – with the exception of the United States – the upward interest rate cycle was only interrupted further to the recent financial problems, while central banks injected sizeable amounts of liquidity into money markets. Japan, the euro area and the United Kingdom froze their scheduled rises, and the Federal Reserve brought forward the start of the cuts with a 50 bp reduction at its September meeting (see Chart 2).

One of the key aspects of international financial developments in the months prior to the turbulence was the rising trend of long-term interest rates. This was particularly marked in the

United States, where 10-year yields rose to levels above 5.25% in June. The movement was chiefly attributable to an increase in the term premium stemming from the improved growth outlook and, in part too, to heightening uncertainty over the course of official rates. Subsequently, in July and August, the deterioration in the US sub-prime mortgage market segment prompted a flight towards quality which, although it particularly favoured risk-free, very short-dated securities, also had a bearing on the decline in long-term yields to levels of 4.50%. Even more significant were the increases in credit spreads (see Chart 2), especially in the case of the corporate bonds of weaker-quality companies (over 150 bp between July and August), which extended, albeit with less intensity, to the sovereign bonds of emerging countries, especially in Asia and Latin America. Stock markets, which had moved on a strong rising trend to end-July, underwent significant corrections, markedly so in the case of emerging markets where the rise had also been on a greater scale (see Chart 2). The Standard & Poors index and the Eurostoxx declined by around 10% from mid-July to mid-August, while the dollar-denominated MSCI emerging markets index fell by more than 15%, and by even more in the case of the Latin American MSCI index. Nonetheless, following the recovery in recent weeks, stock markets have regained positive territory in relation to the start of the year.

The turbulence on financial markets was also reflected in the foreign exchange markets. The exchange rate of the dollar against the euro was temporarily bolstered by the dollar's status as a safe-haven currency. The yen appreciated by 7% against the dollar, in mid-August, and strengthened even more against the currencies of many countries with high interest rates, such as the Australian dollar, the Brazilian real or the Turkish lira, on a reversal of carry trade. Finally, another key aspect of the last quarter was the oscillation in oil prices which, after falling to $68 per barrel in the face of uncertainty over the extent to which financial instability would affect growth in the world economy, picked up to their previous highs, close to $80 per barrel. Commodities, especially metals, trended similarly to oil, while the prices of agricultural products from which biofuel is prepared (wheat, maize and soya) rose strongly in the summer months.

ECONOMIC ACTIVITY AND DEMAND

Economic growth in Latin America ran at 5.4% in the first half of 2007, in line with the average growth for 2006, but at a slightly more moderate rate compared with the second half of last year. The slowdown was notable in Q1, but was offset in Q2 by a quarter-on-quarter increase of 1.7%, far higher than the figures recorded in late 2006 (see Chart 3).

Country by country, growth rose significantly in Brazil and Chile, and fell in the others, albeit moderately in general and starting from very high rates. This was the case for Argentina, Colombia, Venezuela and Peru. Developments were particularly significant in Mexico, whose growth rate was virtually halved from a rate of close to 5% in 2006 to 2.6% in Q1 and 2.8% in Q2, as a result of the lower growth in its main trading partner, the United States, and of the slowdown in domestic demand. Indeed, practically the entire slowdown in activity in the region in the first half of the year may be attributed to Mexico. While Brazil contributed 1.9 pp to growth and Argentina 1.2 pp, the contribution of Mexico was only 0.7 pp, 0.4 pp down on the second half of 2006.

In terms of components, the contribution of domestic demand to growth increased relative to the second half of 2006, rising to 7.9 pp in Q2, while external demand worsened somewhat, with a negative contribution of 2.3 pp (see Chart 4). This deterioration was fairly widespread across the region, with the significant exception of Chile. Private consumption quickened, attaining a year-on-year growth rate of 6.8% in Q2 (see Chart 5), driven by the growth of this variable in Argentina and Chile, and by its take-off in Brazil

LATIN AMERICAN GDP
Year-on-year change, unless otherwise indicated

CHART 3

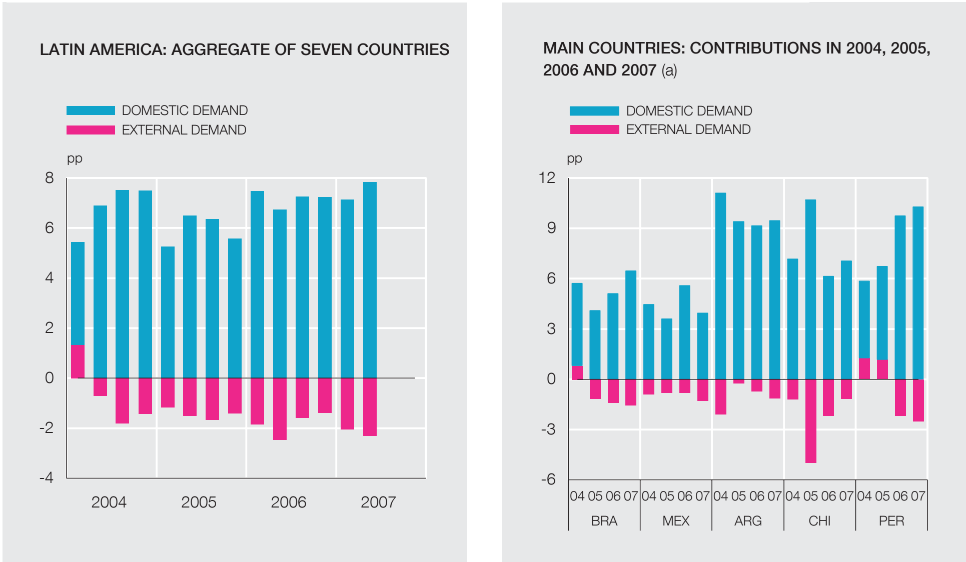
SOURCE: National statistics.

following a year of relative slackness. This behaviour reflects the favourable situation of the region's labour market, where employment grew at a rate higher than that posted in 2006 (around 5% in Q1) and real wages increased by around 5.4%, although they slowed in Q2. The unemployment rate held at a relatively low level (7.7% of the labour force) in Q2. The growth of credit, which increased across the board (20.5% year-on-year in real terms), and the maintenance of real interest rates at low levels also continued to underpin consumption and investment (see Chart 6). The growth rate of investment held at around 14% year-on-year in Q2, at a very similar level to that in the second half of 2006, and it proved to be the most dynamic component of domestic demand in most countries. Indeed, in Chile, Colombia and – in Q2 – in Brazil and Peru, gross capital formation tended to quicken substantially (see Chart 6). Government consumption eased, especially during Q1, posting a year-on-year increase of 2.7% in Q2, a relatively low rate compared with the past two years.

The trend of the higher frequency indicators – such as retail sales (see Chart 7) – corroborates the continuing sound performance of private consumption at the start of Q3. However, the

CONTRIBUTIONS TO GDP GROWTH

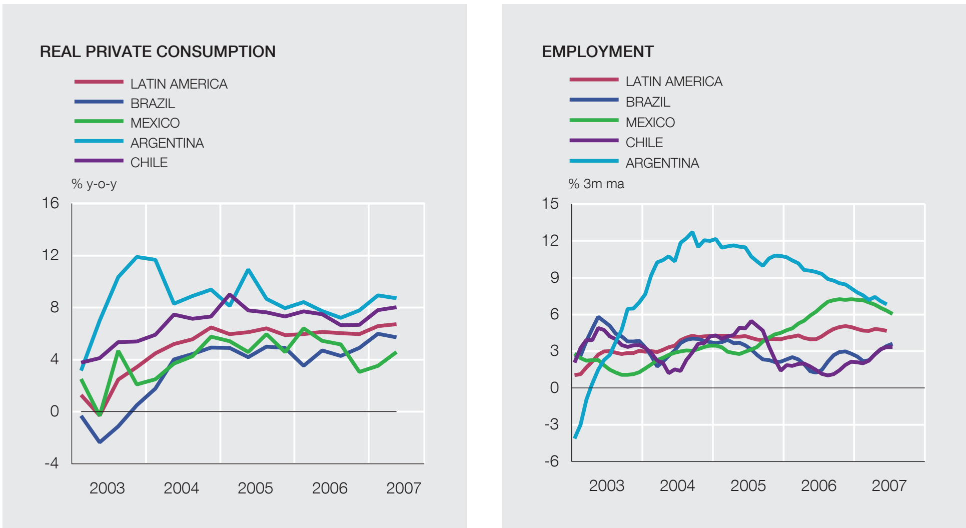
CHART 4



SOURCE: National statistics.

PRIVATE CONSUMPTION AND LABOUR MARKET
Year-on-year rate and three-month moving average

CHART 5



SOURCE: National statistics.

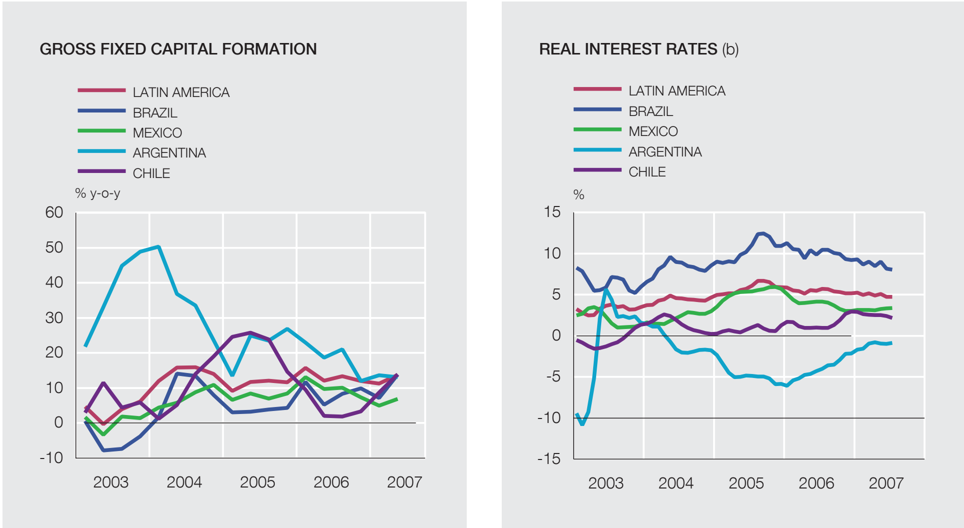
deterioration in consumer confidence indices (in many countries), the slowdown in the pace of job creation and the increase in instability on financial markets are factors meriting caution when looking ahead.

The external sector continued to post positive results, thanks to the favourable behaviour of the terms of trade (see Chart 8), despite the increase in the negative contribution of external demand to growth. The trade balance stood at 3.7% of GDP in Q2, which is a substantial surplus at a mature stage of the cycle, despite being 0.8 pp down on the high reached in 2006 Q2. Exports slowed in the region as a whole to a rate of 11% in Q1, picking up strongly in Q2 to 16%. Imports, meanwhile, grew steadily at a rate of over 20% throughout the first half of the year, reflecting the momentum of domestic demand.

GROSS FIXED CAPITAL FORMATION AND REAL INTEREST RATES

CHART 6

Year-on-year rate and annual percentage



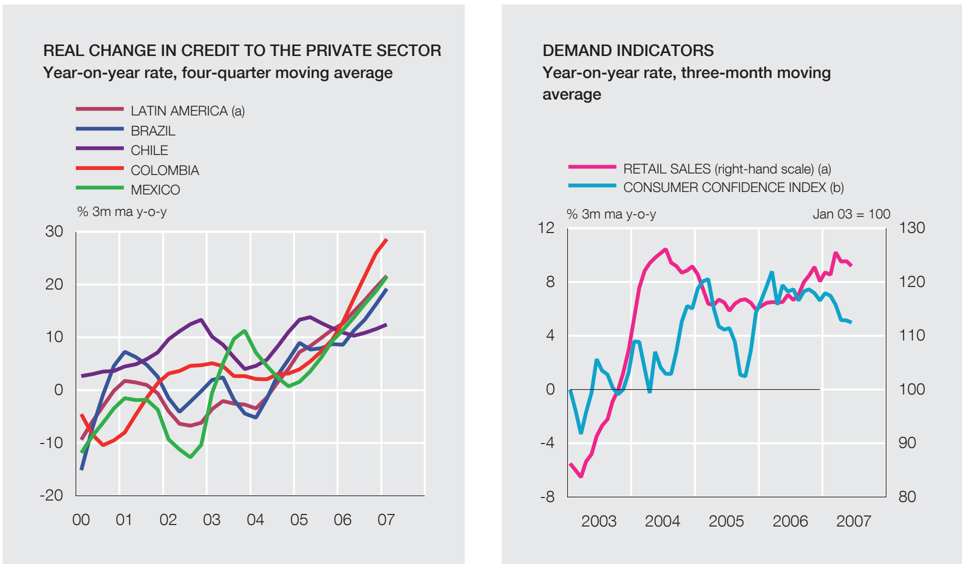
SOURCE: National statistics and IMF.

a. Eight biggest economies.
b. Short-term interest rate minus inflation.

DEMAND

CHART 7

Three-month moving average of year-on-year rate and levels

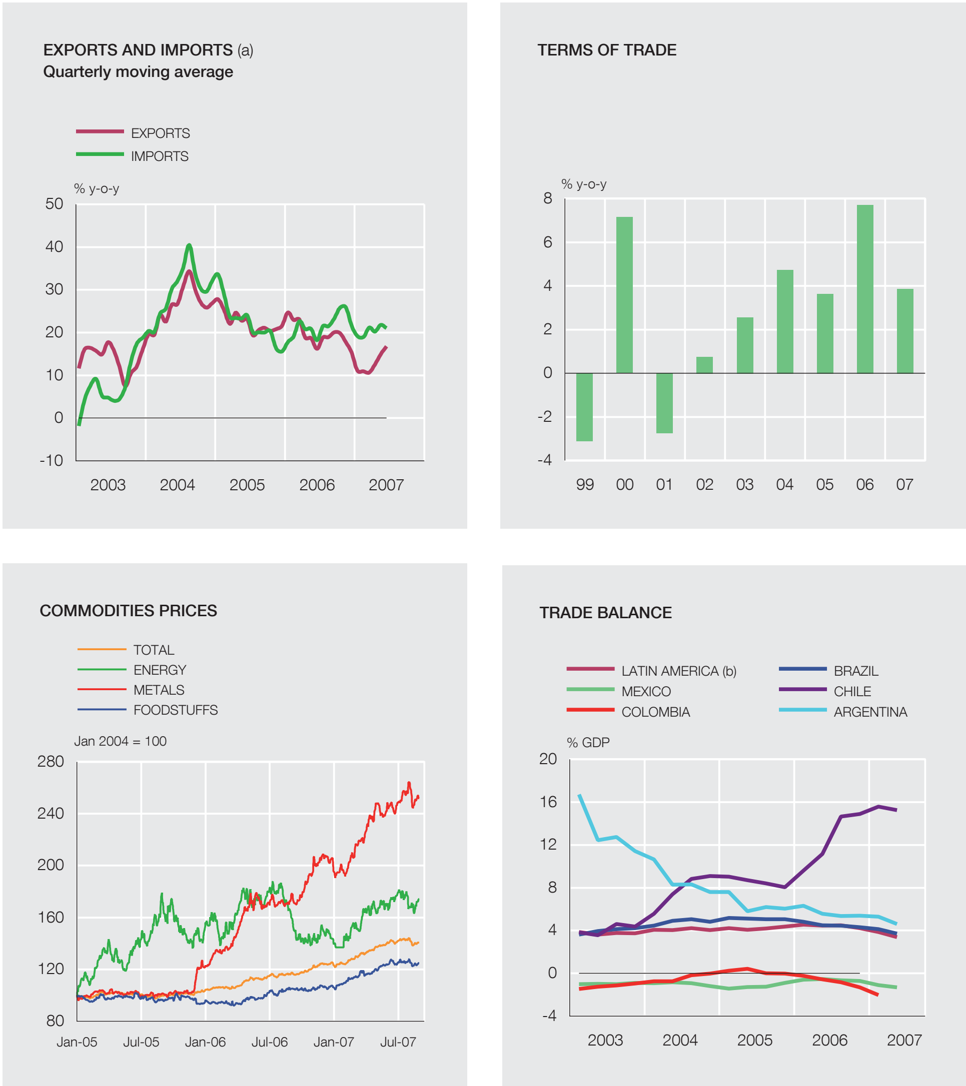


SOURCE: National statistics.

a. Eight biggest economies, without Peru and Uruguay.
b. Argentina, Brazil, Chile, Mexico and Peru.

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

CHART 8



SOURCES: National statistics and Banco de España.

a. Customs data in US dollars.
b. Aggregate of nine largest economies.

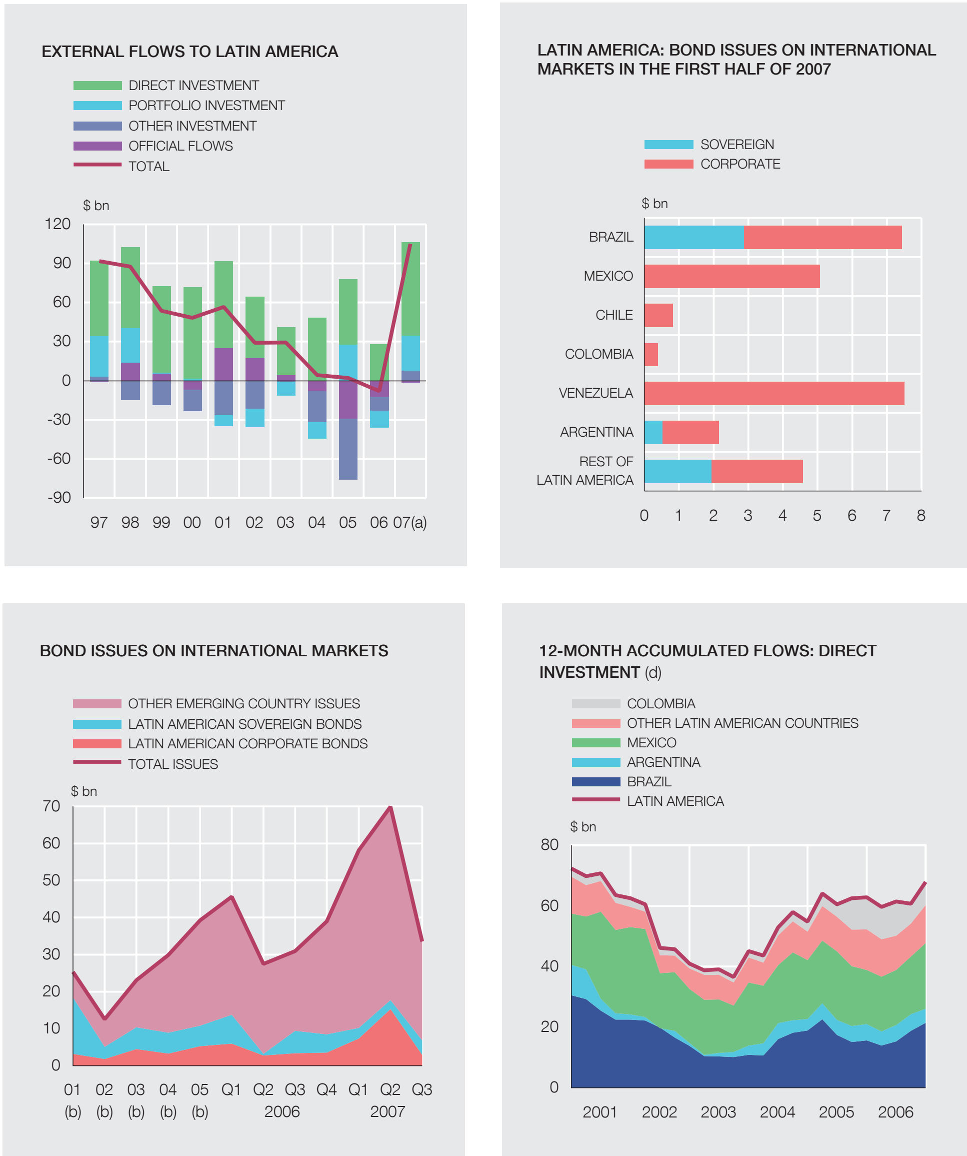
Among the region's countries, Chile was to the fore, with a trade surplus of 16% of GDP (see Chart 8). In the remaining countries, Brazil and Argentina, which are running a trade surplus, saw a moderate worsening in terms of GDP. This deterioration was more marked in countries such as Colombia and Mexico, which posted deficits. That said, the current account balance remains strongly positive in the region as a whole (1.6% of GDP in Q2), although it is on a clearly declining trend from the high of 2% of GDP reached in mid-2006.

FINANCIAL MARKETS AND EXTERNAL FINANCING

In the past six months, financial markets have undergone two clearly differentiated stages. From April to end-July, there was an increase in net capital inflows into the region which, following years of moderation, returned to levels similar to those prior to 1998 (see Chart 9); in contrast, in the past two months there has been an appreciable adjustment in financial asset prices, as a result of the impact of the recent financial turbulence.

EXTERNAL CAPITAL FLOWS
$ bn

CHART 9



SOURCES: JP Morgan and IMF.

a. 2007: estimate
b. Quarterly average.
c. Data to August and estimate for September 2007.
d. To 2007 Q1.

During the first half of 2007 there was a sizeable increase in net capital flows to Latin America and, in general, to emerging financial markets. In Latin America, a large portion of capital inflows were in the form of foreign direct investment, which was probably attracted by the region's improved economic outlook, its greater stability and the benefits arising from globalisation. There was also a change in sign in net portfolio investment flows, which turned positive, although it is uncertain how permanent this will be in the current phase of financial instability. Short-term capital inflows in the first half of the year help explain the rising course of most of the region's currencies in the period to July, along with the step-up in the purchase of reserves by some central banks, most notably so in the case of the Central Bank of Brazil. These developments gave rise to the emergence of certain dilemmas and difficulties in monetary policy management, which are analysed in Box 1 in the cases of Brazil and Colombia.

CAPITAL INFLOWS AND UPWARD PRESSURE ON THE BRAZILIAN AND COLOMBIAN CURRENCIES

BOX 1

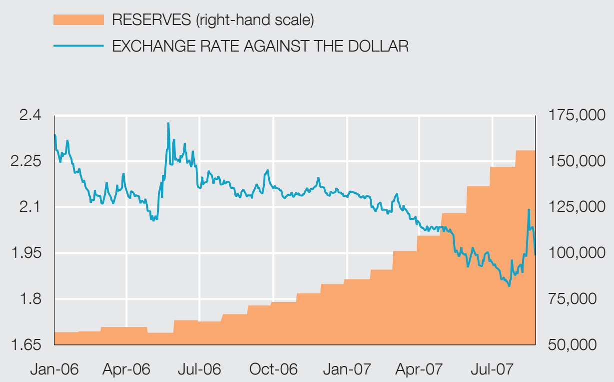
The general upward pressure on Latin American exchange rates induced for several years by the buoyant economic conditions has been exacerbated in the opening months of 2007. The strong nominal appreciation in recent years has affected real exchange rates, with potential adverse implications for the competitiveness of certain export sectors. For this reason, despite the prevalence of flexible exchange rate regimes, most Latin American central banks have attempted to mitigate the nominal appreciation through the accumulation of reserves, and to this end they have engaged in notable activity in the currency markets (see panels 1 and 2). Colombia and Brazil are probably the two countries in the area where these pressures have been most pronounced, although recently these have been interrupted by the global financial turbulence.

This box describes what implications the strong exchange rate appreciation has had for these two countries, analysing the attendant causes and impact on monetary policy.

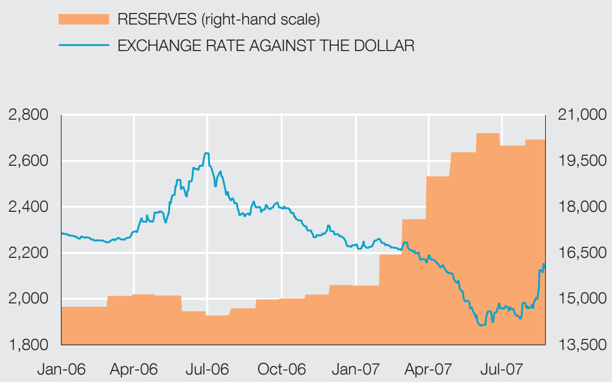
The upward pressure on Colombia's exchange rate from 2004 were a consequence of the strong financial inflows of mostly long-term funds (direct investment and some portfolio investment) against a background of greater political stability and the improving growth prospects of the Colombian economy. By contrast, the upward pressure on the Brazilian real in the last three years was fuelled mainly by the large current account surpluses, although from 2006 there have been net inflows of funds of considerable size (see Chart 3). In the first half of 2007, the strong appreciation of the real and of the peso against the dollar (16% and 18%, respectively, to July) was due to the sharp increase in financial inflows, as shown by panels 3 and 4.

The central bank of the Republic of Colombia thus intervened regularly in the foreign exchange market from 2004, mostly to prevent the exchange rate from appreciating. Purchases of reserves accelerated notably in the early months of 2007, during which period they reached \$20 billion, up 31% on the end-2006 figure. Until June, however, this policy of reserve accumulation did not manage to contain the appreciation of the peso against the dollar and, moreover, clashed with the monetary policy objectives. Indeed, the fact that the purchases of reserves in 2006 were not sterilised led to a sharp expansion of the monetary base in that year. Despite this, inflation remained relatively contained. However, at the end of that year inflation began to rise substantially and has remained outside the central bank's inflation targets since the beginning of 2007. The purchases of reserves in 2007 were sterilised as official interest rates continued to rise (a cu-

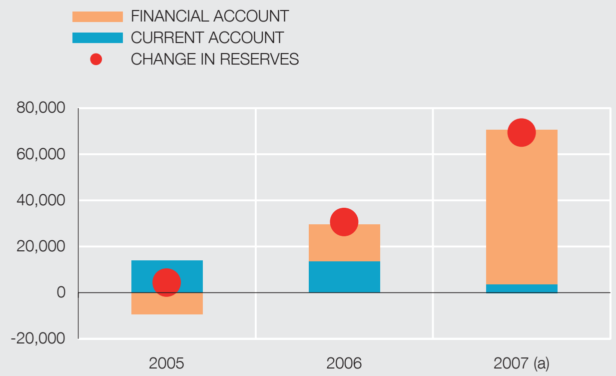
1 BRAZIL



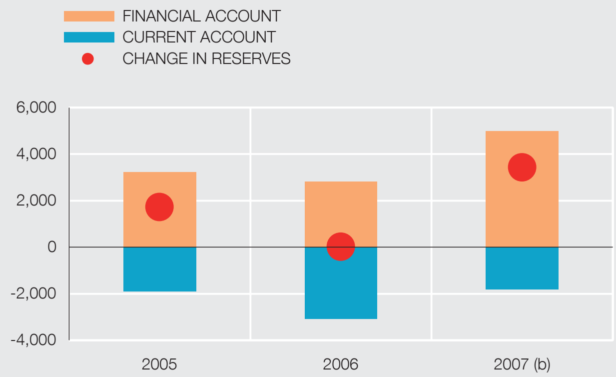
2 COLOMBIA



3 BRAZIL



4 COLOMBIA



SOURCES: Banco Central de Brasil and Banco de la República.

a. To July.
b. To March.

mulative rise of 325 bp from April). The higher interest rates, along with the introduction in early March of an unlimited interest-earning deposit facility at the central bank probably contributed to feeding short-term financial inflows and to raising upward pressure on the currency. In this way a vicious circle with negative consequences was set in train: the Colombian central bank was faced with a monetary policy dilemma, since the inflation and exchange rate control objectives had been decoupled from one another. In this situation, the central bank took exceptional measures, such as: the imposition of reserve ratios to reduce liquidity; an obligatory 6-month deposit equal to 40% of loans obtained abroad; and limits to the leverage of foreign exchange market intermediaries in their derivatives transactions (measures designed to reduce the attractiveness of short-term financial inflows). In addition, the government took capital control measures consisting of the introduction of a 6-month local-currency deposit at the central bank for 40% of the value of all inward portfolio investment. Also, to compensate the sectors hardest hit by the appreciation, an export assistance package was introduced.

For its part, the Brazilian central bank made sizeable sterilised reserves purchases in 2006. They were stepped up significantly in the first half of 2007 and, as a result, reserves rose from $85 billion to $136 billion. Unlike in Colombia, the purchases of reserves did not clash significantly with monetary policy conduct because the Brazilian central bank was in the midst of a long cycle of interest rate cuts which helped to mitigate upward pressure. However, this is not to say that those pressures did not affect the conduct of monetary policy. Indeed, at the beginning of 2006 the central bank had opted to reduce the pace of interest rate cuts from 50 bp to 25 bp within its expansionary monetary policy cycle. In June, following a period of substantial short-term financial inflows, it opted to cut interest rates by 50 bp, and did so again in July. The step-up in the pace of interest rate cuts was largely an attempt to slow the inflows of short-term funds and to respond to an increasing appreciation of the real. Furthermore, as in Colombia, the Brazilian Ministry of Economy designed export credit and subsidy programmes to provide compensation to certain sectors affected by the appreciation. Also, prudential regulations were changed in order to prevent excessive exchange rate exposure and to enable financial inflows to be reduced.

These events show the growing difficulty in reconciling exchange rate appreciation with monetary policy management, including in the cases in which a significant appreciation of the real exchange rate is consistent with favourable behaviour of the economic fundamentals. Although the upward pressure on the exchange rate was interrupted when the recent global turbulence broke out, the Latin American economies may again have to face the dilemmas and issues associated with large capital inflows and their impact on monetary and exchange rate variables.

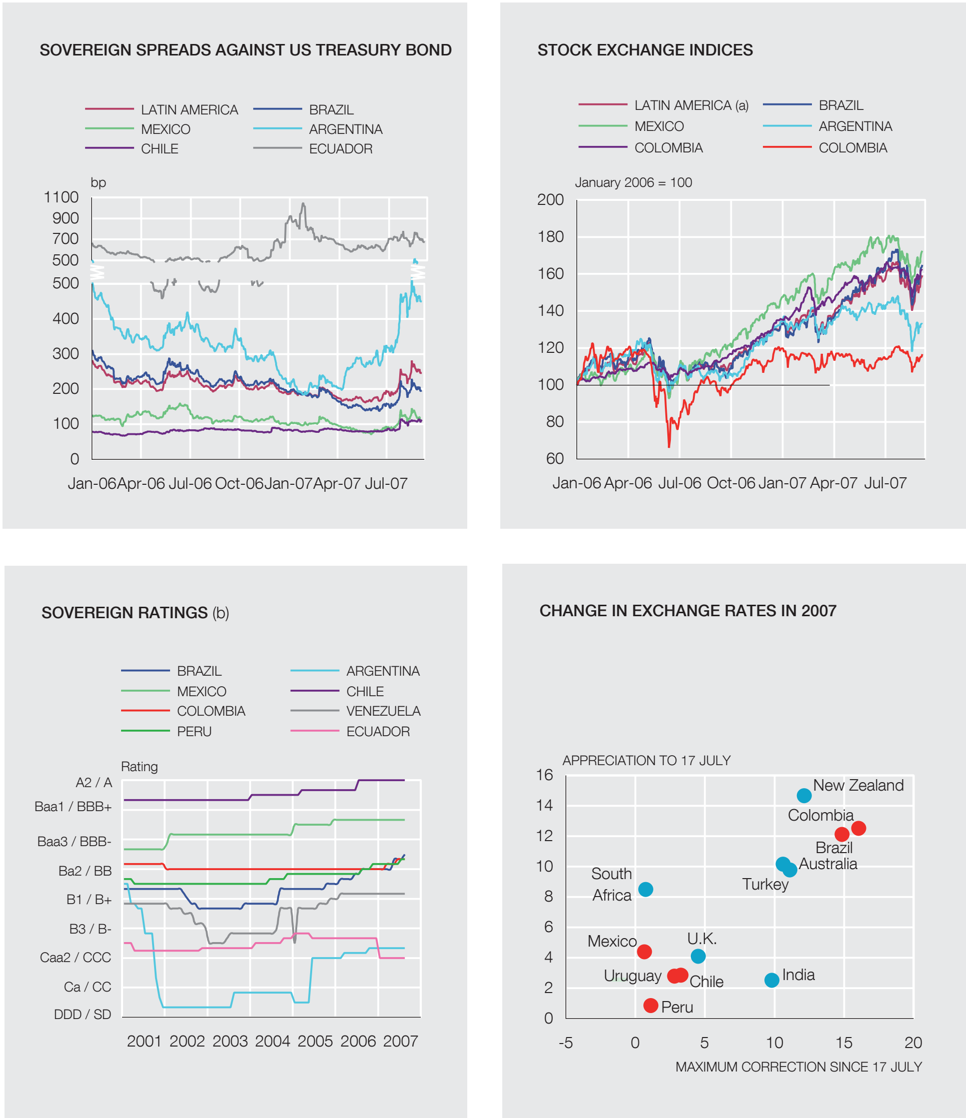
Against this background, corporate issues on international markets remained buoyant throughout the first half of the year, totalling over $22 billion. This figure was much higher than the total volume of sovereign issues, which continued to diminish over the same period. Indeed, Chile, Mexico, Colombia and Venezuela made no sovereign issues on international markets during the first half of the year.

From mid-July to August there was a strong adjustment in Latin American financial asset prices (see Chart 10). Sovereign spreads measured by the EMBI index, which had stood at a historical low of around 150 bp in June, tended to widen by more than 100 bp. This widening, which was similar to that in other emerging areas but less than that of US high-risk corporate spreads, was significant, as it placed these spreads at an 18-month high. Initially, spreads widened across the board, and there was an increase in cross-market correlation, illustrative of the flight to quality and of a certain lack of discrimination between various risks. Nonetheless, taking a broad view, the sovereign spreads of Argentina and Venezuela – the countries with the highest credit risk – can be seen to have widened most (by more than 250 bp since April in both countries). The turbulence had a much more limited impact on Mexican and Chilean sovereign spreads, which only widened by around 30 bp from their respective lows; and nor was the widening in Brazil (approximately 50 bp) significant. Overall, sovereign spreads have held at very low levels, in relation to the historical average, although the widening of the yield spreads of local-currency-denominated debt was much more marked in practically all markets.

The increase in volatility had an appreciable impact on the equity and foreign exchange markets. The Latin American MSCI index posted losses of close to 20% from mid-July to August,

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

CHART 10



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

a. MSCI Latin America Index, in local currency.
b. Simple average of Moody's, Standard&Poor's and Fitch IBCA ratings.

in line with other emerging markets, although subsequently it picked up appreciably (see Chart 10). This recovery meant that most local stock market indices were posting gains as at mid-September in relation to the start of the year.

On the foreign exchange markets the increase in risk aversion had a clear impact on those currencies with high interest rates that had been subject to carry trade in the preceding months. Noteworthy in this connection are the Brazilian real and the Colombian peso, the appreciation in which since the start of the year was largely reversed in August, against a background of heightening volatility (see Chart 10). This reversal led the Brazilian central bank to interrupt its purchases of reserves. But those currencies which had appreciated by a lesser amount, such as the Mexican peso or the Argentine peso, also depreciated moderately (by around 3%), the latter despite central bank and state-owned bank sales of dollars. The Chilean peso and the Peruvian sol held, however, relatively stable throughout the period. Regarding issues, certain pre-announced sovereign debt issues had to be cancelled or postponed during the period of turbulence (Argentina, Brazil, Venezuela's "Bono del Sur"), as did also some private fixed-income issues.

In any event, the sound fundamentals of the Latin American economies and their lesser financial vulnerability, along with the lower direct exposure of their banking systems to high-risk structured assets, have meant that the impact of the financial channel has been relatively contained to date. In this respect, it is significant that Brazil saw its credit rating revised upwards in late August, to a notch below investment-grade. This revision followed those of Peru, in July, and Colombia, in June, along with the improved outlook for Mexico's rating in the same month. However, it is premature to rule out the possibility that any future increase in risk aversion or portfolio reallocation, further to the losses that may materialise in other markets, may worsen market financing conditions. In this sense, most sovereign issuers in the region have their financing requirements for 2007 covered, which enables them to isolate themselves temporarily from any potential squeeze on credit. But there are also countries, such as Argentina, where the Treasury still has sizeable borrowing needs. And these countries might be more exposed if the instability extends over time, which might entail an increase in recourse to the central bank. Others, such as Colombia or Mexico, are faced with greater dependence on foreign capital flows, as they are running a current account deficit, although this deficit has until now been financed with long-term capital inflows. Finally, mention should be made of the interaction of the financial channel with real transmission channels, the impact of which on Latin America might be very significant, especially if a slowdown in growth in the world economy were to cut back commodities prices, on which the region has based much of its recent expansion.

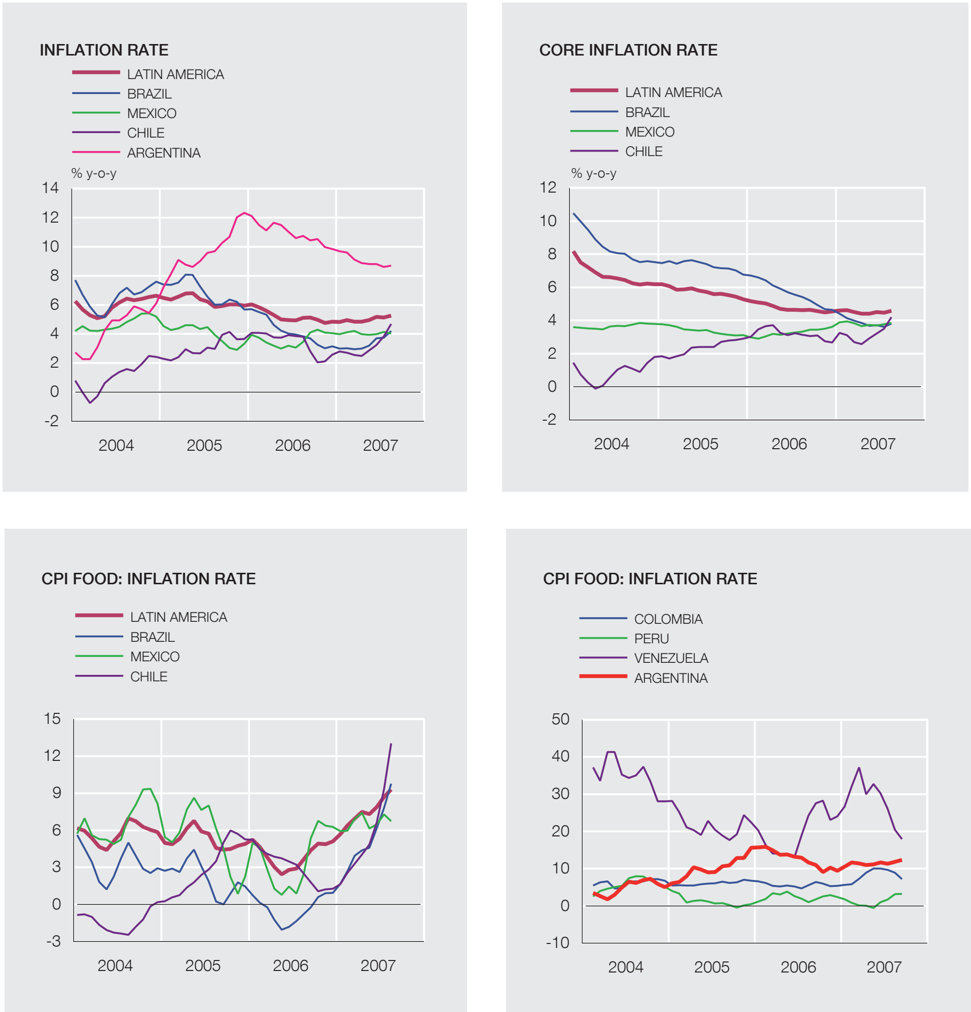
PRICES AND MACROECONOMIC POLICIES

Inflation rose moderately in the six-month period under analysis, standing at a rate of 5.3% in August, compared with the low of 4.7% posted in the second half of 2006 (see Chart 11). The rise was across the board in Brazil, Chile, Colombia, Mexico and Peru, with some dispersion regarding its intensity and the source of the pressures on prices, although the food component was present in most cases. Core inflation held stable at around 4.5% across the region.

The increase in inflation was particularly marked in Chile, where it stood at 4.7% in August, more than 2 pp up on the rate for Q1. The source of the increase was in the rise in food and fuel prices, and in the increase in electricity rates (see Chart 11). However, core inflation also rose appreciably to 4.2%, exceeding the central bank target, against the background of the likely closing of the output gap. In these circumstances, the Chilean central bank raised its official rate on three occasions by 25 bp, in July, August and September, placing it at 5.75%. In Mexico, the rebound in food prices was the main determinant of the rise in inflation to 4.1% in August, while core inflation was affected to a lesser extent (3.8%). That said, as the upper limit of the Bank of Mexico's target band was breached, the central bank raised its reference rate by 25 bp in April to 7.25%, subsequently maintaining an upward bias in its monetary policy communiqués. Inflation in Colombia, which had exceeded 6% in Q2, turned down to 5.7% following a notable tightening of monetary policy and the application of a series of administrative measures to control credit growth. Finally, inflation in Brazil stood at 4.2% in August, more than 1 pp up on the start of the year. However, core inflation continued to behave favourably, allowing fresh cuts in official interest rates to a historical low of 11.25% in September. In Argentina and Venezuela, inflation held at a very high growth rates. The doubts raised by the methodology used to calculate consumer prices in Argentina have called the decline in inflation to 8.7% in August into question, while in Venezuela the 5 pp cut in VAT had a temporary downward effect on inflation, which stood at 15.9%, a low for the year.

INFLATION
Year-on-year rate of change

CHART 11



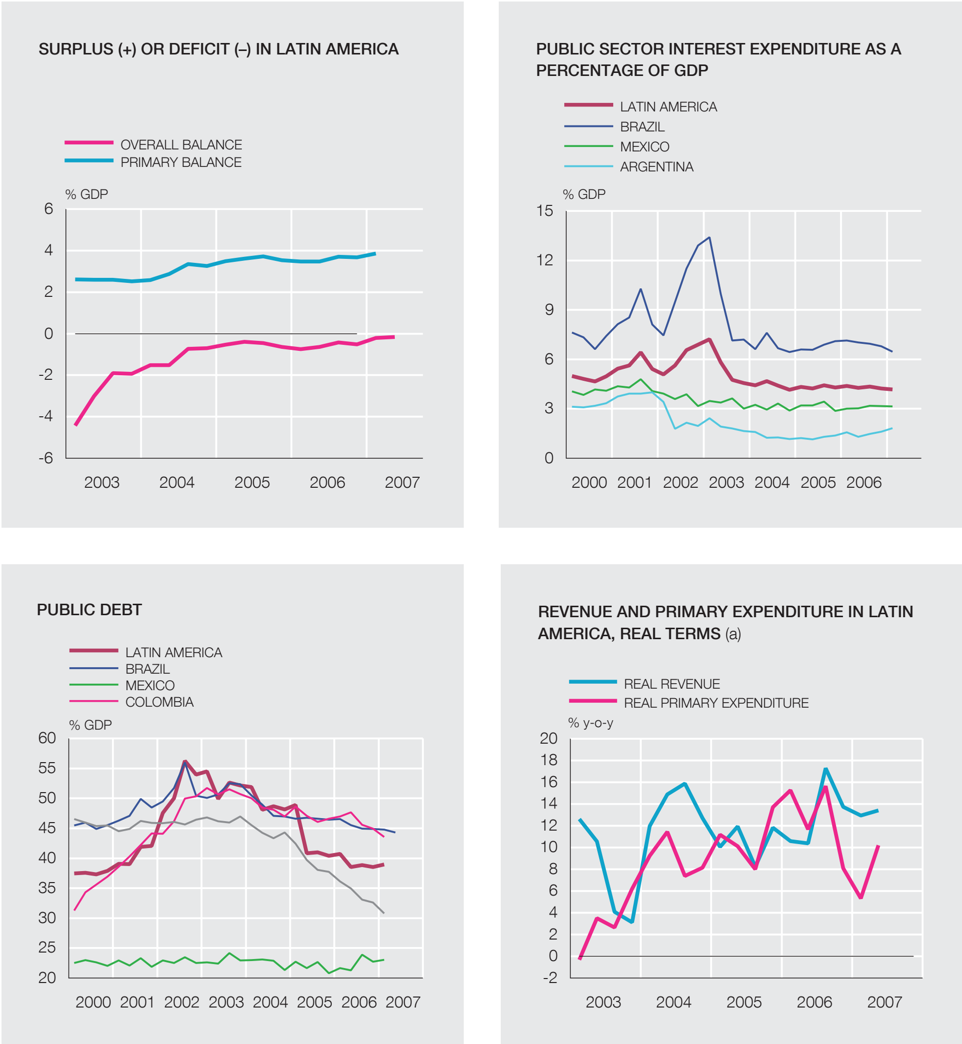
SOURCE: National statistics.

Overall, the course of inflation in the region can continue to be seen as favourable, given the maturation of the cycle and the dynamism of domestic demand. However, the sizeable weight of food in the consumption patterns of many countries and the signs of pressures in other components in some economies means that some change of tendency in the disinflation process of recent years cannot be ruled out. Accordingly, aspects such as the consistency of economic policies take on particular importance at this time, especially in a context of greater uncertainty over the effects of the global financial instability. The credibility gained by central banks in recent years, in particular those that maintain inflation targets, and the volume of accumulated reserves (which amounts to more than 11% of the region's GDP) should allow some degree of autonomy for monetary policies in respect of developments on foreign exchange markets, provided the financial impact of the turbulence does not become more acute. Nonetheless if, as a result of greater risk aversion, exchange rates were to tend to depreciate, one of the major channels for containing inflation in recent times would be curtailed.

There have been no major changes in the fiscal realm, given that the cyclical position and the positive contribution of commodities prices to tax receipts continued to provide for improvements in the fiscal balances of some countries (Chile and Uruguay) and the maintenance thereof in the rest (see Chart 12). The case of Chile is significant, where the government in-

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

CHART 12



SOURCE: National statistics.

a. Deflated by CPI.

creased the budget surplus forecast for the year from 4.4% to 7.1%, after raising the projected average price of copper for 2007 in July. In Mexico and Brazil, expenditure is proving very moderate, while in Venezuela the containment of public spending compared with previous quarters is notable, unlike in Argentina. For the region as a whole, the total budget balance was in equilibrium and the primary balance firmed at 4% of GDP, for the third year running, with some decline in the interest burden, with the exception of Argentina. Debt ratios held stable. Mexico unveiled its National Development Plan for the six-year period 2007-2012, including investment in infrastructure for a value of $225 billion, $35 billion of which would be earmarked for the energy sector. On official calculations, that would make for an increase in potential GDP of 0.6 pp per year. As a sign of Mexico’s commitment to fiscal discipline, financing is linked to approval of the proposed tax reform, which is analysed in Box 2.

TRADE INTEGRATION AND STRUCTURAL POLICIES

In the opening months of 2007, integration processes – the attainment of which appeared to be in sight at the end of last year – ground to a halt. First, the full-fledged accession of Venezuela to MERCOSUR did not come about on schedule, as the approval of two of the founding members’ parliaments was not given. As a result, the Venezuelan executive considered re-

On 20 June 2007, the Mexican Secretary of Finance presented the proposed tax reform prepared by the new government. The basic aim of the reform is to reduce the country's dependence on the oil industry for fiscal revenue and achieve a leap forward in tax takings that will enable an ambitious public investment plan to be undertaken by the current legislature. At present, fiscal revenue in Mexico amounts to somewhat more than 22% of GDP, a very similar proportion to that of other countries in the region.[1] But if only the revenue from (direct and indirect) taxes is considered, this figure drops to10%, which is the lowest proportion of all OECD countries and lower than that of many Latin American countries with a smaller income per capita (see panel 1). Nearly 37% of total budget revenue comes from the oil industry, compared with, for example, 22% in the case of copper revenue in Chile. The proportion evidences a dependence on oil compared with other sources of fiscal revenue, which becomes even more patent if it is considered that the oil industry represents only 8% of economic activity in Mexico. This signifies clear vulnerability bearing in mind that the volume of oil production has recently trended downward (see Chart 2) due to exhaustion of the main producing wells and to a lack of investment by the Mexican government oil company PEMEX.

The main objective of the reform is thus to raise government receipts by 2.8 pp of GDP by the year 2012, i.e. by nearly one-third of current tax revenue. It was intended to achieve this increase basically through the creation of a new company tax called the *Contribución Empresarial a Tasa Única* (flat business tax, or, by its Spanish acronym, "CETU"), which was expected to result in additional receipts of 1.85% of GDP. This tax, which was to replace that on business assets, was to be applied at an initial rate of 16% – rising to 19% in 2009 – on the difference between the income and payments flows relating to corporate expenses and investment. The tax would be calculated simultaneously with the current corporate income tax and the company would pay the larger of the two resulting amounts. To avoid double taxation, the tax deductions would include income tax withholdings on employee wages. The reform also notably includes the creation of a tax to combat the informal economy, which will consist of a surcharge of 2% on cash deposits exceeding 20,000 pesos per month and qualify as an income tax deduction. The aim of this tax is to discourage the payment instruments most commonly used in the informal economy.[2]

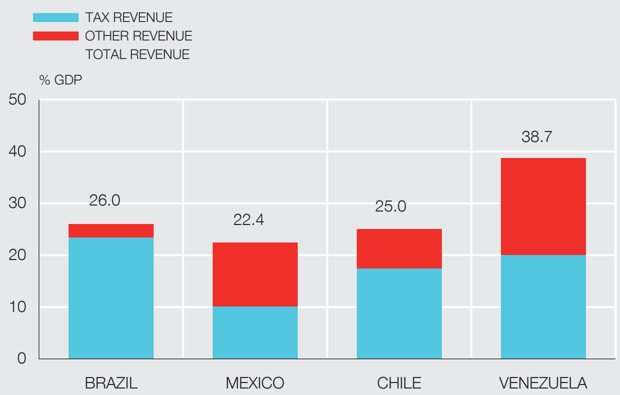
The proposed fiscal reform also included changes in the states' share of government receipts in that the states are permitted to levy surcharges on certain excise taxes, they are allocated one-third of the additional receipts created by the aforementioned tax measures, and the federal government contributions to the states are reformed, particularly those linked to the provision of educational services. As regards expenditure, a national assessment council (*Consejo Nacional de Evaluación*) was set up to concentrate the assessment of all government policies and the implementation of programmes, its guiding principle for this task being that investment expenditure is to be given priority over current expenditure.

The reform was discussed in Congress in September and approved on September 14 with minimal changes from the original proposal. In the final text, the CETU changes its name to the *Impuesto Empresarial a Tasa Única* (IETU) and has a higher rate in 2008 (17.5%, as against 16%) and a lower one in the other years (17% in 2009 and 17.5% from 2010, against 19% in the proposed reform of the Executive). Also, a tax on petrol, which will be phased in gradually from 2008 and the proceeds of which will be received by the states and municipalities, as well as a tax on lottery and gambling have been introduced. One of the exemptions from the

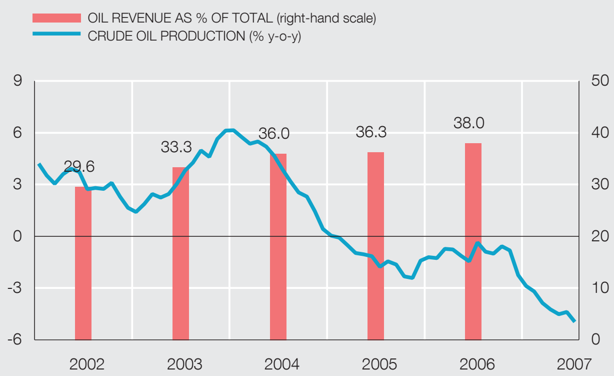
1. In 2006 government revenue as a percentage of GDP was 17% in Argentina, 26% in Brazil, 25% in Chile, 17.8% in Colombia, 17.3% in Peru and 33.7% in Venezuela.

2. Another two taxes have also been introduced, namely a tax on the sale of aerosols (of 50%) and one on lotteries (of 20%), although their impact on tax revenue is minimal. The rest of the increase in revenue will derive from more efficient tax collection, which will initially contribute 0.2 pp to GDP in 2008 and reach 1 pp in 2012. This improved efficiency will be based on the establishment of new facilities for complying with tax obligations, the strengthening of audit and control processes, etc.

1 FISCAL REVENUE



2 OIL PRODUCTION AND FISCAL REVENUE



SOURCES: INEGI and Secretaría de Hacienda.

tax on income from corporate acquisitions and sales made through the stock market has been repealed. Finally, Congress improved the tax regime of the Mexican government oil company PEMEX by reducing its federal contributions by 30 billion pesos. This will enable it to improve its financial solvency and invest more in operations and extraction. These changes mean that receipts in 2010 will increase by 2.5% of GDP instead of 2.8% as under the initial draft.

The reform, while less ambitious than would perhaps be desirable given the starting point and the recommendations of multilateral organisations (there are no changes to VAT or income tax) has been accepted at all administrative levels, unlike the reforms proposed by previous governments.[3] The increase in revenue is notable, since it would mean raising tax takings by 30% and would involve the states more in collecting and managing revenue, rather than just on the expenditure side. The initial assessment must therefore be positive, although it should be viewed as a first step on the way to more far-reaching reforms aimed at the long-term sustainability of greater public-sector investment and social spending.

3. The previous government presented two tax packages which were rejected in Congress. The first sought to extend VAT to food, medicine and school enrolments, holding unchanged the rate of 15% and compensating certain prejudiced sectors for the increase in the cost of living. The second sought to increase the tax base of this tax by reducing the rate to 10%.

joining the Andean Community, which it had abandoned six months earlier. That illustrates the erratic nature of regional integration projects in South America, in a field which should be characterised by firm commitments. Against this background, the understanding reached between the United States and Uruguay might be the first step towards achieving a free trade agreement between both countries, which would endanger the continuity of MERCOSUR as it is currently structured. Further, the change in the parliamentary majority in the United States checked the free trade agreement approval processes, including those entered into with Panama, Peru and Colombia. However, the Andean Community countries managed to extend in June (for a further eight months) their preferential tariff arrangements with the United States. The extension took in Ecuador and Bolivia, which have no intention, for the moment, of negotiating trade agreements with the United States. In Chile, in June, the free trade agreement with Japan came into force, and it re-joined the Andean Community. The free trade agreement with Central America and the Dominican Republic (CAFTA + DR) took effect in this latter country on 1 March 2007, while Costa Rica's difficulties in securing Parliamentary approval for the agreement led to the calling of a referendum, scheduled for late September.

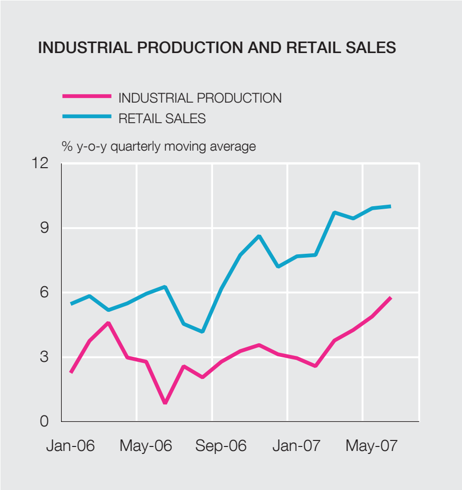
There has been no significant headway in structural reforms in the past six months. Indeed, only the Mexican government managed to push through certain reforms, such as that governing pensions for public-sector employees, which will contribute to alleviating the pension-related fiscal burden over a medium-term horizon, and the aforementioned tax reform. In Brazil, following the approval of the Growth Acceleration Plan (on which little progress appears to have been made), the unveiling of a draft tax reform is envisaged. Finally, Chile reformed its Fiscal Accountability Law, in order to reduce the public-sector structural target balance from 1% to 0.5% of GDP, thereby freeing up funds which will be invested essentially in education. In Colombia, the privatisation of the State oil company began in late August, while in the opposite direction, Venezuela took further moves to nationalise basic industries (telephony, electricity and oil prospecting operations in the Faja del Orinoco region) and Bolivia saw the entry into force of new agreements for the tapping of natural gas, one year after the nationalisation of the industry, and the nationalisation of the main telecommunications corporation.

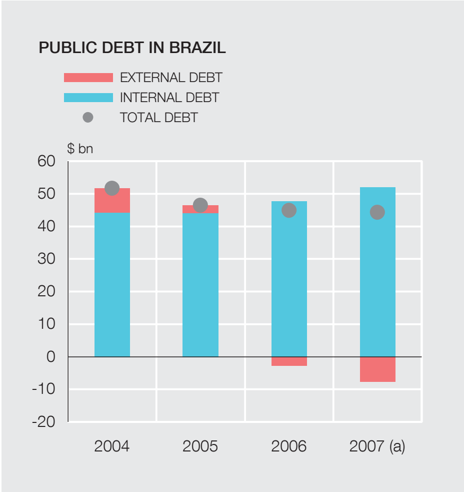
Developments in the main countries

In *Brazil*, GDP posted a year-on-year growth rate of 4.3% and a quarter-on-quarter rate of 0.9% in 2007 Q1, marking something of a slowdown on previous quarters. However, there was a substantial pick-up in Q2 to 5.4% year-on-year, and 0.8% quarter-on-quarter, with a

BRAZIL

CHART 13





SOURCE: IBGE

a. To July.

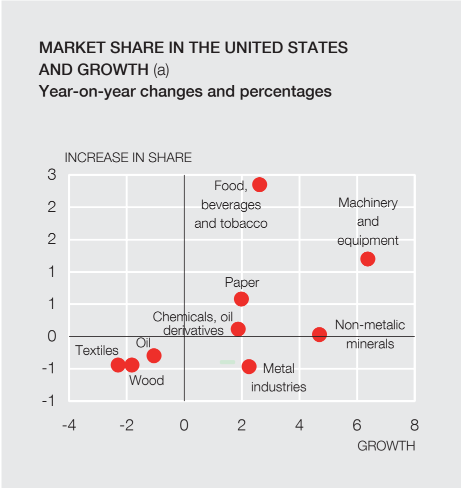
strong acceleration in gross capital formation, which grew by 13.8% year-on-year, and by 7.3% in relation to the previous quarter, underpinned by lower interest rates and the strong appreciation of the real. Private consumption retained considerable momentum (5.7% year-on-year), as anticipated by the retail sales data (see Chart 13), although its growth rate dipped slightly on the previous quarter. The contribution of external demand improved, as exports quickened and imports slowed.

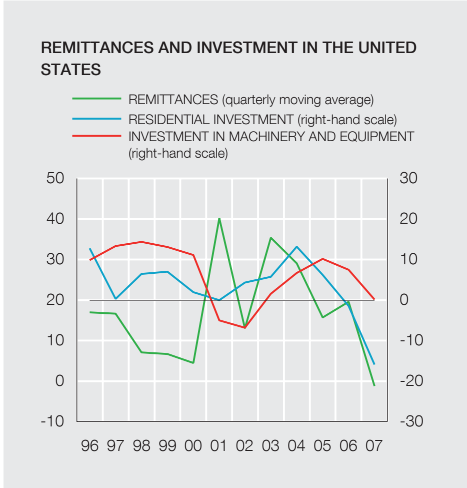
The current account surplus in the 12 months to July stood at marginally over 1% of GDP. This was slightly down on the previous year (1.3%) as a result of the lower trade surplus and the increase in the incomes deficit. The surplus on the financial account to July amounted to $66.8 billion, more than tenfold the figure recorded in the same period in 2006. Of particular note were the gross inflows of FDI in this period ($24.4 billion, outpacing the figure of $18.9 billion for 2006 as a whole) and of short-term investment flows, partly linked to carry trade operations (see the panel in Box 1). Against this background, there were strong upward pressures on the real, prompting sizable purchases of reserves, which exceeded $70 billion between January and July and which have doubled the outstanding balance of reserves in the space of a year. The strong appreciation of the real against the dollar (which was partly corrected in the July-August period, in the face of the turbulence on financial markets) contributed to specific prudential measures being adopted with the aim of restricting the incurrence of foreign exchange risk, in addition to establishing assistance programmes for exporters.

On the fiscal front, the primary surplus target for 2007 held constant, in real terms, but the revision of the National Accounts figures in March prompted a reduction in this target in terms of GDP for 2007 from 4.25% to 3.8%. The primary surplus in the 12 months to July was 4.3% of GDP, above target, and the budget deficit was 2.2% of GDP, as a result both of the increase in the nominal surplus and of the reduction in interest payments, which shows ample compliance with the fiscal targets for 2007 up to that point. Spending associated with the 2007-2010 Growth Acceleration Plan (the primary aim of which is to improve public infrastructure, through public works, and bilateral support programmes) was relatively limited in the first half of the year, and it is estimated that it might increase in the second half. Although net public debt held virtually stable, heavy purchases of reserves by the Brazilian central bank led to significant changes in its composition, boosting the public sector credit position in foreign currency, but also in-

MEXICO

CHART 14





SOURCES: INEGI, Bank of Mexico, US Census and Bureau of Economic Analysis.

a. Change between 2005 and 2007 in the percentage of US imports of each type of good from Mexico.

creasing local-currency-denominated public debt owing to sterilisation operations (see Chart 13). Despite the improvement in the composition of debt (which is now less exposed to exchange rate fluctuations), its high outstanding balance remains a source of vulnerability in the face of a potential tightening of international borrowing conditions. Inflation, which held at around 3% to April, increased gradually to stand at 4.2% in August, within the central bank's target corridor (4.5% y-o-y, + 2 pp). During the six-month period, the downward interest rate cycle continued. There were two 25 bp cuts at the March and April meetings, two 50 bp cuts at the June and July meetings, and one further 25 bp reduction in September, to 11.25%. As a result, official interest rates have fallen by 850 bp since September 2005. Turning to reforms, the Brazilian Finance Ministry announced its intention to submit a proposal for tax reform that would simplify the current tax system, although there have been no further details to date in this connection.

In *Mexico*, activity slowed notably in the first half of 2007, placing the year-on-year rate at 2.5% in Q1 and at 2.8% in Q2, compared with average growth of 4.8% in 2006. In Q1, the slowdown stemmed both from the reduction in the positive contribution of domestic demand (owing to the scant increase in investment and the contraction in government consumption) and from the negative contribution of external demand. In Q2, meanwhile, government consumption and, above all, external demand were the most sluggish components. On the supply side, the construction and, especially, the manufacturing industries underwent a marked deceleration, in line with the slowdown in activity in the United States. Indeed, the correlation between the GDP growth of the two economies has increased in recent months, and it was the industries which most grew in the Mexican economy in 2006 that gained market share in the United States (see Chart 14).

Turning to the external sector, the trade balance posted a deficit of close to $5 billion in the first half of the year, somewhat lower than that recorded in the second half of 2006, and was on a slight declining trend owing to the acceleration in exports which, nonetheless, continue to grow less than imports. The current account balance deteriorated significantly in the first six months of the year (running a deficit of –0.8% of GDP in Q2, after having been practically in balance in 2006), as a result of higher dividend and interest payments and a decline in receipts from remittances. This decline became steeper in recent months, and would be a first effect of the problems in the US construction industry and mortgage market on the Mexican economy (see Chart 14). Foreign direct investment flows were very high during the first six months, with a quarterly average of $6.6 billion compared with the average of $4.8 billion received in 2006. In the fiscal realm, there was a surplus of 0.3% of GDP in the six months to end-June, compared with 0.1% in 2006. The primary balance was 0.1 pp down on 2006, at 2.7% of GDP, owing to the rise in primary expenditure.

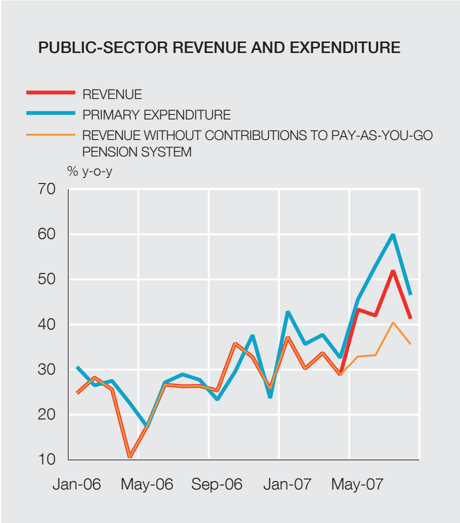
Inflation held close to the Mexican central bank's upper target for the year (4%), rising to a year-on-year rate of 4.1% in July and August. The course of prices has largely hinged on supply-side factors, particularly the rise in food prices. Core inflation remained stable, standing in August at 3.8%. To avoid a deterioration in inflation expectations, the central bank raised official interest rates by 25 bp in April to 7.25%, in what marks a change in cycle in the country's monetary policy. Since then official rates have not been changed, although the monetary authorities have maintained the contractionary bias. In any event, the slope of the interbank market yield curve has not altered during the half-year. Until late July, the country's financial variables behaved soundly, and the sovereign spread measured by the EMBI reached a historical low in early June. In recent weeks, these indicators have deteriorated, although Mexico has been relatively less affected by the financial turbulence than the other major Latin American countries. Insofar as the country's financial vulnerability has lessened significantly in recent years, the Mexican economy might suffer exposure principally through the trade channel and, possibly, through remittances flows, too. The correlation between the US cycle and remittances is much greater now than in the 2001 slowdown, whose source was a decline in investment in the technological sector, while the roots of the current deceleration are in the construction sector, in which the presence of Mexican immigrants is significant.

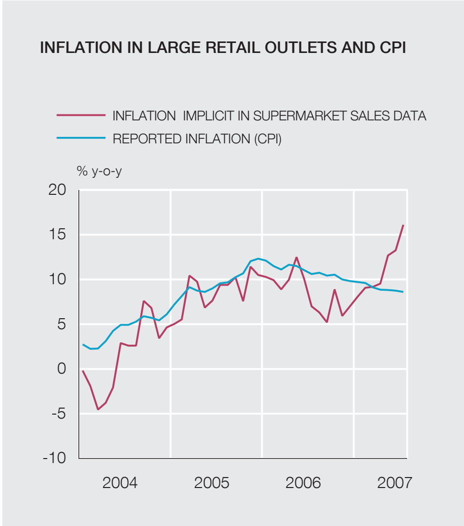
In *Argentina*, growth posted a year-on-year rate of 8% (1% in quarter-on-quarter terms, the lowest rate since the recovery began) in Q1, and 8.7% in Q2. Though high, these rates entail some slowing compared with the second half of 2006, and the fact that the rise in Q2 is essentially due to stockbuilding might suggest that the slowdown will continue in the coming quarters. The moderate deceleration in growth has been fundamentally due to the external sector, since in general all domestic demand components have continued to grow very robustly. Different trends are perceptible under investment: construction investment slowed and the growth of investment in equipment exceeded 23% in year-on-year terms. From the supply-side standpoint, the slowdown was attributable to industry and construction. In July, energy problems impacted the indicators of activity (diminished dynamism) and the trade balance (higher energy imports). These problems were partly due to weather-related factors, but structurally there will foreseeably be problems in this area in the future, since the demand for energy continues to outpace supply. Despite the improvement in the terms of trade, the trade surplus narrowed in the first half of the year (4.5% year-on-year), feeding through to a lower current account surplus (3.5% of GDP in Q1 and 3.1% in Q2). Public finances performed less favourably than in previous periods. While the primary fiscal surplus was 15% higher in year-on-year terms, public spending in the first seven months of the year grew by 46%, outpacing public revenue (39%), despite the fact that the latter includes extraordinary revenue linked to the pension system reform approved in April (see Chart 15).

Both overall and core inflation fell, dipping to 8.7% and 9.4%, respectively, in August. However, there is notable scepticism over whether these data reflect the true cause of prices. Large retail outlet sales prices (see Chart 15) and various surveys suggest an underestimation of actual inflation, which would be standing some percentage points above the figure released by the statistics office. The central bank continued gradually to increase its benchmark interest rates, raising them, on seven occasions since the start of the year, by a total of 200 bp to

ARGENTINA

CHART 15





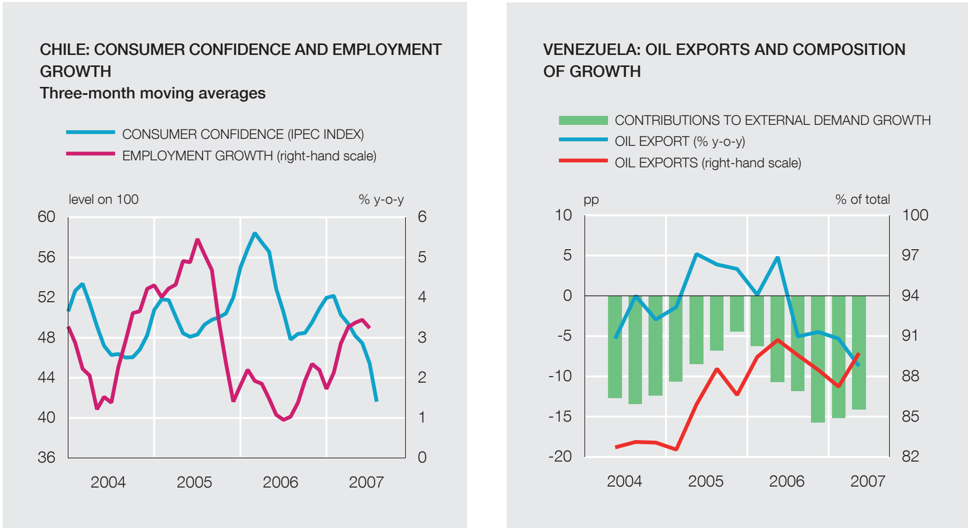
SOURCES: Secretaría de Hacienda and INDEC.

8.25%, although they remain below inflation. At the same time, the central bank maintained its exchange rate policy during the first half of the year, holding the currency stable at around 3.07-3.10 pesos to the dollar. That required a sizeable build-up in international reserves, totalling more than $12 billion since the start of the year, which were sterilised in the main. In real effective terms there was a depreciation in the peso owing to the nominal depreciation against the real and the euro. The global financial turbulence at large since mid-July prevented the Treasury from issuing debt and intensified the widening trend of the sovereign spread, which had already begun before the summer for various domestic reasons (the credibility of the inflation figures, the energy crisis and the deterioration in public finances) and which was more considerable than that in most of the emerging economies. This situation prompted a rise in interest rates on the local market which, along with an increase in the demand for dollars, led the central bank to make the mechanisms for liquidity provision on the interbank market more flexible. Further, the downward pressures on the peso drove the central bank – together with other State-owned banks – to intervene selling dollars in sizeable amounts. In the institutional realm, and for the first time since the end of the convertibility arrangements, the government authorised increases at a gas utility under State jurisdiction in charges to residential users.

In *Chile*, GDP quickened significantly in the first half of the year, standing at year-on-year rates of 5.8% and 6.1% in Q1 and Q2, respectively, up from 4.3% in 2006 Q4 (it is estimated that the shortage of gas and water resources may have cut GDP growth in Q2 by around 0.3 pp). Despite the greater momentum of private consumption and investment, especially in capital goods, the reduction in the negative contribution of external demand was the main determinant of higher growth. This reduction was the result of the notable acceleration in exports, mainly of copper, which is taking the trade and current account balance (close to 8% of GDP) to new historical highs. There was also a strong acceleration in job creation and a reduction in the unemployment rate. However, consumer confidence underwent a slow – but sustained – deterioration throughout the half-year period (see Chart 16). Overall inflation held relatively stable to April (2.5% year-on-year), but it rose considerably thereafter to 4.7% in August, chiefly as a result of food and fuel prices, and the increase in electricity charges. The rise in core inflation was less, but equally significant, moving up from 2.6% in April to 4.2%, above the central bank's upper target band. Given this behaviour and the closing of the output gap, the central bank raised interest rates by 25 bp at its July, August and September meetings, placing them at 5.75%.

CHILE AND VENEZUELA

CHART 16



SOURCES: Banco Central de Chile and Banco Central de Venezuela.

The upward revision of the average price of copper in 2007 led the government, as in previous years, to raise its budget surplus forecast for 2007. In the first half of the year, the surplus was higher than in the related period in 2006. It should also be stressed that the government amended the counter-cyclical fiscal rule so that as from 2008, a structural surplus of 0.5% of GDP is required as opposed to the previous figure of 1%, which will lead to a more expansionary fiscal policy next year. The financial turbulence as from mid-July prompted a response in Chilean financial indicators of the same sign, but on a lesser scale than in the other emerging economies, given the country's exceptional fiscal and external position and the structural funds accumulated in recent years. As regards structural reforms, the legislative chambers approved an initiative to set the maximum ceiling for investment abroad for pension funds at 45% within a period of nine months (the previous ceiling was 30%), and in August the first step was taken, raising this ceiling to 35%.

Activity continued quickening in *Colombia* in Q1, posting year-on-year growth of 8.3% and of 7.2% in Q2, thanks to the acceleration in private consumption and to the strength of investment, as a result of the buoyancy of domestic demand. The strong growth in imports led to an increase in the trade deficit, which stood at – 2% of GDP and also prompted a further widening of the current account deficit to –2.9%. However, the financial account posted a notable surplus, associated in part with the sizeable inflows of foreign direct investment, but also of short-term capital. From the fiscal standpoint, the buoyancy of the economy was reflected in higher public revenue and improved public finances, particularly in Q2. Inflation exceeded the initial central bank target band (3.5%-4.5% for 2007) as from January, standing above 6%. This overshooting prompted a strong rise in benchmark interest rates, taking them up by a further 175 bp during the first half of the year to 9.25%, against the background of a strong appreciation of the peso, which exacerbated the monetary policy dilemma. The financial turbulence that began in late July resulted in a depreciation of more than 9% in the peso. In Q2 the upward trend of inflation was interrupted, and from June official interest rates held steady. In the field of reforms, the regional financing arrangements (*Sistema General de Participaciones*) for the period 2008-2016 were approved. These will govern transfers from central government to the territorial entities in order to assist the fiscal consolidation process.

In *Peru*, activity slowed slightly in the first half of the year, though it continued to post very high growth rates, of 8% and 7.6%, respectively, in Q1 and Q2 (8.5% in 2006 Q4). The source of the deceleration lay in the diminished dynamism of domestic demand, as a result of the slowdown in investment (which, even so, remains the most dynamic component) and in government consumption, since private consumption quickened. In contrast, the negative contribution of external demand to growth fell during the six-month period. The trade balance continued to run a surplus during the first half of the year similar to that recorded in the same period of 2006 (9.1% of GDP), thanks to the increase in the terms of trade, since the volume of exports scarcely grew. Public finances recorded better results to July than the previous year, although the primary surplus was slightly lower. In the first four months of the year, inflation remained on a declining trend, holding below the central bank's inflation target band (1%-3%), but from June it stood once again within this band. Against this backdrop, and given the strong pace of activity, the central bank decided pre-emptively to increase official interest rates by 25 bp in July and by a further 25 bp in September, to 5%. The main rating agencies improved Peru's sovereign debt rating or outlook, and the government placed for the first time a sol-denominated bond (at 30 years) on the international markets for the prepayment of a portion of the country's debt with the Paris Club. The August earthquake might have an impact of the order of several tenths of a point on growth for 2007 (0.3 pp-0.4 pp on official estimates).

In *Venezuela*, GDP growth slowed by close to 1.5 pp on the previous half-year period, as a result of some easing in domestic demand. Even so, the respective year-on-year growth rates for Q1 and Q2 were 9.1% and 8.9%. The negative contribution of the external sector to growth increased (–14.6 pp during the half-year period) as a result of the decline in exports, mainly oil-related products (–7%) (see Chart 16), which might be connected both with the fall in OPEC quotas and with the withdrawal of foreign capital by certain corporations. As a result of the reduction in the trade balance, the current account surplus fell from 19.5% of GDP at end-2006 to 14.6%, while the deficit on the financial account widened. Reserves fell heavily (–21.5%) as a result of several transfers to State funds and public companies. On the fiscal front and with regard to revenue, the reduction in VAT was partly offset by the better performance of the non-oil-related tax takings. There was a particularly notable reduction in the pace of growth of primary fiscal spending. Inflation held at close to 20% throughout the first half of the year, but eased off towards 15% owing to the cut in VAT. The sovereign spread widened forcefully as a result of the heightened volatility on financial markets in August, increasing by more than 150 bp. Finally, the government has proposed divesting the central bank of its independence in the new draft Constitution.

In *Uruguay*, GDP quickened to a year-on-year rate of 6.9% in Q1, compared with 6.3% in 2006 Q4. It eased, however, in Q2 to a year-on-year rate of 4.8%. The composition of growth was more balanced, as there was a reduction in the positive contribution of domestic demand and the negative contribution of external demand. Financial inflows held steady as did central bank purchases of reserves for most of the six-month period. The increase in inflation continued until April, holding stable thereafter at around 8%, clearly above the central bank's (informal) target, despite the contractionary monetary policy measures. Further, it was announced that the implementation of monetary policy by means of a target based on monetary aggregates would be abandoned to make way for one based on interest rates, with an annual target interbank interest rate of 5%. In *Ecuador*, economic activity slowed strongly in late 2006 to a year-on-year rate of 2.2%. This deceleration steepened in 2007 Q1 as a result of the decline in the volume of exports. The executive called elections for a Constituent Assembly, which will be held in late September. In *Bolivia* there was also a significant slowdown in activity to 2% in Q1, against a background of quickening prices (10.4% year-on-year). The hydrocarbons extraction and operating contracts finally came into force one year after the industry was nationalised.

17.9.2007.

Capacity utilisation and its relationship to inflation in the euro area

The authors of this article are Esther Moral and Carlos Vacas of the Directorate General Economics, Statistics and Research.

Introduction

Capacity utilisation indicators are currently very high in the euro area, and close to their highest rates of the last 20 years. The most popular of these indicators, the rate of capacity utilisation in manufacturing (CU), having risen continuously over the past two years, stood very close to its all-time high in 2007 Q3, despite being slightly down from Q2. Likewise, other indicators of the extent to which installed production capacity is being used and, generally, of the degree of slack in the economy, are at levels which appear to show that it has fallen significantly.

The demand pressures implied by the developments described above may be signalling the emergence of inflationary pressures in the euro area. These circumstances have been alluded to on several occasions this year by the ECB, which has been highlighting the existence of upside risks to medium-term price stability related to the ongoing improvement in euro area labour markets (which may give rise to higher-than-expected wage settlements) and to the high rate of capacity utilisation. The recent path of euro area inflation, which has remained contained, indicates that these inflationary pressures have not as yet materialised. In the specific case of the CU, moreover, the empirical evidence available shows that its relationship to inflation is weak in the euro area and that in countries such as the United States, for which studies covering longer periods are available, it has weakened over the last two decades. The CU therefore seems to have lost predictive power with respect to inflation.

Against this background, this article analyses the role of the CU in the set of information on which monetary policy decisions are based. The second section contains a descriptive analysis of the recent behaviour of measures of the rate of capacity utilisation in the euro area[1]. The third section reviews the empirical evidence on the relationship between the CU and inflation, and the fourth section analyses what factors may have given rise to the change that seems to have been detected in that relationship and, more importantly, how they may affect its relevance as a useful indicator for monetary policy. Finally, the conclusions are set out in the fifth section.

Recent developments in the rate of capacity utilisation

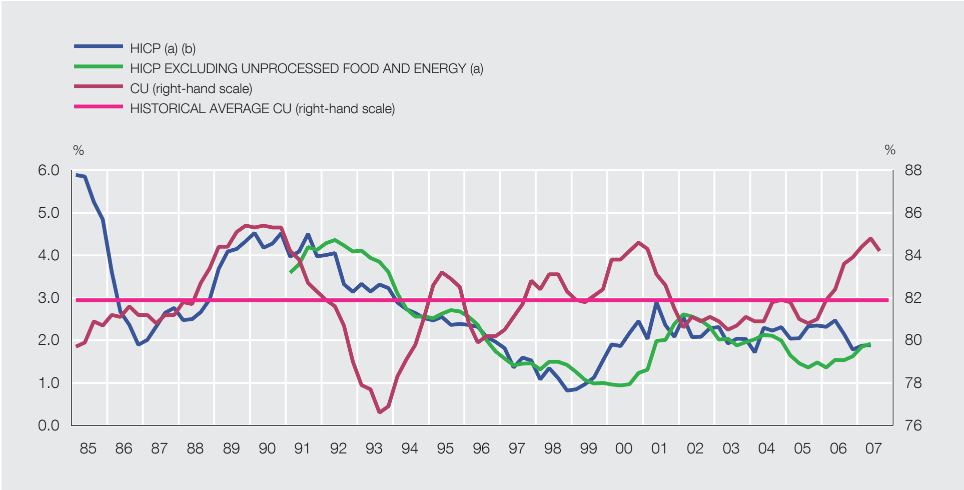
The main indicator to approximate the degree of utilisation of installed production capacity is derived from the European Commission's quarterly Industry Survey, compiled since 1985. This indicator summarises the direct responses of all the employers surveyed regarding the percentage utilisation of their installed production capacity. In the last two years, during which euro area economic activity has recovered to a robust growth path, the rate of capacity utilisation in manufacturing has followed an upward path, which has only been interrupted in Q3 this year (probably reflecting the uncertainty generated by the recent turbulence in financial markets) (see Chart 1). In 2007 Q2, the manufacturing sector was operating, on average, at 84.8% of its full capacity, a much higher level than the average for the period 1985-2006 (81.8%) and very close to the all-time high (85.4%) recorded in 1990 Q2, when high CU rates coincided with high inflation rates.

The European Commission's quarterly Industry Survey also contains other questions that provide additional qualitative indicators of the use of production capacity and, in general, of the

1. See the Appendix for a detailed description of all the indicators analysed.

RELATIONSHIP BETWEEN CU AND INFLATION. EURO AREA

CHART 1

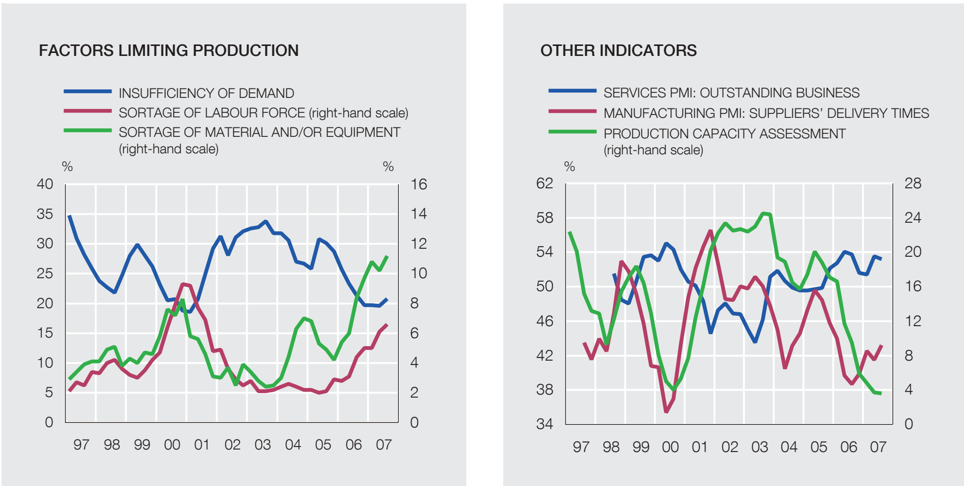


SOURCES: European Central Bank, European Commission and Eurostat.

a. Year-on-year growth rate.
b. Prior to 1990 (1991, in terms of the year-on-year growth rate), the HICP data correspond to ECB calculations based on national and Eurostat data.

OTHER INDICATORS OF CAPACITY UTILISATION (a)

CHART 2



SOURCES: European Commission, Eurostat and Reuters.

a. For a detailed explanation of the various indicators, see the appendix.

degree of slack in the euro area economy. The recent trend in these indicators also shows a decrease in this slack. Thus, as seen in Chart 2, the assessment of current production capacity has fallen continuously since mid-2005, implying that the percentage of firms that consider their available production capacity insufficient to meet their projected demand has increased. In 2007 Q3, this indicator fell to 3.6, well below its average level in the period 1985-2006 (17.5), lower levels only being recorded in late 1989 and early 1990. The responses of the employers surveyed regarding the factors limiting their volume of production point in the same direction, since the proportion of firms that indicate demand insufficiency as the main limiting factor has fallen by almost 10 percentage points since 2005 Q2, while those of firms mentioning shortages of labour and of equipment have risen significantly since the end of 2005 to approach all-time highs.

Some of the individual indices obtained from surveys among purchasing managers also contain useful information on the capacity pressures in the economy, such as, for example, the manufacturing PMI sub-index measuring changes in suppliers' delivery times and the services PMI sub-index assessing outstanding business. Chart 2 shows how the first of these variables underwent a marked downward trend from mid-2005 and, although this trend has been reversed in 2007, the index remains below its historical average levels and below 50. This means that the firms surveyed consider that the time taken for their suppliers to deliver inputs to them was, on average, longer than in the previous month, suggesting that the latter are having difficulty meeting dynamic demand. Meanwhile, the services PMI sub-index measuring outstanding business has, in the most recent period, followed an upward path (albeit with some significant fluctuations) and, since 2005 Q4, has been above the neutral value of 50, which is compatible with an expansion of activity and greater use of capacity.

Empirical evidence

Empirical studies that attempt to determine which variables may be useful to predict euro area inflation encounter the limitation that the euro area as such has only existed since 1999, so that the variables for the area as a whole prior to that date represent an aggregate that is, to some extent, artificial. Moreover, harmonised inflation data for the euro area countries are only available from 1991. Accordingly, the results of these studies are relatively modest and must be interpreted with caution. Some of them indicate that the variables with the greatest predictive power vary according to the specific period chosen[2], while in many cases inflation is better predicted simply on the basis of its past values, without any systematic improvement in the results when an additional variable is included.

In the specific case of the CU, there is not much empirical evidence regarding its predictive power, although it is included in some of the composite indicators that have been used to predict inflation[3]. Empirical analyses based on simple bivariate models, in which inflation is regressed on lagged values of itself and of the CU, generally show that the latter has low information content even within the sample for which the estimation is made.

This result seems to extend to more sophisticated analyses of the out-of-sample predictive power of the CU, as seen in a recent OECD study[4], which evaluates (for the case of the euro area) the extent to which various indicators provide useful information to forecast inflation at horizons of a year or more. The study compares the inflation forecasts (measured in terms of the year-on-year growth rate of the HICP) of two types of recursively estimated model: a baseline model, which includes only lagged inflation and oil price changes as explanatory variables, and other models which also include the indicator whose predictive power it is wished to assess. The criterion for comparison is the relative size of the mean absolute forecast errors at different horizons of each model. As seen in Table 1, which contains some of the results of this study, for the periods 1995-2000 and 2000-2005, the CU never improved the predictive power of the baseline model at different horizons. Other measures, such as the output gap or the gap between the unemployment rate and the NAIRU, showed greater predictive power for future inflation.

The limitation referred to at the beginning of this section may explain why the empirical evidence available does not attribute any significant predictive power for inflation to the CU. For this reason, it is especially useful to observe the experience of other countries. The United States and Canada, in particular, have abundant literature documenting the weaknening of the positive relationship between the CU and (both headline and underlying) inflation[5]. In fact, in

2. See Banerjee et al. (2005). This study does not even include the CU in its analysis. **3.** See Angelini et al. (2001). **4.** See OECD (2007). **5.** See, for example, Emery and Chang (1997) or Dotsey and Stark (2005).

INFLATION AND SLACK INDICATORS

TABLE 1

Mean absolute forecast error, n years ahead (pp)

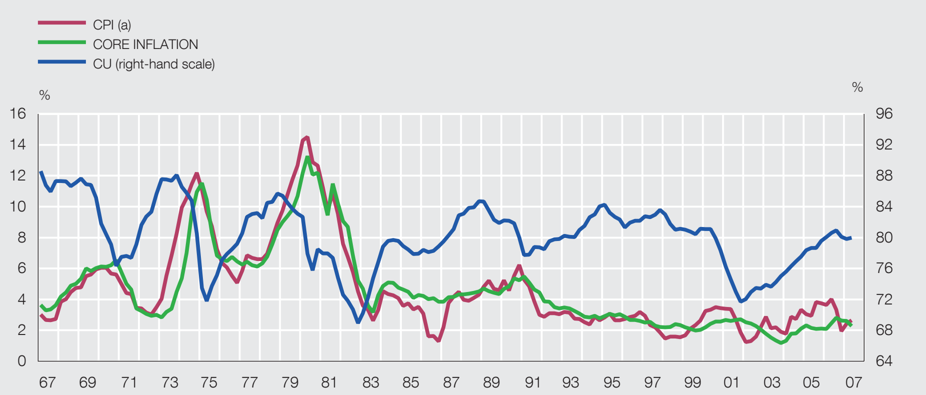
	1995-2000				2000-2005			
	n = 1	n = 2	n = 3	n = 4	n = 1	n = 2	n = 3	n = 4
Baseline (a)	0.87	1.66	1.39	1.56	0.45	0.73	1.01	0.80
Slack indicators (b)								
Output gap	***0.62***	***1.33***	*1.91*	*1.59*	***0.40***	***0.29***	***0.48***	***0.39***
Output gap in real time	1.07	**1.41**	**1.28**	1.65	0.47	**0.66**	**0.93**	**0.75**
Unemployment – NAIRU	0.94	**1.32**	1.54	**1.42**	**0.36**	**0.28**	**0.46**	**0.55**
CU	1.40	2.94	1.98	3.18	0.50	1.06	1.51	2.00

SOURCE: OECD (2007).

a. In this model, inflation (measured as the year-on-year rate of growth of the HICP) is regressed on its own lagged values and on (current and past) oil price changes. The estimation is based on quarterly data from 1980 onwards.
b. For each indicator, an equation is estimated for inflation in terms of its own lagged values, (current and past) oil price changes and the indicator itself (lagged values), in order to assess its predictive power. The models with a smaller forecast error than the baseline for the same forecast horizon are highlighted in bold.

RELATIONSHIP BETWEEN CU AND INFLATION. UNITED STATES

CHART 3



SOURCES: US Bureau of Labor Statistics and Federal Reserve System.

a. Year-on-year growth rate.

these countries there was a clear structural change in the relationship between these two variables around the mid-1980s. Before then, high CU levels tended to anticipate higher future inflation, but this appears to have stopped happening from the mid-1980s, as seen in the case of the United States in Chart 3.

Factors that might explain the change in the relationship between inflation and the CU

The implications of the CU's loss of predictive power for inflation, referred to in the previous section, with regard to its relevance to monetary policy decisions, will obviously depend on the ultimate reasons for the changes in the relationship between these two variables. As mentioned above, most studies analysing the relationship between inflation and the CU and how it may have changed over time refer to the US and Canadian economies. However, the arguments used in these studies can also be applied to the European case.

First, since the CU is measured in the industrial sector (which includes manufacturing, mining and electricity, gas and water supply), some studies suggest that the CU may be losing its ability to forecast inflation because the industrial sector accounts for an increasingly small proportion of output, which has gradually shifted to the services sector.

Another factor that may have played an important role is the increasingly volatile behaviour of energy prices, which may have distorted the relationship between inflation and the CU by adding noise to it in recent years. However, the OECD study mentioned above takes this effect into account for the euro area case and, even then, the CU is still not useful to forecast inflation.

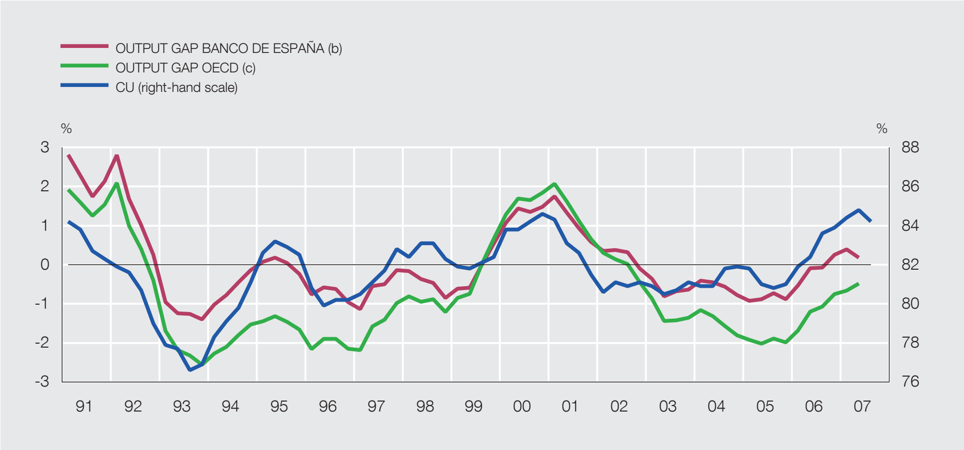
It is also important to consider the possible influence of technological change. Technological progress over the last two decades has led to greater flexibility in the relationship between factors of production and output and, owing to its effects on equipment investment and on the capital stock, may have altered the relationship between the CU and inflation. In the past it was much more common for a firm to respond to changes in demand by varying its output, without altering (given the costs involved) its installed production capacity, which meant that the CU fluctuated with demand. More recently, however, this dynamic may have been affected by the fall in the relative price of capital goods and the reduction in the cost of adjusting installed capacity, which will have modified the equilibrium value of the level of the CU. From a theoretical perspective, the effect of technological change on the level of the CU is indeterminate and, moreover, may be different in the short and in the long run. On the one hand, the decline in the price of capital goods reduces the opportunity cost to firms of maintaining excess capacity, this being an incentive for them to install more capacity and operate with a low CU, which enables them to expand production significantly during demand peaks. On the other hand, the use of automated design and modular tooling, along with the improvements in inventory management, allow for cheaper and faster capacity expansion when it is actually needed, giving incentives for firms to reduce their excess capacity and to operate normally at a high CU. The eventual impact on capacity utilisation will depend on these two opposing forces.

A recent study analysing the relationship between technology and capacity utilisation in the United States[6] found that in the period 1974-2000 technological change had a negative, albeit small, long-term effect on the CU. Specifically, controlling for output growth, the level of investment and other factors, technological change reduced the level of the CU by between 0.2 and 2.3 pp. The study suggests that these changes in the relationship between technology and the CU may, in turn, involve changes in the relationship between the CU and inflation because, if firms have been able to maintain greater excess capacity, the average firm may be better prepared to react to a period of strong demand without moving to the highest part of its marginal cost curve.

Another factor that may explain the weakening of the relationship between the level of the CU and inflation is the growing liberalisation of international trade, which has been accompanied by a significant increase in trade flows. First, this process tends to reduce inflation, since the availability of cheap imports has a direct effect on consumer prices (through their inclusion in the basket of consumption and the reduction in the production costs of certain domestically produced goods), as well as an indirect impact on the prices of domestic competitors, through the downward pressure it exerts thereon. Moreover, owing to the process of internationalisation of production, goods prices are set to a greater extent on international markets, which might imply a lower upward impact of domestic market pressures on the price level than when

6. See Bansak et al. (2004).

RELATIONSHIP BETWEEN CU AND OUTPUT GAP (a). EURO AREA CHART 4



SOURCES: European Commission, Eurostat, OECD and Banco de España.

a. The output gap is defined as the difference between actual and potential GDP as a percentage of potential GDP.
b. Potential GDP has been obtained by applying a Hodrick-Prescott filter to actual GDP.
c. OECD estimates.

the economy was more closed. As a result, purely domestic measures, such as the CU, would have sufferred a loss of predictive power for inflation[7]. However, there are studies in which measures of domestic slack are replaced by measures of global slack and their results do not show that these global indicators have greater predictive power for domestic inflation or that globalisation can justify the lower influence of domestic slack measures on inflation[8].

If the loss of predictive power of the CU with respect to inflation is basically a result of the factors mentioned above, the relevance of this indicator to assessing the risks to price stability present in the economy would obviously be significantly weakened. However, there are other arguments that should also be considered before a final conclusion is reached.

Some authors, such as Woodford (1994), have pointed out that the fact that an indicator does not display significant predictive power with respect to inflation may ultimately be because that variable is already taken into account by the central bank when taking monetary policy decisions pre-emptively. However, this argument would appear to be more relevant to monetary policy strategies strictly based on a limited set of indicators than to the Eurosystem's strategy, in which decisions are taken on the basis of a very broad information set.

On the other hand, there are studies which show that the CU has not lost its ability to measure the amount of slack in the economy and, thus, to detect demand pressures that may give rise to inflationary pressures[9]. In this respect, Chart 4 shows the strong correlation between the CU and the output gap in the case of the euro area.

Finally, the improvement in monetary policy management would also explain the smaller response of inflation to changes in demand pressure indicators, like the CU. In this respect, it should be noted that the greater credibility of central banks has helped better anchor economic agents' inflation expectations. As various studies have indicated[10], phenomena such as

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7. See, for example, Dexter et al. (2005). **8.** See Ihrig et al. (2007). **9.** See, for example, Tal (2000). **10.** See the speech of Frederic S. Mishkin, entitled "Inflation Dynamics", at the Annual Macro Conference, Federal Reserve Bank of San Francisco (March 2007).

the lower persistence of inflation (which indicates how long the effects of a particular shock to inflation last) the reduction in the slope of the Phillips curve (which implies that changes in economic slack have less impact on inflation) and the smaller current inflation reaction to oil price and exchange rate shocks may be explained by the favourable effects of the new monetary policy regime on the expectation formation process.

Conclusions

The recent developments in capacity utilisation in the euro area, characterised by a notable upward trend and above-historical-average rates since late 2005, are one of the factors that the euro area monetary authority has been highlighting when justifying its diagnosis that the risks to medium-term price stability remain high. This concern corresponds to the role that has traditionally been associated with the various indicators of economic slack in forecasting future inflation developments. In the case of the CU, the subject of this article, the empirical evidence available suggests that the relationship between the CU and inflation is currently weak in the euro area, and that in countries like the United States, for which the studies cover longer historical periods, it has weakened over the last twenty years. The implications of these developments for the relevance of this indicator to the monetary policy decision making process depend crucially on what the main factors responsible for these changes are.

On one hand, the loss of representativeness of an indicator that is based on the behaviour of the industrial sector (given the growing weight of the services sector), technological progress and the influence of international trade are factors that may explain the fall in the predictive power of the CU for inflation. These arguments would point to a loss of specific weight of the CU in the set of information that is useful to the European monetary authority. However, there are other considerations that should be taken into account before a final conclusion is reached. The high correlation between the CU and the output gap indicates that the path of the former may be useful to assess the degree of slack in the economy or, what comes down to the same, the existence of demand pressures that may anticipate the appearance of inflationary pressures. Further, the more pre-emptive nature of monetary policy and the greater credibility of central banks may also explain the change in the empirical relationship between several indicators, including the CU, and inflation, without this entailing less relevance of the former to the monetary policy decision making process. In the case of the euro area, the credibility of the ECB's commitment to its mandate has helped to anchor medium and long-term inflation expectations at levels compatible with its definition of price stability facilitating, in turn, the achievement of more contained and stable inflation.

19.10.2007.

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APPENDIX

There follows a detailed description of the various indicators of capacity utilisation analysed in this article. First, the indicators obtained from the responses to different questions contained in the quarterly Industry Survey compiled by the European Commission are the following:

- CU: value obtained as average of the responses to the question "*at what capacity is your company currently operating (as a percentage of full capacity)?"*

- Assessment of current production capacity: summarises the responses to the question "*Considering your current order books and the expected change in demand over the coming months, how do you assess your current production capacity: more than sufficient (+), sufficient (=) or not sufficient (-)?"* The measure is obtained as the difference between the percentage of firms that answer "more than sufficient" and those that answer "not sufficient". Accordingly, falling values would be associated with higher UCP levels.

- Factors limiting production: in this case employers respond to the question "*What main factors are currently limiting your production: none, insufficient demand, shortage of labour force, shortage of material and/or equipment, financial constraints or other factors?"* The value of each factor represents the percentage of employers that consider it to be the main factor.

The article has also analysed the behaviour of certain sub-indices derived from the monthly Reuters agency surveys among purchasing managers of manufacturing and services companies in certain euro area countries, from which the so-called Purchasing Managers' Indices are obtained. In particular, within the manufacturing PMI, the Suppliers' Delivery Times sub-index, obtained from the responses of purchasing managers to the question whether they consider that, with respect to the previous month, the time taken for their suppliers to deliver inputs to them has been shorter, the same, or longer than in the previous month, can be used as an indicator of economic slack. The value of the index is obtained as the sum of the percentage of respondents who indicate a faster speed of delivery and of half of the percentage of those who indicate no change with respect to the previous month. Accordingly, if the level of the index is below 50 this means that delivery times are, on average, longer than in the previous month, which would be associated with stronger demand. For this reason, this sub-index is included with a negative sign in the synthetic manufacturing PMI. At the same time, on the basis of the surveys performed to obtain the services PMI an index of outstanding business is calculated, which shows whether firms consider, on average, that their volume of outstanding business has increased (value of index over 50), remained constant (equal to 50) or fallen (less than 50) with respect to the previous month, so that this index is a proxy of the degree of slack existing in the services sector.

Financial regulation: 2007 Q3

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Introduction

New financial legislation was relatively abundant in 2007 Q3 in comparison with the preceding period. First, the regulations implementing the new legal regime for takeover bids were promulgated. They implement and complete the provisions of the Law and spell out certain matters to ensure that takeover bids are conducted in a full legal framework and with adequate legal certainty.

Highly significant from the standpoint of corporate accounting is the reform and adaptation of corporate accounting legislation for the purpose of international harmonisation. This task of adjusting the legislation to the criteria of international financial reporting standards (IFRSs) was carried out within the legal framework of the accounting directives.

In the area of payment systems, the existing Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET) will shortly be replaced by TARGET2, which is characterised by a single technical platform and will be structured as a multiplicity of payment systems.

The ECB has partially amended the regulations for managing foreign reserve assets in anticipation of, among other things, the future entry of new States to the euro area.

In the area of financial institutions, the Community legislation on distance marketing of consumer financial services, which establishes a rigorous regime for the information that consumers must receive before conclusion of the contract, was fully transposed to Spanish law. In addition, various directives affecting financial institutions were amended to establish a series of procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector. Finally, the statistical reporting requirements have been extended to collective investment institutions to adapt them to the new information needs of the ECB.

In securities market legislation, a directive was published on the exercise of certain rights of shareholders in listed companies, in order to consolidate their rights, particularly proxy and electronic voting rights.

In regard to insurance, a law was passed to transpose in full the Community legislation on reinsurance and complete and systematise the current regulations on its supervision.

Finally, a law on the financing of political parties was enacted which establishes greater levels of transparency and public disclosure; and a law on competition was promulgated which strengthens the existing mechanisms for safeguarding effective market competition, taking into account the new Community legal system and the competence of regional (autonomous) governments.

Decree implementing the new regime for takeover bids

On 13 April 2007 Law 6/2007 of 12 April 2007[1] reforming Law 24/1988 of 28 July 1988[2] on the securities market was enacted to modify the regime governing takeover bids and issuer transparency. Its purpose was twofold: first, to introduce the amendments required to trans-

1. See “Financial Regulation: 2007 Q2”, *Economic Bulletin*, July 2007, Banco de España, pp. 114-118. **2.** See “Regulación Financiera: tercer trimestre de 1988”, *Boletín económica*, Banco de España, October 1988, pp. 61-62.

pose Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids and, second, to change certain legal provisions so as to ensure that takeover bids are conducted in a full legal framework and with adequate legal certainty.

Recently the regulations implementing Law 6/2007 were promulgated in *Royal Decree 1066/2007 of 27 July 2007* (BOE of 28 July 2007) on the regime governing takeover bids, which, in addition to addressing the aforementioned two objectives, implements and completes the amendments introduced by the Law. This Royal Decree repeals Royal Decree 1197/1991 of 26 July 1991 which regulated this subject-matter.

SCOPE OF APPLICATION

The Royal Decree will apply to all takeover bids, whether voluntary or mandatory, for a listed company. As required by Law 6/2007, provision is made for cases of cross-border application of the Royal Decree, and it is specified which aspects of the bid will be governed by Spanish law and which will governed by the legislation of the country where the company's registered office is located.

MANDATORY TAKEOVER BID

The Royal Decree stipulates that a mandatory takeover bid shall be made when control of a company is achieved, whether it be in a direct, or in an indirect or unexpected manner. Similarly to Law 6/2007, the Decree presumes that a natural or legal person (individually or in concert with others) controls a company when he holds, directly or indirectly, 30% or more of the voting rights; or when he has a smaller holding but designates in the 24 months after the holding acquisition date a number of directors which, taken together with any already designated, represent more than 50% of the company's Board members. In both cases the Law requires a takeover bid to be made for 100% of the shares[3] at an equitable price. In determining this price, the full amount of any consideration paid or agreed in each case by the offeree company or persons acting in concert therewith shall be included, for which purpose certain rules detailed in the Decree shall be applied.

The bid shall be submitted as soon as possible, at most within one month from when control was achieved, unless such control was achieved indirectly or unexpectedly (for example, through merger), in which case the submission deadline is three months from the merger date or from when control was taken.

However, the Decree establishes the cases in which the CNMV can conditionally dispense with the obligation to make a mandatory bid. Also specified are the cases in which the bid price can or must be adjusted upward or downward.

Apart from the above, provision is made for two additional cases of mandatory bids envisaged in the Law. First, bids for suspension of trading of shares on Spanish official secondary markets, which can only be made as purchases with the total price offered as money and in which the suspension of trading must be decided by the general meeting of shareholders. And second, bids for the reduction of capital through the purchase of treasury shares for cancellation, without prejudice to the minimum requirements of the consolidated text of the Public Limited Companies Law approved by Royal Legislative Decree 1564/1989 of 22 December 1989.

The Decree establishes that if the obligation to make a mandatory takeover bid is not complied with, the voting rights derived from any directly or indirectly held securities of the listed com-

3. Under the previous law it was only required to make a bid for all of the capital when it was sought to acquire 50% or more of the capital of the offeree company or when it was sought to acquire less than 50% but certain circumstances applied.

pany may not be exercised unless the number of securities required to obviate that obligation is disposed of in the stipulated time period.

VOLUNTARY TAKEOVER BID

In the same terms as in Law 6/2007, the Decree provides for voluntary takeover bids in cases in which a person wishes to purchase a significant package of shares, addressing himself for this purpose to all shareholders. These bids can be made for all or part of the capital. In general, the same rules apply as in mandatory bids, with certain exceptions stated in the Decree, including that they are not subject to the equitable price requirement.

A voluntary bid may also be made for less than the total number of shares by a person who will not, as a result of the bid, reach a controlling stake or by a person who already has a controlling stake and can freely increase his holding in the offeree company without subjecting himself to the obligation to make a mandatory bid.

CONSIDERATION AND COLLATERAL OFFERED IN THE TAKEOVER BID

The consideration for the company's shares can be cash or securities or a mix of the two. Certain cases are addressed in which cash consideration must be offered as an alternative to ensure that the shareholders are adequately protected. To ensure the successful outcome of the takeover bid, the offeror must accredit before the CNMV that he has duly provided collateral evidencing that he can pay the consideration offered.

TAKEOVER BID PROCEDURE

The Decree minutely details the takeover bid process, which starts with the announcement of the intention (voluntary bid) or obligation (other cases) to submit a public bid. This announcement must be made as soon as it is decided to make a bid or when the circumstances requiring a mandatory bid arise. Once the announcement has been made, the authorisation application must be submitted to the CNMV together with the documentation needed for analysis. Once granted, the authorisation must be disseminated by the offeror in the *Boletín de Cotización de las Bolsas de Valores* (Stock Exchange Trading Bulletin) of the stock exchanges on which the shares are traded and on all of them if the shares are included in the Spanish computerized trading system (*Sistema de Interconexión Bursátil*) and in at least one national newspaper, in order to inform the market and, in particular, all the shareholders of the offeree company. Throughout all this process, the employees of the offeror and offeree company must be properly informed.

The Decree stipulates that the offeror has to allow the shareholders a certain amount of time to accept the bid, if they so wish. This time period, which shall be set by the offeror, must not be less than 15 or more than 70 calendar days, counting from the stock exchange working day following the date of publication of the first announcement, although in certain cases it can be extended. Before this time period ends, the board of directors of the offeree company has to publish a report setting out its opinion on the bid. Also, the board or management of the offeree company and offeror shall inform the representatives of their respective employees or, otherwise, the employees themselves, to whom they shall send a brochure explaining the bid when it is published.

Also set forth is the regime applicable to possible authorisations of government agencies other than the CNMV.

The Decree establishes certain limitations on the acts of the offeror during the procedure, such as abstaining from disseminating or making public by whatsoever means any information not included in the announcement prior to the bid. The offeror is also subject to restrictions on the exercise of the voting rights carried by the portion of his shareholding in excess of the threshold triggering the obligation to launch a bid, and on the acquisition of shares of the offeree company during the procedure, although the Decree permits some leeway provided that it is not prejudicial to the shareholders.

The bid concludes with the takeover bid acceptance period, the calculation of acceptances received and the bid settlement.

DEFENSIVE MEASURES VIS-À-VIS TAKEOVER BIDS

As provided in Law 6/2007, the Decree stipulates that, from the public announcement of the bid until the bid outcome is made public, the offeree company's board and management, or any body delegated or empowered thereby, must obtain the prior authorisation of the general meeting of shareholders before taking any action, other than seeking alternative bids, which may result in the frustration of the bid and in particular before issuing any shares which may result in a lasting impediment to the offeror's acquiring control of the offeree company.

MODIFICATION, WITHDRAWAL AND SUSPENSION OF BID EFFECTS

Takeover bids shall be irrevocable from the public announcement and may not be modified, withdrawn or the effects thereof suspended, except as specified in the Decree. Thus the bid characteristics may be changed at any time prior to the last five calendar days of the time allowed for acceptance of the latter provided that such change entails a more favourable treatment for those to whom the bid is addressed, whether because it extends the initial bid to a larger number of securities, because it improves the consideration offered or because it removes or reduces the conditions, if any, to which the takeover bid is subject.

The offeror of a mandatory bid may withdraw it in certain cases, the main ones being as follows: a) when, for circumstances beyond the control of the offeror, the bid cannot be made or is clearly inviable, provided that the prior conformity of the CNMV is obtained; b) when the competition authorities declare the proposed transaction to be inadmissible or make their authorisation subject to compliance with certain conditions, and c) when, at the end of the procedure applicable to competing bids, there remains one bettering the terms of the mandatory bid. Similarly, in the case of voluntary bids, the offeror may also withdraw if he finds himself in circumstances similar to those of the mandatory bid, although with certain qualifications.

COMPETING BIDS

Competing bids are defined as those bids for securities that are launched when another bid for all or some of those securities has already been submitted to the CNMV and the time allowed for acceptance of the latter has not expired. A competing bid may not be made by persons acting in concert with the offeror of the current bid, belonging to the offeror's group or acting directly or indirectly on behalf of the offeror.

Nevertheless, the offeror may associate with or act in concert with third parties to improve his bid, subject to certain conditions, such as the requirement that no person or entity may participate directly or indirectly in more than one bid as co-offeror, in concert with the initial offeror or in any other capacity.

All competing bids shall be processed by order of submission and must meet certain requirements, including that they must better the preceding bid either by increasing the price or value of the consideration offered or by extending the bid to a larger number of securities.

RIGHT OF SQUEEZE-OUT

First introduced in the Spanish legal system in Law 6/2007, the right of squeeze-out refers to the case in which, following a bid for all of a company's securities, the offeror holds at least 90% of the capital and the bid has been accepted by the holders of securities representing at least 90% of voting rights. In this case, once the bid has been settled, the offeror can require the holders of the remaining securities to sell him their securities at a fair price and, similarly, the holders of remaining securities of the offeree company can require the offeror to buy their securities from them at a fair price, which shall be equal to the consideration in the public bid. The right of squeeze-out must be exercised within a maximum of three months from the end of the time allowed for acceptance.

SUPERVISION, INSPECTION AND SANCTIONING REGIME

Finally, the Royal Decree concludes with a brief mention of the supervision, inspection and sanctioning regime applicable to the activities regulated by it. Notably, the persons or entities originating a takeover bid, the offeree companies, the securities firms and agencies or credit institutions acting in representation of the offeree, the directors of any of the aforementioned entities and any other person directly or indirectly intervening on behalf of or in concert with the former in the takeover bid shall be subject to the supervision, inspection and sanctioning regime established in Law 24/1988 of 28 June 1988 on the securities market.

The Royal Decree came into force on 13 August 2007.

International harmonisation of Spanish accounting legislation in accordance with European law

Law 19/1989 of 25 July 1989[4] partially reforming and adapting Spanish corporate law to European Economic Community directives in the corporate sphere, initiated the process of harmonisation of Spanish accounting rules to those of the European Union. To do this, the Commercial Code applicable to all employers was amended to include in it more precise corporate accounting rules than those previously in place.

This harmonisation process continued with the enactment of the consolidated text of the Public Limited Companies Law via Legislative Royal Decree 1564/1989 of 22 December 1989. The first stage of the process concluded with approval of the General Chart of Accounts in Royal Decree 1643/1990 of 20 December 1990, and of the Rules for Preparing Consolidated Financial Statements in Royal Decree 1815/1991 of 20 December 1991.

As part of the strategy of adoption of the international accounting standards set by Community institutions, a new legal framework was set in place. The main milestone within this process was the publication of Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (which include *International Accounting Standards* (IASs) in the strict sense, the current *International Financial Reporting Standards* (IFRSs) and the interpretations of both).

The most recent development is the enactment of *Law 16/2007 of 4 July 2007* (BOE of 5 July) on reform and adaptation of accounting-related corporate law for international harmonisation according to European Union law, which, on the basis of the legal framework established by the accounting directives, is seeking to align itself with IFRS criteria.

ANNUAL ACCOUNTS

Regarding annual accounts, in addition to the balance sheet, income statement and notes, two new documents are added: a statement of changes in equity and a cash flow statement. The latter will not be obligatory when the balance sheet and statement of changes in equity can be prepared in abridged form.

As under the previous law, the balance sheet shall present separately assets, liabilities and equity; and in the latter the classification shall at least distinguish own funds from other equity items. Similarly, the income statement shall present the profit or loss for the period, duly separating the revenue and expenses allocable thereto, and distinguishing operating results from those not deemed to be such.

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4. See "Regulación financiera: tercer trimestre de 1989", *Boletín Económico*, October 1989, Banco de España, p. 50.

The statement of changes in equity shall include a record of certain income items arising from changes in value derived from application of the fair value method, which, when the circumstances defined for this purpose are fulfilled, will reverse to the income statement. The statement of changes in equity shall be made up of two parts. The first shall consist of the profit or loss for the period (balance of the income statement) and the income and expenses that have to be taken directly to equity. The second shall include the changes in the firm's equity, including those arising from transactions with equity holders or owners acting in their capacity as such.

The cash flow statement shall present, duly ordered and grouped by category or type of activity, the firm's receipts and payments in order to inform of the cash movements in the period. Finally, the notes shall complete, amplify and comment on the information contained in the other documents forming part of the annual accounts.

The annual accounts shall present, in addition to the current-period figures for each item, those for the previous period. Also, the notes shall offer qualitative information on the prior period situation when it is of significance in presenting the firm fairly.

A major aspect of the present reform is that the Commercial Code includes definitions includes constituent elements of annual accounts: assets, liabilities equity, income and expenses. Noteworthy is the new concept of equity that will be generally applicable to the regulation of companies. It is defined as the residual interest in the assets of the company after deducting all its liabilities. It includes the funds contributed upon formation or subsequently by equity holders or owners which are not considered to be liabilities, plus retained earnings or other changes in equity. Also considered to be equity is the amount classified as such in accordance with the criteria for preparing annual accounts increased by the amount of uncalled capital and by the amount of unpaid face value and share premium recorded as a liability for accounting purposes.

MEASUREMENT CRITERIA

As regards measurement criteria, the scope of the principle of prudence in valuation is adjusted so as to make it mandatory to record only the profits obtained up to the end of the accounting period. However, account must be taken of all risks arising in the current or a previous period and due information provided on them in the notes, without prejudice to any reflection they may have in the other documents forming part of the annual accounts.

Assets shall be recorded at acquisition cost or production cost and liabilities at the value of the consideration received in exchange for incurring the debt plus interest payable; provisions shall be recorded at the present value of the best estimate of the amount needed to meet the obligation at the balance sheet date. Also, the Law expressly requires the elements of annual accounts to be valued in the functional currency, which is the currency of the economic environment in which the company operates. However, the annual accounts must continue to be prepared and filed in euro.

Apart from the new wording of the accounting principles, one of the basic features of the reform is the inclusion in the Commercial Code, for general application and together with the acquisition cost measurement rule, of the fair value measurement criterion contained in the international standards adopted, although for the time being its use is limited to certain financial instruments.

Regarding the obligation to prepare consolidated accounts and management report, the concept of the decision-making unit as being what determines the obligation to consolidate is replaced by that of whether a company directly or indirectly exercises, or can exercise, control over others. The main new valuation-related development in consolidated accounts is the valuation of the assets acquired, of the liabilities assumed and of any provisions in the legally stipulated terms at their fair value.

GOODWILL

Special mention should be made of the new accounting treatment of goodwill, which under IFRSs is not amortised, but rather recorded at each period-end at cost less any impairment loss. Additionally, the limitation under the previous rules, whereby it was prohibited to distribute profits or reserves until the goodwill had been amortised, unless there were distributable reserves for the same amount, has been removed. However, a restriction on the distribution of profits related to this goodwill is introduced, in that a non-distributable reserve has to be systematically set aside for the amount of the potential amortisation that would have been recorded for this asset.

The Law will come into force on 1 January 2008 and will be applied to the accounting periods beginning thereafter.

Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2)

Guideline ECB/2001/3 of 26 April 2001 on the Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET) basically sets out the legal framework of the TARGET, which was subsequently amended on various occasions and finally consolidated in Guideline ECB/2005/16 of 30 December 2005. The current TARGET has a decentralised structure linking together national real-time gross settlement (RTGS) systems and the ECB Payment Mechanism (EPM).

To modernise and update the TARGET system, *European Central Bank Guideline ECB/2007/2 of 26 April 2007* (OJ of 8 September 2007) on a Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2) and *European Central Bank Decision ECB/2007/7 of 24 July 2007* (OJ of 8 September 2007) concerning the terms and conditions of TARGET2-ECB were published recently.

From 19 November 2007 onwards, TARGET will be replaced by TARGET2, characterised by a single technical platform called the *Single Shared Platform* (SSP), which, like its predecessor, will be legally structured as a multiplicity of payment systems.

Migration from the national RTGS systems to the SSP will take place in stages and Guideline ECB/2005/16 will therefore continue to apply to such systems until the relevant central banks have migrated to the SSP.

Each Eurosystem central bank shall operate its own TARGET2 component system. Thus the names of the TARGET2 component systems shall only include ‘TARGET2’ and the name or abbreviation of the relevant Eurosystem central bank or of the Member State of such Eurosystem central bank. Specifically, the ECB’s TARGET2 component system shall be called TARGET2-ECB.

The new system will have three separate levels of governance for both the establishment and the operational phases of TARGET2: the Governing Council (level 1), Eurosystem central banks (level 2) and SSP-providing central banks (level 3).

The Governing Council shall be responsible for the direction, management and control of TARGET2 and for safeguarding its public function. The ESCB’s Payment and Settlement Systems Committee (PSSC) shall assist the Governing Council as an advisory body in all matters relating to TARGET2.

The Eurosystem central banks shall be responsible for the tasks assigned to Level 2, within the general framework defined by the Governing Council. In addition to its advisory role, the PSSC shall conduct the execution of the tasks assigned to Level 2. The Eurosystem central banks may organise themselves through the conclusion of appropriate agreements. Within the context of such agreements, decision-making shall be based on a simple majority, and each Eurosystem central bank shall have one vote.

At level 3, the SSP-providing central banks shall conclude an agreement with the Eurosystem central banks governing the services to be provided by the former to the latter. Such agreement shall also include, where appropriate, the connected central banks.

Regarding the functioning of TARGET2, each participating NCB shall adopt arrangements implementing the *harmonised conditions for participation* in TARGET2 laid down in the legal provisions. These arrangements shall exclusively govern the relationship between the relevant participating NCB and its participants in respect of the processing of payments in the payments module.

The ECB shall adopt the terms and conditions of TARGET2-ECB implementing also the harmonised conditions, except that it shall only provide services to clearing and settlement organisations, including entities established outside the European Economic Area, provided that they are subject to oversight by a competent authority and their access to TARGET2-ECB has been approved by the Governing Council. The Governing Council shall determine the rules applicable to the financing of the SSP. Any surplus or deficit resulting from the functioning of the SSP shall be distributed among the participating NCBs in accordance with the key for subscription to the ECB's capital. The Governing Council shall determine a common cost methodology and pricing structure for core TARGET2 services.

The Governing Council shall specify the security policy and security requirements and controls for the SSP and, during the transition period, for the Home Account technical infrastructure.

Migration from the current TARGET systems to the SSP shall take effect on the following dates: 19 November 2007 for the central banks of Germany, Luxembourg, Austria and Slovenia; 18 February 2008 for the central banks of Spain, Belgium, the Netherlands, France, Ireland, Finland and Portugal; and 19 May 2008 for the ECB, Greece and Italy.

Any Eurosystem central bank that has not migrated to the SSP by 19 May 2008 as a result of unforeseen circumstances shall migrate by 15 September 2008.

European Central Bank: amendment of legal provisions on the management of foreign reserve assets

Guideline ECB/2007/6 of the European Central Bank of 20 July 2007 (OJ of 28 July 2007), amending Guideline ECB/2006/28 of 21 December 2006 on the management of the foreign reserve assets of the ECB by the national central banks and the legal documentation for operations involving such assets, was promulgated.

The Guideline changes the definition of *European jurisdictions* in Guideline ECB/2006/28 to cater for the future entry of new Member States to the euro area and is applicable to the Member States that have adopted the euro in accordance with the Treaty, as well as Denmark, Sweden, Switzerland and the United Kingdom (England and Wales only).

Also, in over-the-counter derivatives operations involving the ECB's foreign reserve assets, the possibility is added of using interest rate swaps, provided that the exposure is secured by collateral.

The Guideline came into effect on 27 July 2007.

Distance marketing of consumer financial services

The background to the distance marketing legislation includes most notably Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market, known as the *Directive on electronic commerce*, which was written into Spanish law via Law 34/2002 of 11 July 2002 on information society and electronic commerce services.

Subsequently, Directive 2002/65/EC of the European Parliament and of the Council of 23 September 2002 concerning the distance marketing of consumer financial services was published. It was partially written into Spanish law via Law 34/2003 of 4 November 2003 on the amendment and adaptation to Community law of private insurance legislation.

Recently, *Law 22/2007 of 11 July 2007* (BOE of 12 July 2007) on the distance marketing of consumer financial services was published to complete the transposition to Spanish law of Directive 2002/65/EC.

PURPOSE AND SCOPE OF APPLICATION OF THE LAW

The essential purpose of this Law, which came into force on 12 October 2007, is to protect consumers, keeping in mind always their potential greater vulnerability to the marketing of financial services without a physical presence[5]. This entails setting in place a rigorous regime governing the information to be provided to the client before conclusion of the contract.

It establishes a highly detailed system of prior information to be applied to financial service contracts negotiated and concluded at a distance[6], without prejudice to the application of the general provisions on information society services and electronic commerce contained in Law 34/2002. Specifically, it shall apply to financial services provided under distance contracts by financial institutions, the management companies of collective investment institutions, pension funds and venture capital entities and any others providing financial services, as well as the branches in Spain of foreign institutions of the same nature. It shall also apply to other institutions providing financial services, provided they are offered through a permanent establishment located in Spain, and to service providers established in another Member State of the European Union or European Economic Area when the recipient of the services is located in Spain and the services provided fall within certain fields specified in the Law.

IMPERATIVE NATURE AND RIGHT OF WITHDRAWAL

The consumers of distance financial services may not waive the rights conferred on them by the Law. Such waiver is null and void, as are shams following the letter but not the spirit of this Law, according to the provisions of the Civil Code.

The Law regulates the right of withdrawal, whereby the consumer shall have a period of 14 calendar days to withdraw from the contract without penalty and without giving any reason. This period shall be 30 calendar days in distance contracts relating to life insurance.

However, given the nature of many financial services, this right cannot be exercised in certain cases, which are set out in the Law. In particular, it shall not apply to contracts for financial services whose price depends on fluctuations in the financial market outside the supplier's control, which may occur during the withdrawal period, including transactions relating to for-

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5. For the purpose of the Law, 'financial service' means any banking, credit, payment or investment services, private insurance operations, pension plans and the activity of insurance intermediation. **6.** A "distance contract" means any contract negotiated and concluded through the exclusive use of a means of distance communication without the simultaneous physical presence of the supplier and consumer, consisting of electronic, telephonic, fax or other similar means.

eign exchange, money market instruments, transferable securities, units in collective investment institutions, etc. Nor shall it apply to those services the contractual conditions of which require special legal certainty, as in the case, among others, of mortgage loans, certain insurance policies, contracts performed in full by the parties thereto, such as transfer orders and bills sent for collection.

When the consumer exercises his right of withdrawal, he may only be required to pay for the service actually provided by the supplier up to the time of withdrawal in accordance with the contract. The amount payable shall not exceed an amount which is in proportion to the extent of the service already provided in comparison with the full coverage of the contract, and shall not in any case be such that it could be construed as a penalty.

FURTHER PROTECTION

The Law provides further protection to consumers, such as when the price of distance financial services has been charged fraudulently or improperly using the number of a payment card. In the event of such fraudulent use, the card holder may request immediate cancellation of the charge, such that the related accounts of the supplier and card holder are duly debited and re-credited as promptly as possible.

Also, even where the tacit renewal of distance services and communications contracts is permitted, services may not be provided without a prior request from the consumer.

The Law ensures legal protection for consumers and promotes the use of out-of-court complaints when so required by the consumer. The burden of proof in respect of compliance with the supplier's obligations under this Law to inform the consumer and the consumer's consent to conclusion of the contract and, where appropriate, its performance, shall be borne by the supplier.

Finally, the Law establishes a sanctioning regime, harmonising that laid down in Law 34/2002 on information society services with the existing specific regimes for financial institutions.

Procedural rules and evaluation criteria applicable in acquisitions and increase of holdings in the financial sector

Various Community directives[7] regulated, among other things, the prudential control of situations in which a natural or legal person decides to acquire or increase a qualifying holding[8] in a credit institution, assurance, insurance or re-insurance undertaking or an investment firm (hereafter "financial institutions"). But this legal framework had so far provided neither detailed criteria for a prudential assessment of the proposed acquisition nor a procedure for their application. This is the reason for the publication of *Directive 2007/44/EC of the European Parliament and of the Council of 5 September 2007* (OJ of 21 September) amending the earlier directives as regards procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector. This Directive aims to clarify these criteria and procedures, make them uniform in the three main financial areas and provide the necessary legal certainty, clarity and predictability with regard to the assessment process, as well as to the result thereof.

7. Directive Council Directive 92/49/EEC of 18 June 1992 on the co-ordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance and amending Directives 73/239/EEC and 88/357/EEC (third non-life insurance Directive); Directive 2002/83/EC of the European Parliament and of the Council of 5 November 2002 concerning life assurance; Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments; Directive 2005/68/EC on reinsurance; and Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) **8.** Qualifying holding means means any direct or indirect holding in a firm which represents 10% or more of the capital or of the voting rights, or any other possibility of exercising a significant influence over the management of the firm in which that holding subsists. Account shall not be taken of voting rights or shares held as a result of providing the underwriting of financial instruments and/or placing of financial instruments,provided that those rights are, on the one hand, not exercised or otherwise used to intervene in the management of the issuer and, on the other, disposed of within one year of acquisition.

One of the basic aims of this Directive is to harmonise the procedure and the prudential assessments throughout the entire European Union, without the Member States laying down stricter rules than those contained in this Directive, since it is increasingly common for group structures to extend to various Member States.

Member States shall require any natural or legal person or such persons acting in concert (hereinafter referred to as the proposed acquirer), who have taken a decision either to acquire, directly or indirectly, a qualifying holding in an insurance undertaking or to further increase, directly or indirectly, such a qualifying holding in an insurance undertaking as a result of which the proportion of the voting rights or of the capital held would reach or exceed 20%, 30% or 50% or so that the insurance undertaking would become its subsidiary (hereinafter referred to as the proposed acquisition), first to notify in writing the competent authorities of the insurance undertaking in which they are seeking to acquire or increase a qualifying holding, indicating the size of the intended holding and the relevant information detailed in the Directive.

The competent authorities shall have a maximum of 60 working days to carry out the assessment, which basically consists of appraising the suitability[9] of the proposed acquirer and the financial soundness of the proposed acquisition, in accordance with the criteria set in the Directive. This is done in order to ensure the sound and prudent management of the financial institution the acquisition of which is proposed, having regard to the likely influence of the proposed acquirer on that financial institution.

If the competent authorities, upon completion of the assessment, decide to oppose the proposed acquisition, they shall inform the proposed acquirer in writing and provide the reasons for that decision, without in any case exceeding the assessment period. Subject to national law, an appropriate statement of the reasons for the decision may be made accessible to the public at the request of the proposed acquirer. This shall not prevent a Member State from allowing the competent authority to make such disclosure in the absence of a request by the proposed acquirer.

Member States shall make publicly available a list specifying the information that is necessary to carry out the assessment and that must be provided to the competent authorities at the time of notification. The information required shall be proportionate and adapted to the nature of the proposed acquirer and the proposed acquisition.

The competent authorities should work in close co-operation with each other when assessing the suitability of a proposed acquirer that is a regulated entity authorised in another Member State or in another sector. In any event, the responsibility for the final decision regarding the prudential assessment remains with the competent authority responsible for the supervision of the entity in which the acquisition is proposed.

Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive before 21 March 2009. They shall inform the Commission thereof.

Exercise of certain rights by shareholders of listed companies

Directive 2001/34/EC of the European Parliament and of the Council on the admission of securities to official stock exchange listings and on information to be published on those securities, addresses the information that issuers must provide to the market; however, it focuses

9. To appraise suitability, the Directive establishes a number of criteria, including, among others, the reputation and financial solvency of the proposed acquirer and the experience of any person who will direct the business activity.

largely on shareholders' voting rights, especially, the process of entitlement to vote. Under Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, issuers must provide certain information and relevant documents to the general meetings, but this obligation is only applied in the issuer's home Member State.

In this setting, *Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007* (OJEU of 14 July 2007) on the exercise of certain rights of shareholders in listed companies was published, in order to strengthen their rights, especially through the extension of the rules on transparency, proxy voting rights, the possibility of participating in general meetings via electronic means and the exercise of cross-border voting rights.

Member States shall ensure that the companies issue the convocation of the general meeting through such media as may reasonably be relied upon for the effective dissemination of information to the public not later than on the 21st day before the day of the meeting. Member States may provide that, where the company offers the facility for shareholders to vote by electronic means accessible to all of them, the general meeting may decide that it shall issue the convocation of a general meeting which is not an annual general meeting at least with 14 days' notice.

Member States shall ensure that shareholders which hold a minimum stake of at least 5% of the share capital, acting individually or collectively, have: a) the right to put items on the agenda of the general meeting, provided that the latter are accompanied by a justification or a draft resolution to be adopted in the general meeting, and b) the right to table draft resolutions for items included or to be included on the agenda of a general meeting.

Similarly Member States shall permit companies to offer to their shareholders any form of participation in the general meeting by electronic means, notably any or all of the following forms of participation: real-time transmission, real-time two-way communication enabling shareholders to address the general meeting from a remote location, and a mechanism for casting votes, whether before or during the general meeting, without the need to appoint a proxy holder who is physically present.

The use of electronic means for the purpose of participating in the general meeting may be made subject only to such requirements and constraints as are necessary to ensure the identification of shareholders and the security of the electronic communication, and only to the extent that they are proportionate to achieving those objectives.

As for proxy voting, Member States shall permit shareholders to appoint a proxy holder by electronic means and companies to accept the notification of the appointment by electronic means, ensuring that every company offers to its shareholders at least one effective method of notification by electronic means.

Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by 3 August 2009 at the latest.

Collective investment institutions: changes to statistical reporting requirements

CNMV Circular 2/1998 of 27 July 1998, of the National Securities Market Commission, on statistical reporting requirements of CIIs in the euro area, established the requirements governing the statistical information that these institutions should send to the CNMV, so that it might be used by the ECB to monitor monetary policy in the euro area. Subsequently, it was partially amended by CNMV Circular 1/2002 of 16 September 2002, to adapt the reporting formats to the new ECB reporting requirements[10].

Subsequently, the regulations implementing Collective Investment Institutions Law 35/2003, of 4 November 2003[11], enacted by Royal Decree 1309/2005 of 4 November 2005[12], empowered the CNMV to collect the additional information it considers necessary for the exercise of its powers.

In accordance with this arrangement, *CNMV Circular 1/2007 of 11 July 2007* (Official State Gazette of 26 July 2007) was published on European Union statistical reporting requirements of CIIs, which partially amends Circular 2/1998, to include the changes introduced by the regulations implementing Law 35/2003, and to broaden the information requirements for collecting data on the States which joined the European Union on 1 May 2004 and those that joined the Economic and Monetary Union on 1 January 2007.

One of the most important aspects of the Circular is that, following the elimination of the legal category of money market investment funds, CIIs whose investment policy or objective is of a monetary nature, as defined in the Circular, shall be deemed to be included together with credit institutions in the list of monetary financial institutions (MFIs) published by the ECB and, consequently, should fulfil the requirements of the ECB.

The Circular will come into force on 31 December 2007.

Amendment of the Law on the Regulation and Supervision of Private Insurance as regards the supervision of reinsurance activities

Directive 2005/68/EC of the European Parliament and of the Council of 16 November 2005 on reinsurance and amending Council Directives 73/239/EEC, 92/49/EEC as well as Directives 98/78/EC and 2002/83/EC, established a prudential supervision framework for reinsurance activities in the European Union. The Directive follows the approach of Community legislation adopted in respect of direct insurance by carrying out the basic harmonisation to ensure the mutual recognition of authorisations and prudential control systems, thereby making it possible to grant a single authorisation valid throughout the Community and apply the principle of supervision by the home Member State.

In order to transpose Directive 2005/68/EC to Spanish insurance law, *Law 13/2007 of 2 July 2007* (BOE of 3 July) has been enacted. This legislation amends the Consolidated Text of the Law on the Regulation and Supervision of Private Insurance, approved by Royal Legislative Decree 6/2004 of 29 October 2004, as regards the supervision of reinsurance activities. The transposition does not introduce substantial changes into Spanish reinsurance regulations, although it does complete and systematise the current regulations on the control of reinsurance.

The Law defines the institutions that can accept reinsurance operations, access to the activity of Spanish reinsurance undertakings, conditions for engaging in the activity, and the intervention and supervision of undertakings. In accordance with Directive 2005/68/EC, it is also extensive to the various types of so-called "captive" reinsurance undertakings, whose purpose is to provide reinsurance cover exclusively for the risks of the undertakings to which they belong.

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10. As provided for in Regulation (EC) No 2423/2001 of the European Central Bank of 22 November 2001. **11.** See "Financial Regulation: 2003 Q4", Economic Bulletin, January 2004, Banco de España, pp. 84-87. **12.** See "Financial Regulation: 2005 Q4", Economic Bulletin, January 2006, Banco de España, pp. 112-116.

Regulated separately is the activity in Spain of reinsurance undertakings whose registered offices are in other member countries of the European Economic Area, as is that of undertakings with registered offices in third countries. Certain articles relating to the activity of direct insurance undertakings are also amended, such as those referring to technical provisions and the guarantee fund.

Finally, the stipulations on the transfer of data between insurers and reinsurers introduced by Law 26/2006, on mediation, are incorporated into the Consolidated Text of the Law on the Regulation and Supervision of Private Insurance. It is also envisaged how the regulations will be applied to those reinsurance undertakings already authorised before the forthcoming entry into force of Law 13/2007 on 9 December 2007.

Financing of political parties

Organic Law 8/2007 of 4 July 2007 (BOE of 5 July), repealing Organic Law 3/1987 of 2 July 1987, has been enacted on the financing of political parties. The Law establishes a mixed system that covers first, the funds drawn from public financing in proportion to representativeness, and further, those from private financing.

Audit and monitoring mechanisms are also established, providing for maximum levels of transparency and disclosure. There are likewise control measures that prevent any departure from established functions, establishing a sanctions regime for breaches of regulations.

From the financial standpoint, mention should be made of the transitory rule stipulating the obligation to report to the *Tribunal de Cuentas* (Spanish National Audit Office) and the Banco de España any such agreement reached with credit institutions regarding the conditions governing the debt they may have with such institutions as at the entry into force of the Law. These agreements shall be those accepted under the habitual business practices between contracting parties.

Competition protection

Antitrust Law 16/1989 of 17 July 1979 devised a system based on two specialised, national administrative bodies – the Competition Protection Court and Competition Protection Service – to combat restrictive competitive practices and to control economic concentrations. There have since been changes, some far-reaching, and several implementing regulations have been promulgated.

Recently, *Antitrust Law 15/2007 of 3 July 2007* (BOE of 4 July) was promulgated, repealing Law 16/1989. This legislation, which came into force on 1 September, aims to reinforce the mechanisms already in place, equipping them with specific instruments and with an institutional structure to protect effective competition in the markets, bearing in mind the new Community regulatory arrangements and the competencies of the Regional (Autonomous) Governments in this area.

One of the main features introduced by the Law is the creation at State level of a single institution, independent from the government. This institution, the *CNC (National Competition Commission)*, will encompass the current Competition Protection Court and Service, which will disappear. The CNC is the body entrusted with applying this Law, and with promoting and safeguarding continuing effective competition in all productive sectors and throughout the national territory. Its functions are to instruct, resolve and arbitrate, and it shall further act in a consultative capacity, promoting and harmonising the protection of competition in the markets. The Law specifies the arrangements for the appointment and termination of the management bodies of the CNC, aimed at ensuring their independent decision-making and, at the same time, their accountability to society.

The rest of the Law is structured in several sections which respectively regulate the basic instruments of the regulation along with the regime applicable to restrictive practices, and the principles governing the control of concentrations and the monitoring system; institutional aspects; procedural issues; and, finally, the sanctioning regime.

11.10.2007

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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).

1. IMF Special Data Dissemination Standard (SDDS).

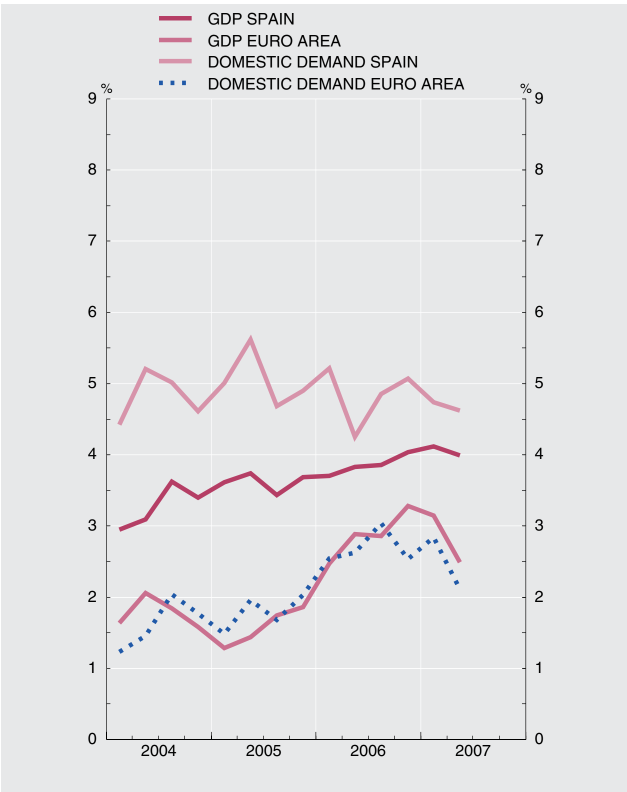
1.1. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES, REFERENCE YEAR 2000=100.DEMAND COMPONENTS. SPAIN AND EURO AREA (a)

■ Series depicted in chart.

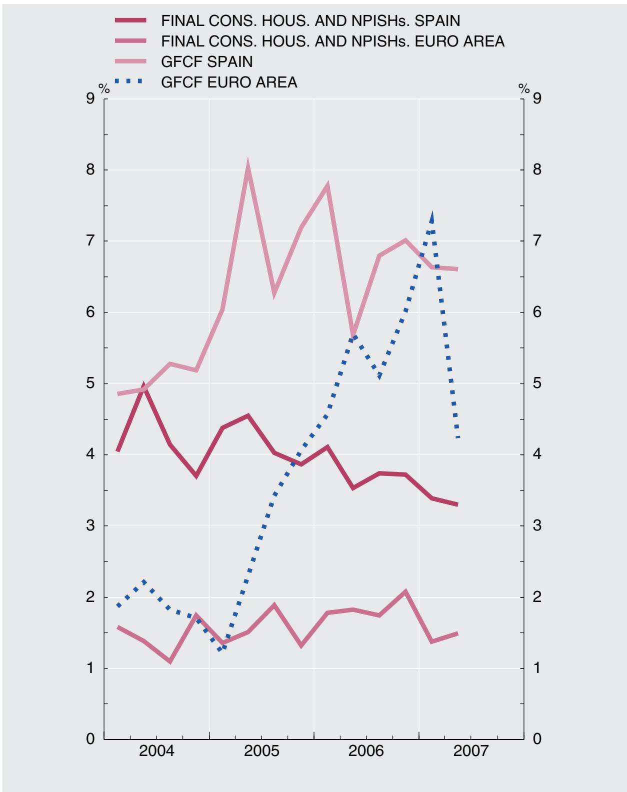
Annual percentage changes

		GDP		Final consumption of households and NPISHs		General government 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
04	P	3.3	1.8	4.2	1.5	6.3	1.3	5.1	1.9	4.8	1.6	4.2	6.4	9.6	6.3	841	7 748
05	P	3.6	1.6	4.2	1.5	5.5	1.4	6.9	2.8	5.1	1.8	2.6	4.6	7.7	5.4	908	8 021
06	P	3.9	2.9	3.8	1.9	4.8	2.0	6.8	5.4	4.9	2.7	5.1	8.0	8.3	7.7	981	8 407
04 *Q3*	P	3.6	1.8	4.1	1.1	7.1	1.3	5.3	1.8	5.0	1.8	4.5	6.8	9.4	7.7	212	1 945
Q4	P	3.4	1.6	3.7	1.7	6.4	0.8	5.2	1.7	4.6	1.6	3.7	6.2	8.1	7.1	216	1 958
05 *Q1*	P	3.6	1.3	4.4	1.4	5.6	1.1	6.0	1.2	5.0	1.3	0.2	4.2	5.4	4.9	220	1 974
Q2	P	3.7	1.4	4.6	1.5	5.9	1.5	8.0	2.3	5.6	1.4	3.1	3.7	9.7	5.4	225	1 994
Q3	P	3.4	1.7	4.0	1.9	5.1	1.4	6.3	3.4	4.7	1.7	3.7	5.4	8.0	5.5	229	2 016
Q4	P	3.7	1.9	3.9	1.3	5.4	1.6	7.2	4.1	4.9	1.9	3.4	5.2	7.7	5.9	234	2 037
06 *Q1*	P	3.7	2.5	4.1	1.8	4.9	2.2	7.8	4.6	5.2	2.5	5.7	8.5	10.6	9.0	238	2 060
Q2	P	3.8	2.9	3.5	1.8	4.0	1.6	5.7	5.7	4.3	2.9	4.9	7.9	6.1	7.4	243	2 091
Q3	P	3.9	2.9	3.7	1.7	4.8	1.9	6.8	5.1	4.9	2.9	4.2	6.7	7.5	7.4	247	2 115
Q4	P	4.0	3.3	3.7	2.1	5.7	2.1	7.0	6.0	5.1	3.3	5.7	9.0	8.9	7.2	252	2 141
07 *Q1*	P	4.1	3.2	3.4	1.4	5.7	1.9	6.6	7.3	4.7	3.2	3.7	6.6	5.9	5.9	257	2 179
Q2	P	4.0	2.5	3.3	1.5	5.5	1.9	6.6	4.2	4.6	2.5	4.8	5.9	6.7	5.0	261	2 199

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.

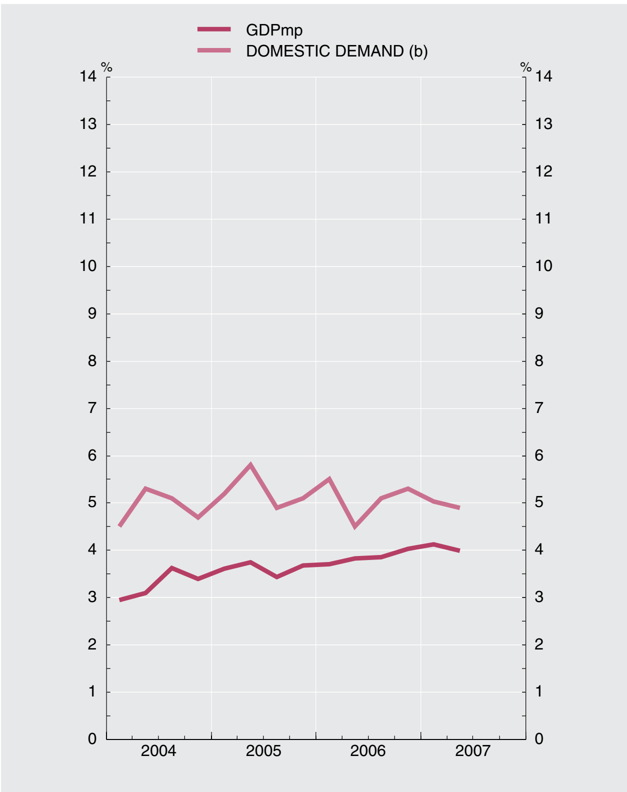
1.2. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES. REFERENCE YEAR 2000=100. DEMAND COMPONENTS. SPAIN: BREAKDOWN (a)

■ Series depicted in chart.

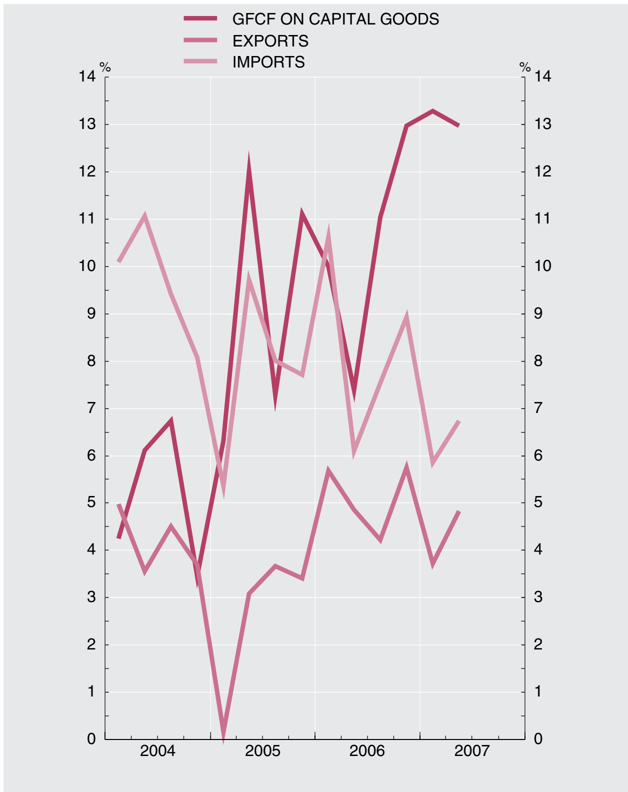
Annual percentage changes

		Gross fixed capital formation					Exports of goods and services				Imports of goods and services				Memorandum items:	
		Total	Capital goods	Construc-tión	Other products	Change in Stocks (b)	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 ■
04	P	5.1	5.1	5.4	3.8	0.0	4.2	5.1	0.1	4.5	9.6	9.7	19.3	7.6	4.9	3.3
05	P	6.9	9.2	6.1	6.4	-0.1	2.6	1.1	2.3	9.7	7.7	7.1	20.6	8.2	5.3	3.6
06	P	6.8	10.4	6.0	4.6	0.1	5.1	4.6	1.5	11.0	8.3	8.0	6.0	10.0	5.1	3.9
04 *Q3*	P	5.3	6.7	5.2	3.4	0.1	4.5	5.7	0.7	3.6	9.4	9.4	16.0	8.4	5.1	3.6
Q4	P	5.2	3.4	6.0	5.0	0.1	3.7	2.6	3.3	9.5	8.1	7.6	22.4	7.9	4.7	3.4
05 *Q1*	P	6.0	6.3	5.8	6.4	-0.0	0.2	-2.0	1.8	8.3	5.4	4.8	23.5	4.5	5.2	3.6
Q2	P	8.0	12.0	6.4	7.9	-0.1	3.1	1.8	1.7	10.5	9.7	10.4	24.9	3.5	5.8	3.7
Q3	P	6.3	7.3	6.1	5.6	-0.1	3.7	1.8	3.2	12.6	8.0	6.2	19.0	14.5	4.9	3.4
Q4	P	7.2	11.1	6.0	5.6	-0.1	3.4	2.7	2.3	7.4	7.7	6.8	15.7	10.3	5.1	3.7
06 *Q1*	P	7.8	10.0	7.1	7.1	-0.0	5.7	5.2	0.5	13.2	10.6	10.4	4.6	13.0	5.5	3.7
Q2	P	5.7	7.4	5.5	3.8	0.0	4.9	3.9	5.5	8.2	6.1	4.7	4.0	13.6	4.5	3.8
Q3	P	6.8	11.0	5.9	3.7	0.1	4.2	4.5	0.6	6.6	7.5	8.0	11.4	4.5	5.1	3.9
Q4	P	7.0	13.0	5.5	3.8	0.1	5.7	4.8	-0.5	16.2	8.9	9.1	4.2	9.4	5.3	4.0
07 *Q1*	P	6.6	13.3	5.2	2.3	0.1	3.7	3.6	1.5	6.5	5.9	5.6	7.0	6.7	5.0	4.1
Q2	P	6.6	13.0	4.6	4.3	0.0	4.8	4.8	-2.3	12.2	6.7	6.3	4.5	9.3	4.9	4.0

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.

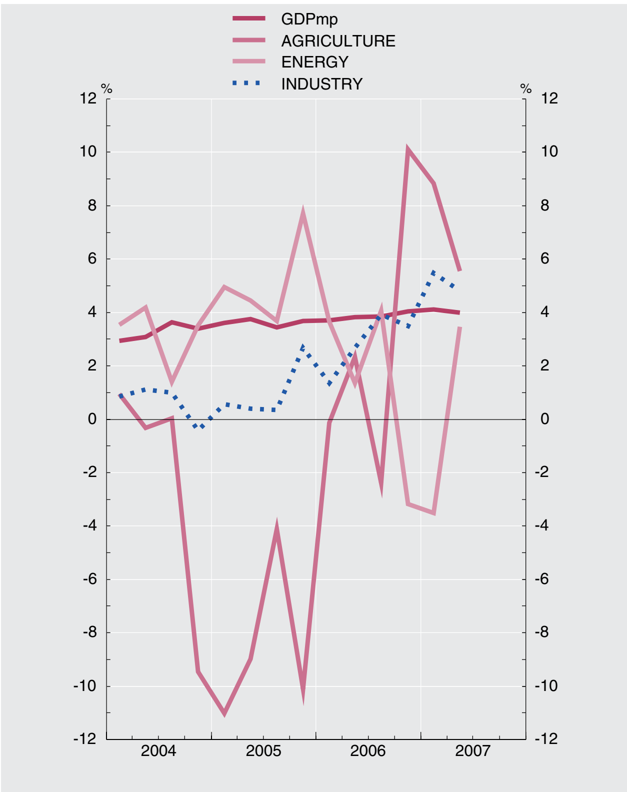
c. Residents' demand within and outside the economic territory.

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

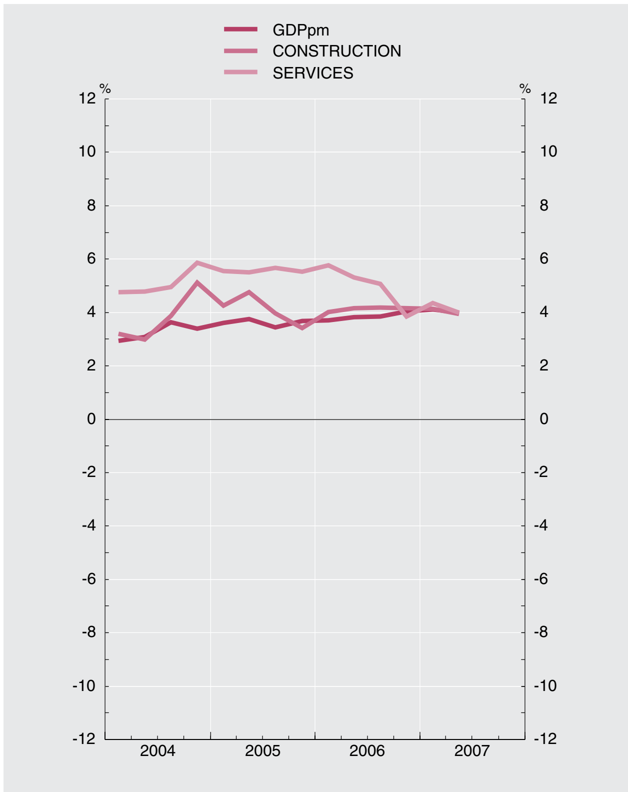
■ Series depicted in chart. *Annual percentage changes*

		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
04	P	3.3	-2.3	3.2	0.6	5.1	3.8	3.8	3.7	2.6	12.4	7.0
05	P	3.6	-8.6	5.2	1.0	5.6	4.1	4.1	3.9	5.5	4.9	7.3
06	P	3.9	2.4	1.4	2.9	5.0	4.1	4.1	4.3	4.3	5.9	2.3
04 *Q3*	P	3.6	0.0	1.4	1.0	5.0	3.9	3.5	5.1	2.7	3.1	13.8
Q4	P	3.4	-9.5	3.5	-0.4	5.9	5.1	5.1	5.0	3.2	18.7	-3.0
05 *Q1*	P	3.6	-11.0	5.0	0.6	5.5	4.2	4.2	4.6	6.2	-1.1	9.1
Q2	P	3.7	-9.0	4.4	0.4	5.5	4.8	4.6	5.3	6.0	7.7	2.4
Q3	P	3.4	-4.1	3.7	0.4	5.7	4.0	4.3	2.7	5.4	4.9	3.4
Q4	P	3.7	-10.1	7.7	2.7	5.5	3.4	3.5	3.3	4.3	8.4	14.9
06 *Q1*	P	3.7	-0.1	3.7	1.4	5.8	4.0	4.1	3.6	4.8	10.5	2.7
Q2	P	3.8	2.3	1.4	2.7	5.3	4.2	4.1	4.5	4.3	5.6	1.3
Q3	P	3.9	-2.4	4.1	3.9	5.1	4.2	4.3	3.8	4.1	5.1	-0.4
Q4	P	4.0	10.1	-3.2	3.5	3.9	4.2	3.9	5.2	3.8	2.8	5.6
07 *Q1*	P	4.1	8.8	-3.5	5.5	4.4	4.1	4.1	4.2	4.0	-2.0	1.8
Q2	P	4.0	5.5	3.5	4.8	4.0	3.9	3.8	4.5	3.5	-2.3	2.9

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)

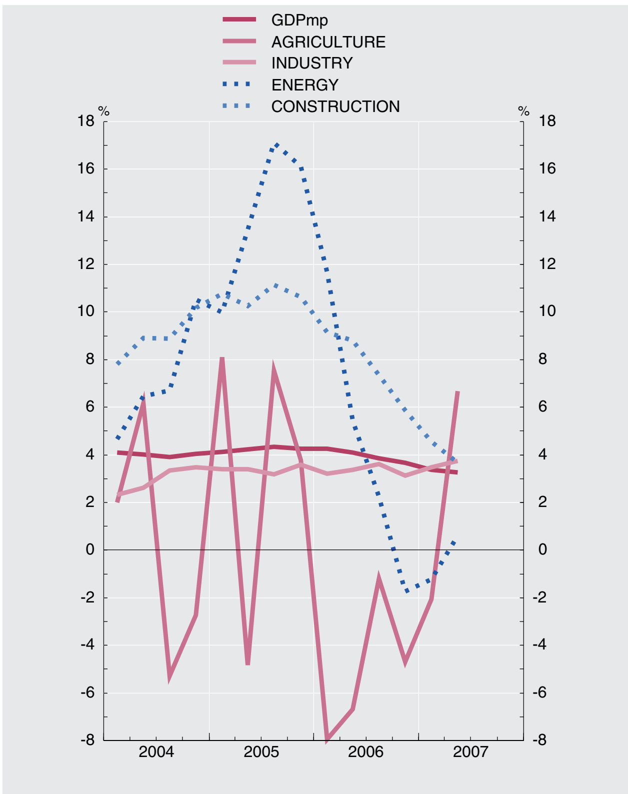
■ Series depicted in chart.

Annual percentage changes

		Demand components: Final consumption of households and NPISHs (b)	Demand components: General government final consumption	Demand components: Gross fixed capital formation: Capital goods	Demand components: Gross fixed capital formation: Construction	Demand components: Gross fixed capital formation: Other products	Demand components: Exports of goods and services	Demand components: Imports of goods and services	Gross domestic product at market prices	Branches of activity: Agriculture and fisheries	Branches of activity: Energy	Branches of activity: Industry	Branches of activity: Construction	Branches of activity: Of which: Services	Branches of activity: Of which: Market services
		1 ■	2 ■	3	4 ■	5	6 ■	7 ■	8 ■	9 ■	10 ■	11 ■	12 ■	13	14
04	P	3.6	3.7	2.2	6.8	6.0	1.6	2.2	4.0	0.0	7.1	2.9	9.0	3.3	3.1
05	P	3.4	3.7	3.0	7.4	4.4	4.3	3.8	4.2	3.4	14.3	3.4	10.7	2.7	2.4
06	P	3.4	3.7	2.0	6.2	3.7	4.0	3.5	4.0	-5.2	4.1	3.3	7.7	3.0	2.8
04 *Q3*	P	3.6	3.7	2.4	7.7	6.2	1.8	3.2	3.9	-5.3	6.7	3.3	8.9	2.9	2.9
Q4	P	3.5	3.6	2.2	7.9	6.2	3.3	4.0	4.1	-2.7	10.5	3.5	10.2	2.7	2.4
05 *Q1*	P	3.1	3.6	2.5	7.6	5.4	4.9	4.3	4.1	8.1	10.0	3.4	10.8	2.2	2.1
Q2	P	3.1	3.6	3.6	7.7	4.8	3.6	2.9	4.2	-4.8	13.4	3.4	10.3	2.4	2.3
Q3	P	3.7	3.6	2.7	7.3	4.2	4.7	4.1	4.3	7.5	17.1	3.2	11.1	3.0	2.5
Q4	P	3.7	3.9	3.1	7.2	3.5	4.0	3.9	4.3	3.8	16.1	3.6	10.6	3.2	2.9
06 *Q1*	P	3.6	4.3	1.6	7.4	2.9	4.8	4.4	4.3	-8.0	11.7	3.2	9.2	2.8	2.5
Q2	P	3.7	4.2	1.8	7.0	3.7	4.3	4.5	4.1	-6.7	5.4	3.4	8.8	3.0	2.8
Q3	P	3.2	3.6	2.4	5.7	3.9	3.5	3.0	3.9	-1.2	2.2	3.6	7.3	3.3	3.3
Q4	P	3.1	2.6	1.9	4.7	4.4	3.5	2.3	3.7	-4.7	-1.7	3.1	5.9	2.8	2.7
07 *Q1*	P	2.7	2.5	3.2	4.0	6.0	2.5	1.7	3.4	-2.1	-1.2	3.5	4.6	3.2	3.2
Q2	P	2.5	2.4	2.9	3.4	5.6	1.9	0.8	3.3	6.7	0.6	3.7	3.7	3.3	3.4

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.

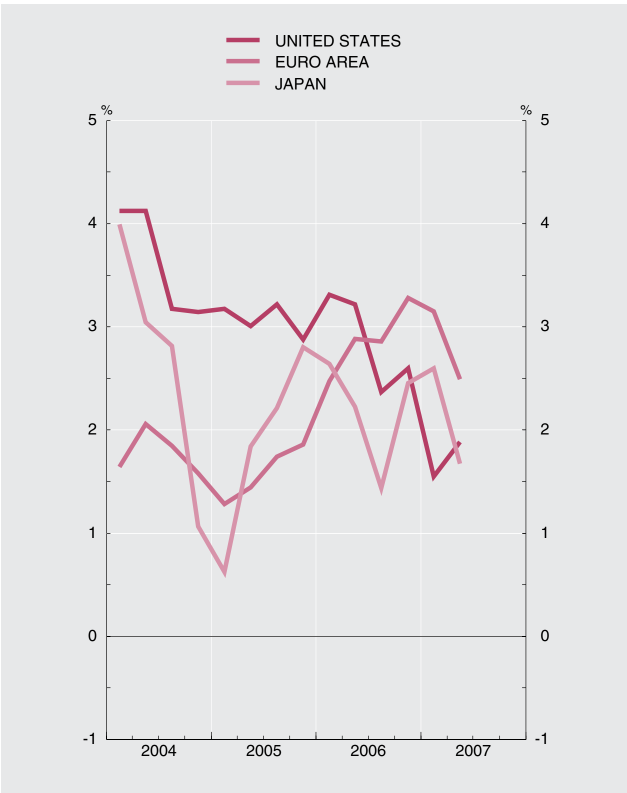
2.1. INTERNATIONAL COMPARISON. GROSS DOMESTIC PRODUCT AT CONSTANT PRICES

■ Series depicted in chart.

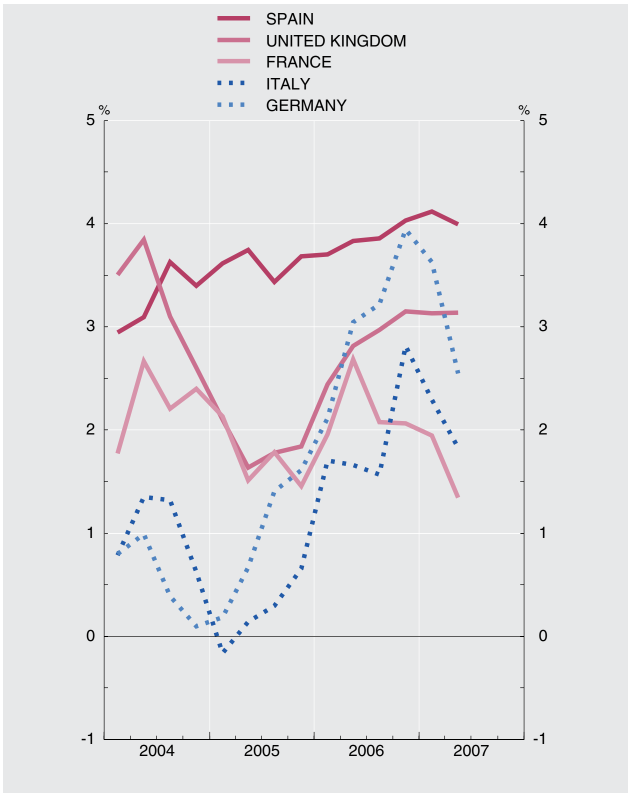
Annual percentage changes

	OECD 1	EU-15 2	Euro area 3 ■	Germany 4 ■	Spain 5 ■	United States 6 ■	France 7 ■	Italy 8 ■	Japan 9 ■	United Kingdom 10 ■
04	3.3	2.1	1.8	0.6	3.3	3.6	2.3	1.0	2.7	3.3
05	2.7	1.7	1.6	1.0	3.6	3.1	1.7	0.2	1.9	1.8
06	3.2	2.9	2.9	3.1	3.9	2.9	2.2	1.9	2.2	2.8
04 *Q2*	3.8	2.4	2.1	1.0	3.1	4.1	2.7	1.3	3.0	3.8
Q3	3.1	2.1	1.8	0.4	3.6	3.2	2.2	1.3	2.8	3.1
Q4	2.7	1.8	1.6	0.1	3.4	3.1	2.4	0.6	1.1	2.6
05 *Q1*	2.4	1.5	1.3	0.2	3.6	3.2	2.1	-0.2	0.6	2.1
Q2	2.4	1.5	1.4	0.7	3.7	3.0	1.5	0.1	1.8	1.6
Q3	2.9	1.8	1.7	1.4	3.4	3.2	1.8	0.3	2.2	1.8
Q4	2.9	1.9	1.9	1.6	3.7	2.9	1.5	0.7	2.8	1.8
06 *Q1*	3.3	2.5	2.5	2.1	3.7	3.3	2.0	1.7	2.6	2.4
Q2	3.4	2.9	2.9	3.0	3.8	3.2	2.7	1.7	2.2	2.8
Q3	3.0	2.9	2.9	3.2	3.9	2.4	2.1	1.6	1.4	3.0
Q4	3.2	3.3	3.3	3.9	4.0	2.6	2.1	2.8	2.5	3.2
07 *Q1*	2.8	3.1	3.2	3.6	4.1	1.5	1.9	2.3	2.6	3.1
Q2	...	2.6	2.5	2.5	4.0	1.9	1.3	1.8	1.7	3.1

GROSS DOMESTIC PRODUCT
Annual percentage changes



GROSS DOMESTIC PRODUCT
Annual percentage changes



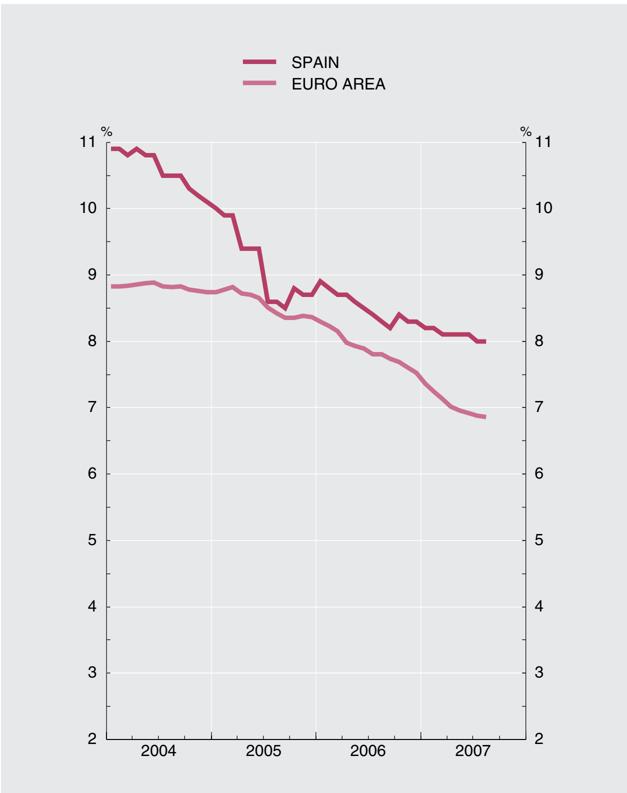
Sources: ECB, INE and OECD.
Note: The underlying series for this indicator are in Table 26.2 of the BE Boletín Estadístico.

2.2. INTERNATIONAL COMPARISON. UNEMPLOYMENT RATES

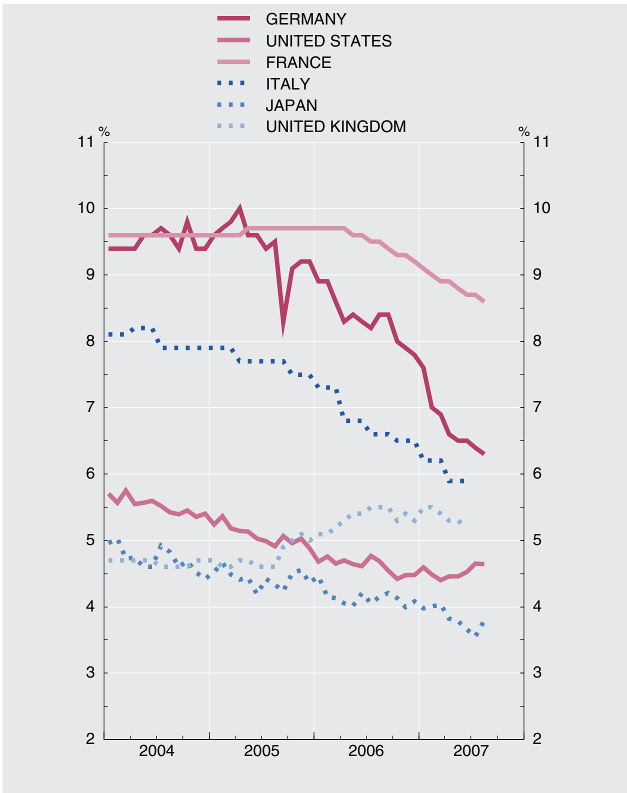
■ Series depicted in chart. *Percentages*

	OECD 1	EU-15 2	Euro area 3 ■	Germany 4 ■	Spain 5 ■	United States 6 ■	France 7 ■	Italy 8 ■	Japan 9 ■	United Kingdom 10 ■
04	6.9	8.0	8.8	9.5	10.6	5.5	9.6	8.0	4.7	4.7
05	6.6	7.9	8.6	9.4	9.2	5.1	9.7	7.7	4.4	4.8
06	6.0	7.4	7.9	8.3	8.5	4.6	9.5	6.8	4.1	5.3
06 *Mar*	6.2	7.6	8.2	8.6	8.7	4.7	9.7	7.3	4.1	5.2
Apr	6.1	7.5	8.0	8.3	8.7	4.7	9.7	6.8	4.1	5.3
May	6.0	7.4	7.9	8.4	8.6	4.6	9.6	6.8	4.0	5.4
Jun	6.0	7.4	7.9	8.3	8.5	4.6	9.6	6.8	4.2	5.4
Jul	6.0	7.3	7.8	8.2	8.4	4.8	9.5	6.6	4.1	5.5
Aug	6.0	7.3	7.8	8.4	8.3	4.7	9.5	6.6	4.2	5.5
Sep	5.9	7.3	7.7	8.4	8.2	4.6	9.4	6.6	4.2	5.5
Oct	5.8	7.2	7.7	8.0	8.4	4.4	9.3	6.5	4.1	5.3
Nov	5.8	7.1	7.6	7.9	8.3	4.5	9.3	6.5	4.0	5.4
Dec	5.7	7.1	7.5	7.8	8.3	4.5	9.2	6.5	4.1	5.3
07 *Jan*	5.7	7.0	7.4	7.6	8.2	4.6	9.1	6.2	4.0	5.5
Feb	5.6	6.9	7.2	7.0	8.2	4.5	9.0	6.2	4.0	5.5
Mar	5.5	6.8	7.1	6.9	8.1	4.4	8.9	6.2	4.0	5.4
Apr	5.5	6.7	7.0	6.6	8.1	4.5	8.9	5.9	3.8	5.3
May	5.4	6.6	7.0	6.5	8.1	4.5	8.8	5.9	3.8	5.3
Jun	5.4	6.6	6.9	6.5	8.1	4.5	8.7	5.9	3.7	5.2
Jul	5.4	6.5	6.9	6.4	8.0	4.7	8.7	...	3.6	...
Aug	5.4	6.5	6.9	6.3	8.0	4.6	8.6	...	3.8	...

UNEMPLOYMENT RATES



UNEMPLOYMENT RATES



Sources: ECB and OECD.

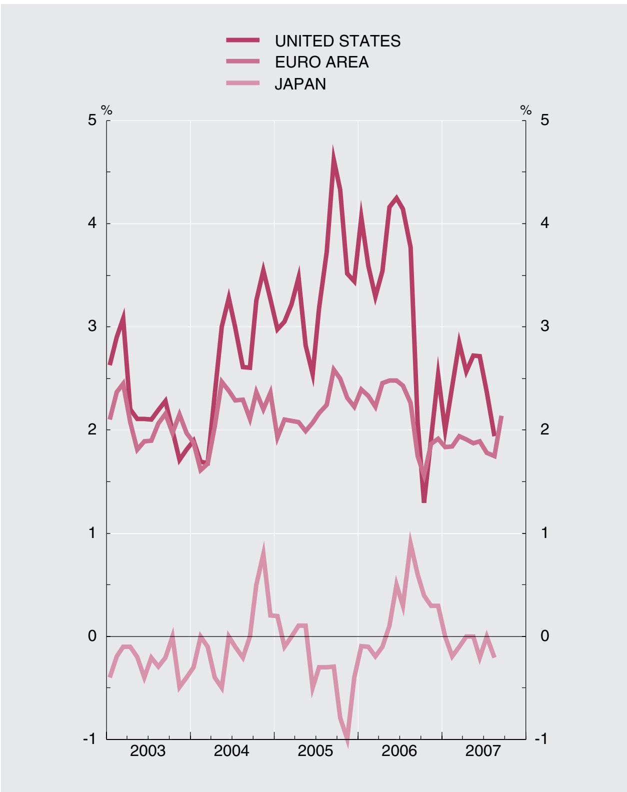
2.3. INTERNATIONAL COMPARISON. CONSUMER PRICES (a)

■ Series depicted in chart.

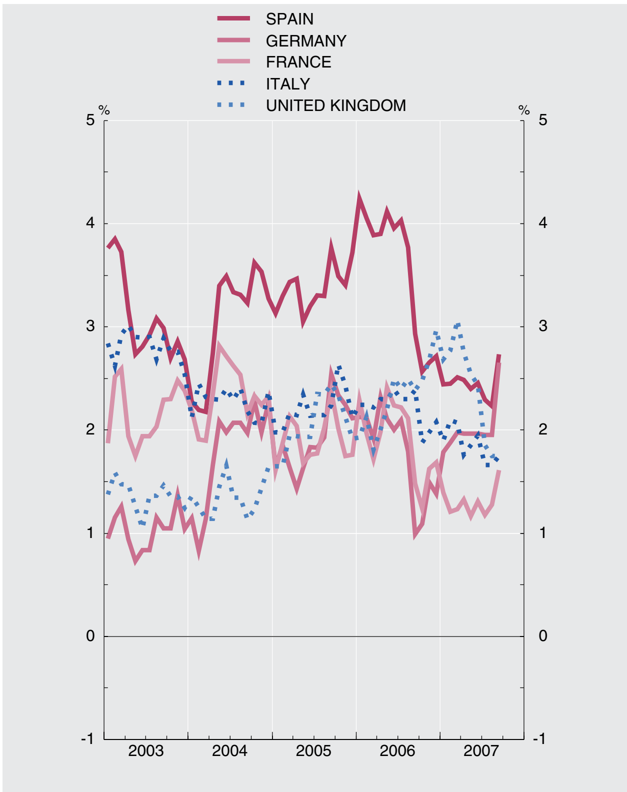
Annual percentage changes

	OECD 1	EU-15 2	Euro area 3 ■	Germany 4 ■	Spain 5 ■	United States 6 ■	France 7 ■	Italy 8 ■	Japan 9 ■	United Kingdom 10 ■
03	2.3	2.0	2.1	1.0	3.1	2.3	2.2	2.8	-0.2	1.4
04	2.3	2.0	2.1	1.8	3.1	2.7	2.3	2.3	-0.0	1.3
05	2.5	2.1	2.2	1.9	3.4	3.4	1.9	2.2	-0.3	2.1
06	2.6	2.2	2.2	1.8	3.6	3.2	1.9	2.2	0.2	2.3
06 *Apr*	2.6	2.4	2.5	2.3	3.9	3.5	2.0	2.3	-0.1	2.0
May	3.0	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	3.0	2.4	2.4	2.1	4.0	4.1	2.2	2.3	0.3	2.4
Aug	2.9	2.3	2.3	1.8	3.8	3.8	2.1	2.3	0.9	2.5
Sep	2.1	1.8	1.7	1.0	2.9	2.1	1.5	2.4	0.6	2.4
Oct	1.7	1.7	1.6	1.1	2.6	1.3	1.2	1.9	0.4	2.5
Nov	2.0	2.0	1.9	1.5	2.7	1.9	1.6	2.0	0.3	2.7
Dec	2.2	2.1	1.9	1.4	2.7	2.5	1.7	2.1	0.3	3.0
07 *Jan*	1.9	...	1.8	1.8	2.4	2.0	1.4	1.9	-	2.7
Feb	2.1	...	1.8	1.9	2.5	2.4	1.2	2.1	-0.2	2.8
Mar	2.4	...	1.9	2.0	2.5	2.8	1.2	2.1	-0.1	3.1
Apr	2.2	...	1.9	2.0	2.5	2.6	1.3	1.8	-	2.8
May	2.3	...	1.9	2.0	2.4	2.7	1.2	1.9	-	2.5
Jun	2.2	...	1.9	2.0	2.5	2.7	1.3	1.9	-0.2	2.4
Jul	2.0	...	1.8	2.0	2.3	2.4	1.2	1.7	-	1.9
Aug	1.9	...	1.7	2.0	2.2	1.9	1.3	1.7	-0.2	1.7
Sep	...	...	2.1	2.7	2.7	...	1.6	1.7	...	1.7

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.

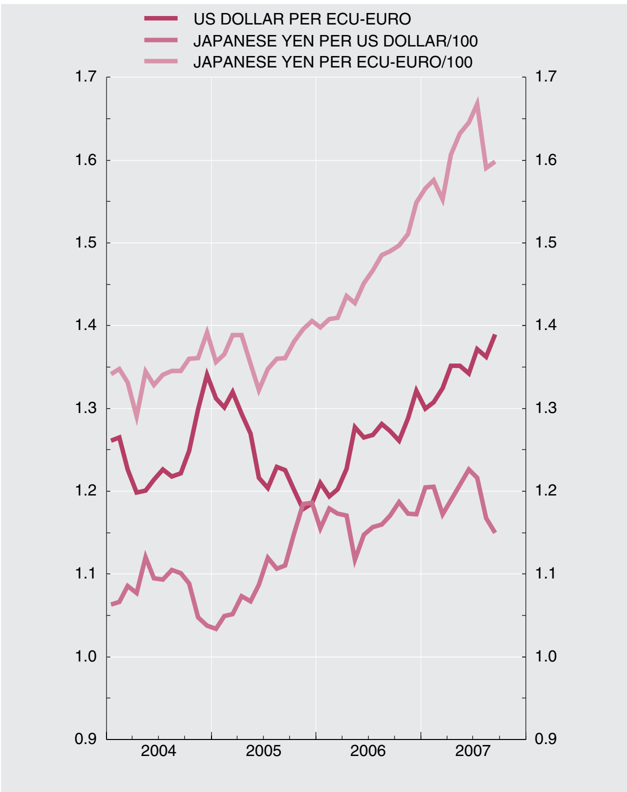
2.4. BILATERAL EXCHANGE RATES AND NOMINAL AND REAL EFFECTIVE EXCHANGE RATE INDICES FOR THE EURO, US DOLLAR AND JAPANESE YEN

■ Series depicted in chart.

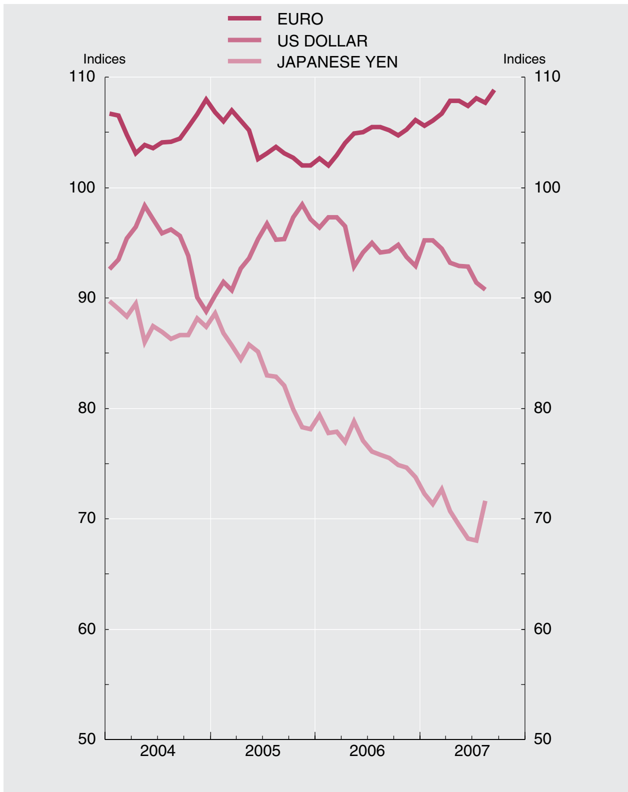
Average of daily data

	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
04	1.2433	134.41	108.18	104.3	89.5	101.8	105.1	94.5	87.7	104.2	95.2	87.2
05	1.2445	136.88	110.17	103.3	87.8	99.7	104.2	94.5	83.4	102.5	96.3	83.5
06	1.2561	146.09	116.32	103.6	86.9	93.7	104.5	94.9	76.5	102.9	96.2	78.0
06 *J-S*	1.2446	144.15	115.85	103.3	87.1	94.5	104.2	95.3	77.3	102.5	96.8	78.5
07 *J-S*	1.3446	160.40	119.31	106.7	84.0	88.4	107.4	93.2	70.5	104.7	94.2	72.7
06 *Jul*	1.2684	146.70	115.66	104.5	86.2	93.9	105.5	95.0	76.1	103.9	95.9	77.6
Aug	1.2811	148.53	115.94	104.6	85.6	93.1	105.5	94.1	75.8	103.8	95.4	77.1
Sep	1.2727	148.99	117.07	104.4	86.0	92.4	105.2	94.2	75.5	103.4	94.7	77.7
Oct	1.2611	149.65	118.67	103.9	86.9	91.6	104.7	94.8	74.9	103.4	95.3	77.0
Nov	1.2881	151.11	117.31	104.5	86.0	91.8	105.3	93.7	74.7	103.9	94.6	76.9
Dec	1.3213	154.82	117.18	105.5	85.3	90.8	106.1	92.9	73.8	104.9	93.8	75.9
07 *Jan*	1.2999	156.56	120.45	104.9	87.0	89.0	105.6	95.2	72.3	104.4	95.2	74.3
Feb	1.3074	157.60	120.55	105.4	86.7	88.8	106.1	95.2	71.3	104.6	95.3	73.6
Mar	1.3242	155.24	117.23	106.1	85.7	90.9	106.7	94.5	72.7	104.6	95.0	74.8
Apr	1.3516	160.68	118.88	107.1	84.4	88.6	107.8	93.2	70.7	105.0	94.2	72.8
May	1.3511	163.22	120.80	107.3	83.9	87.1	107.9	92.9	69.4	104.5	94.5	71.4
Jun	1.3419	164.55	122.63	106.9	83.6	85.9	107.4	92.8	68.2	104.2	94.2	70.5
Jul	1.3716	166.76	121.59	107.6	82.2	85.6	108.1	91.4	68.0	104.6	93.2	70.3
Aug	1.3622	159.05	116.75	107.1	82.0	89.7	107.7	90.8	71.6	104.6	92.0	74.1
Sep	1.3896	159.82	115.01	108.2	80.3	90.2	108.9	...	...	105.6	...	...

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 (until 1999) and 1999-2001 (since 1999) 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.

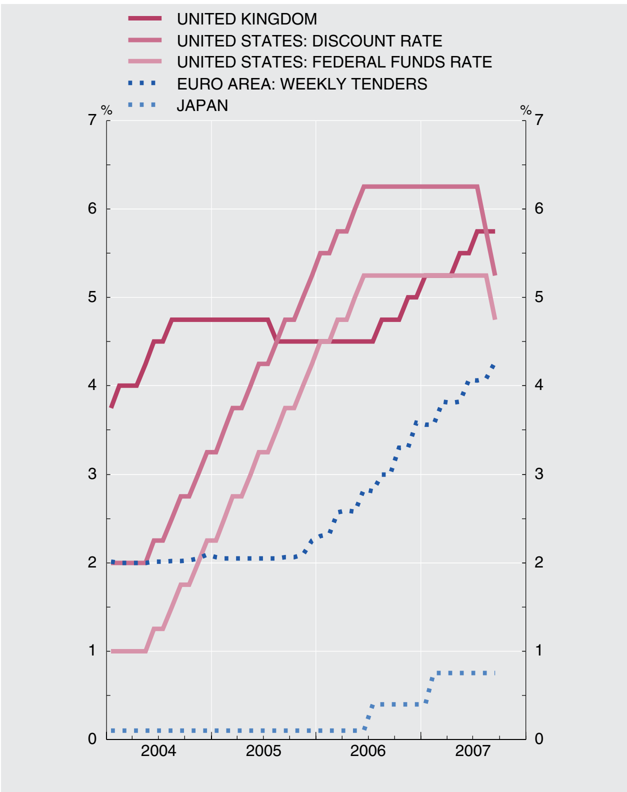
b. Obtained by multiplying the relative prices of each area/country (relation betwen its price index and the price index of the group) by the nominal effective exchange rate. A decline in the index denotes a depreciation of the real effective exchange rate and, may be interpreted as an improvement in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

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

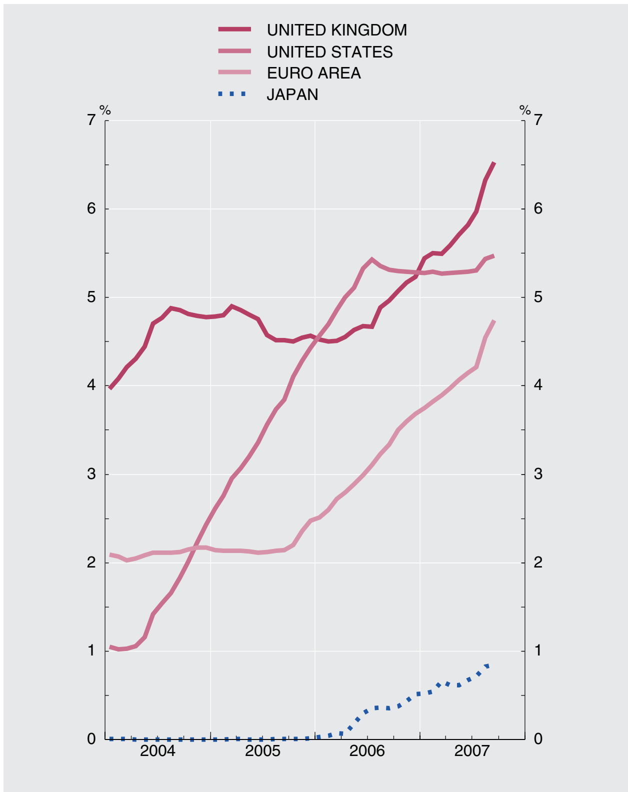
■ Series depicted in chart. *Percentages*

	Official intervention interest rates					3-month interbank rates									
	Euro area	United States		Japan	United Kingdom	OECD	EU-15	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
		Discount rate (b)	Federal funds rate												
	(a)			(c)	(d)										
	1 ■	2 ■	3 ■	4 ■	5 ■	6	7	8 ■	9	10	11 ■	12	13	14 ■	15 ■
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
06	3.50	6.25	5.02	0.40	5.00	3.61	3.32	3.08	-	-	5.13	-	-	0.26	4.78
06 *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
Oct	3.25	6.25	5.25	0.40	4.75	3.87	3.72	3.50	-	-	5.30	-	-	0.37	5.08
Nov	3.25	6.25	5.25	0.40	5.00	3.91	3.82	3.60	-	-	5.29	-	-	0.44	5.16
Dec	3.50	6.25	5.25	0.40	5.00	3.95	3.90	3.68	-	-	5.28	-	-	0.51	5.23
07 *Jan*	3.50	6.25	5.25	0.40	5.25	3.99	4.00	3.75	-	-	5.28	-	-	0.52	5.44
Feb	3.50	6.25	5.25	0.75	5.25	4.03	4.06	3.82	-	-	5.29	-	-	0.54	5.50
Mar	3.75	6.25	5.25	0.75	5.25	4.06	4.12	3.89	-	-	5.27	-	-	0.66	5.49
Apr	3.75	6.25	5.25	0.75	5.25	4.09	4.21	3.98	-	-	5.28	-	-	0.62	5.59
May	3.75	6.25	5.25	0.75	5.50	4.13	4.30	4.07	-	-	5.28	-	-	0.62	5.71
Jun	4.00	6.25	5.25	0.75	5.50	4.18	4.39	4.15	-	-	5.29	-	-	0.67	5.82
Jul	4.00	6.25	5.25	0.75	5.75	4.24	4.47	4.22	-	-	5.31	-	-	0.72	5.97
Aug	4.00	5.75	5.25	0.75	5.75	4.45	4.79	4.54	-	-	5.44	-	-	0.82	6.33
Sep	4.00	5.25	4.75	0.75	5.75	4.55	4.99	4.74	-	-	5.47	-	-	0.85	6.53

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

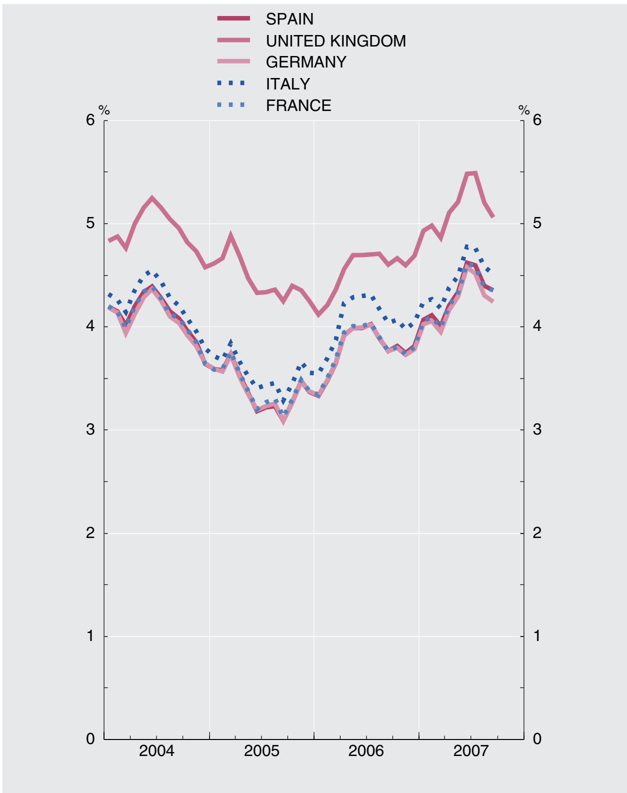
■ Series depicted in chart.

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 ■
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
06	3.99	3.95	3.86	3.78	3.79	4.85	3.80	4.05	1.75	4.55
06 *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
Oct	3.98	3.99	3.88	3.80	3.81	4.78	3.81	4.07	1.76	4.67
Nov	3.89	3.91	3.80	3.73	3.75	4.66	3.74	3.97	1.70	4.60
Dec	3.88	3.98	3.90	3.79	3.82	4.60	3.80	4.04	1.64	4.69
07 *Jan*	4.08	4.22	4.10	4.03	4.07	4.81	4.06	4.24	1.71	4.93
Feb	4.08	4.25	4.12	4.05	4.11	4.79	4.10	4.27	1.71	4.98
Mar	3.96	4.15	3.98	3.95	4.01	4.61	3.99	4.18	1.62	4.86
Apr	4.11	4.36	4.25	4.16	4.21	4.75	4.21	4.38	1.68	5.10
May	4.18	4.48	4.37	4.29	4.34	4.79	4.33	4.49	1.68	5.21
Jun	4.49	4.77	4.66	4.58	4.62	5.17	4.62	4.78	1.89	5.49
Jul	4.44	4.74	4.63	4.52	4.60	5.07	4.58	4.76	1.89	5.49
Aug	4.18	4.53	4.43	4.31	4.40	4.74	4.39	4.58	1.65	5.20
Sep	4.08	4.46	4.37	4.24	4.35	4.56	4.36	4.51	1.61	5.06

10-YEAR GOVERNMENT BOND YIELDS

10-YEAR GOVERNMENT BOND YIELDS



Sources: ECB, Reuters and BE.

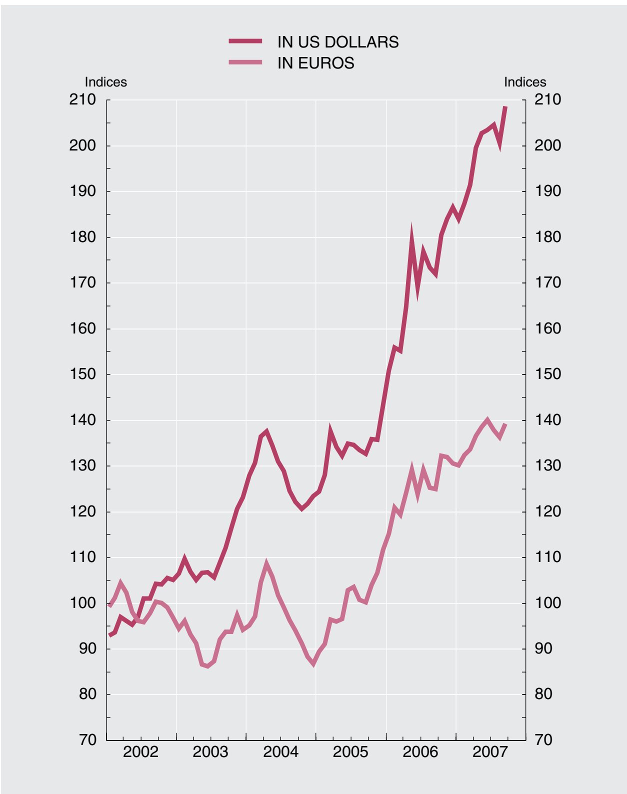
2.7 INTERNATIONAL MARKETS. NON-ENERGY COMMODITIES PRICE INDEX. CRUDE OIL AND GOLD PRICE.

■ Series depicted in chart.

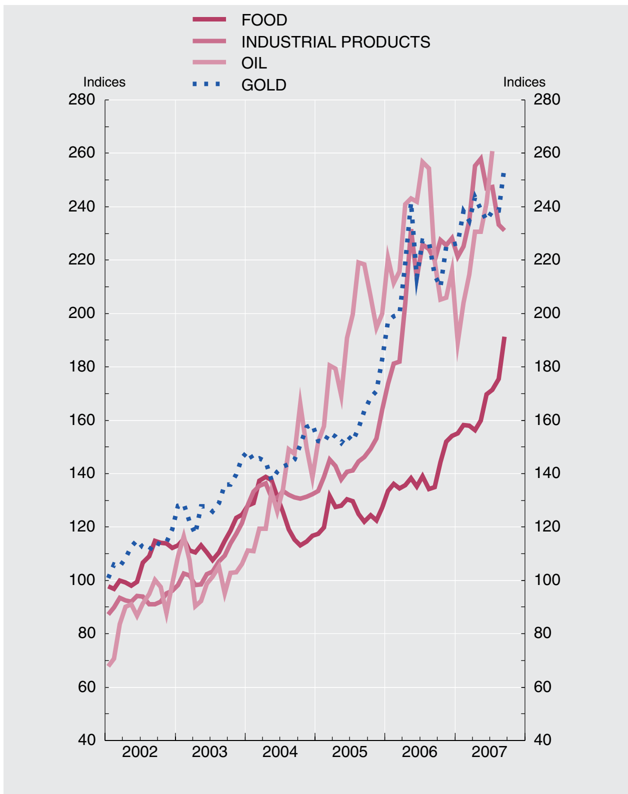
Base 2000 = 100

	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
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
06	125.6	170.8	139.3	211.6	147.3	246.4	227.8	64.9	216.7	604.6	15.45
06 *J-S*	123.6	166.4	135.7	206.3	150.6	236.4	234.1	66.7	215.5	601.3	15.50
07 *J-S*	136.1	198.1	166.2	239.3	158.7	283.3	...	67.6	238.7	665.9	15.92
06 *Aug*	125.3	173.4	134.3	224.1	150.4	264.0	254.3	72.9	226.8	632.6	15.85
Sep	125.0	172.0	134.9	219.9	139.1	264.0	219.5	61.2	214.4	598.2	15.12
Oct	132.2	180.5	144.2	227.5	137.4	276.6	205.2	57.3	210.0	585.8	14.93
Nov	132.0	184.1	152.0	225.6	135.0	274.9	205.9	58.5	225.1	627.8	15.66
Dec	130.6	186.6	154.1	228.2	139.9	276.9	216.1	62.8	225.8	629.9	15.32
07 *Jan*	130.2	183.9	155.2	221.2	150.9	259.7	189.1	53.6	226.2	631.2	15.62
Feb	132.3	187.3	158.2	225.1	156.2	262.6	203.9	57.6	238.3	664.7	16.34
Mar	133.7	191.5	158.0	234.7	154.3	278.6	214.6	62.3	234.8	654.9	15.90
Apr	136.6	199.5	156.4	255.3	158.6	308.0	230.6	67.8	243.5	679.4	16.15
May	138.5	202.7	159.9	258.0	160.0	311.4	230.6	67.4	239.0	666.9	15.87
Jun	140.1	203.5	169.8	247.0	163.7	292.4	241.5	71.8	235.0	655.5	15.70
Jul	137.8	204.6	171.5	247.4	161.9	294.0	260.9	77.9	238.4	665.0	15.59
Aug	136.3	200.6	175.4	233.2	160.4	273.0	...	71.7	238.5	665.4	15.70
Sep	139.3	208.7	191.4	231.0	162.1	268.7	...	78.2	255.0	711.3	16.47

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.

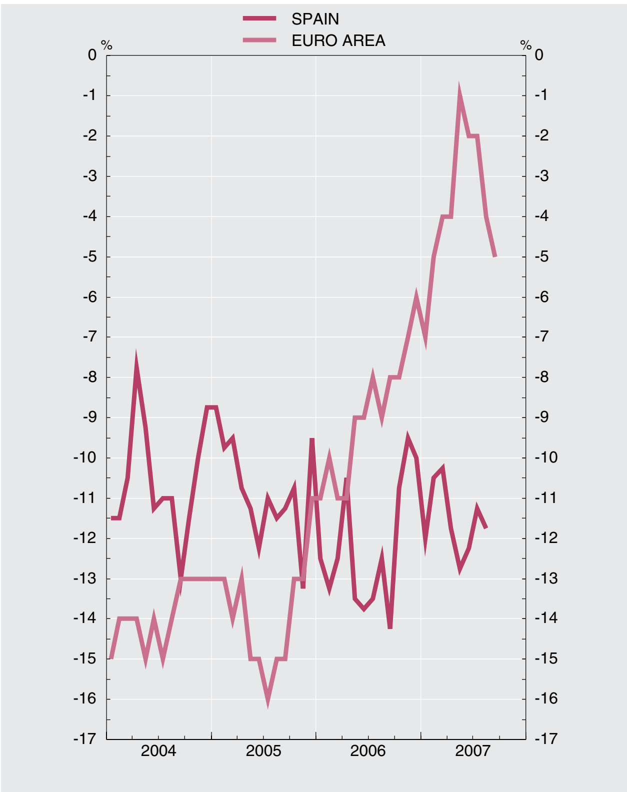
3.1 INDICATORS OF PRIVATE CONSUMPTION. SPAIN AND EURO AREA

■ Series depicted in chart.

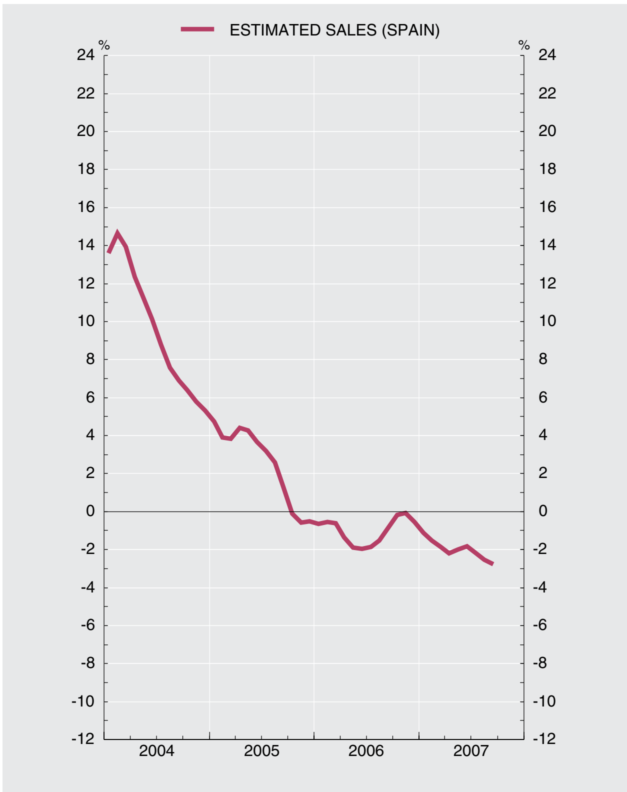
Annual percentage changes

		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
04		-11	-4	-1	-6	-14	-8	10.8	12.2	10.3	0.9	5.5	2.8	4.4	0.4	4.5	1.5
05		-11	-7	-1	-5	-14	-8	1.4	1.9	2.1	1.7	4.4	1.3	3.2	0.1	2.1	1.3
06	P	-12	-12	-3	-9	-9	1	-1.0	-0.8	-0.9	3.2	5.0	1.6	2.6	0.7	2.2	2.0
06 *J-S*	P	-13	-12	-3	-9	-10	-0	-1.6	-1.4	-1.7	2.4	5.0	1.1	2.9	0.4	1.6	2.0
07 *J-S*	A	...	...	...	-11	-4	1	-1.7	-2.5	-2.0	-1.1	...	...	...	...	...	...
06 *Oct*	P	-11	-10	-2	-7	-8	4	7.1	8.1	8.0	-0.4	4.2	2.3	-1.2	-1.2	4.6	1.6
Nov	P	-10	-9	-1	-11	-7	3	1.9	2.1	2.3	4.4	5.8	3.6	3.7	3.2	3.9	2.1
Dec	P	-10	-11	-2	-8	-6	-	-4.7	-6.3	-3.8	13.1	5.5	3.3	2.8	3.0	3.5	2.9
07 *Jan*	P	-12	-11	-2	-12	-7	-1	9.1	11.3	2.7	-2.9	6.2	4.6	1.7	3.2	5.5	0.9
Feb	P	-11	-10	-3	-10	-5	-1	-4.3	-4.7	-4.4	-3.7	5.3	3.6	2.9	1.8	4.8	1.2
Mar	P	-10	-8	-	-12	-4	-	-0.4	-6.6	-0.2	0.7	7.1	5.4	7.8	4.6	5.9	2.6
Apr	P	-12	-12	-3	-11	-4	-	-5.9	-2.2	-6.0	-5.8	3.1	1.5	-1.7	-0.4	2.8	1.6
May	P	-13	-10	-4	-8	-1	2	-0.3	-4.0	-0.2	-0.9	4.7	3.2	2.3	2.3	3.8	0.4
Jun	P	-12	-9	-3	-9	-2	2	-1.8	-4.7	-1.8	0.6	5.6	4.0	5.6	3.3	4.5	1.1
Jul	P	-11	-9	-2	-14	-2	3	-0.3	0.2	-0.0	0.8	4.7	3.4	1.4	0.7	5.2	1.3
Aug	P	-12	-10	-2	-7	-4	3	-4.2	-3.7	-2.7	0.6	5.5	4.3	2.4	2.3	5.6	0.7
Sep	A	...	...	...	-18	-5	-3	-8.3	-7.3	-7.7	0.3	...	...	...	...	...	...

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.

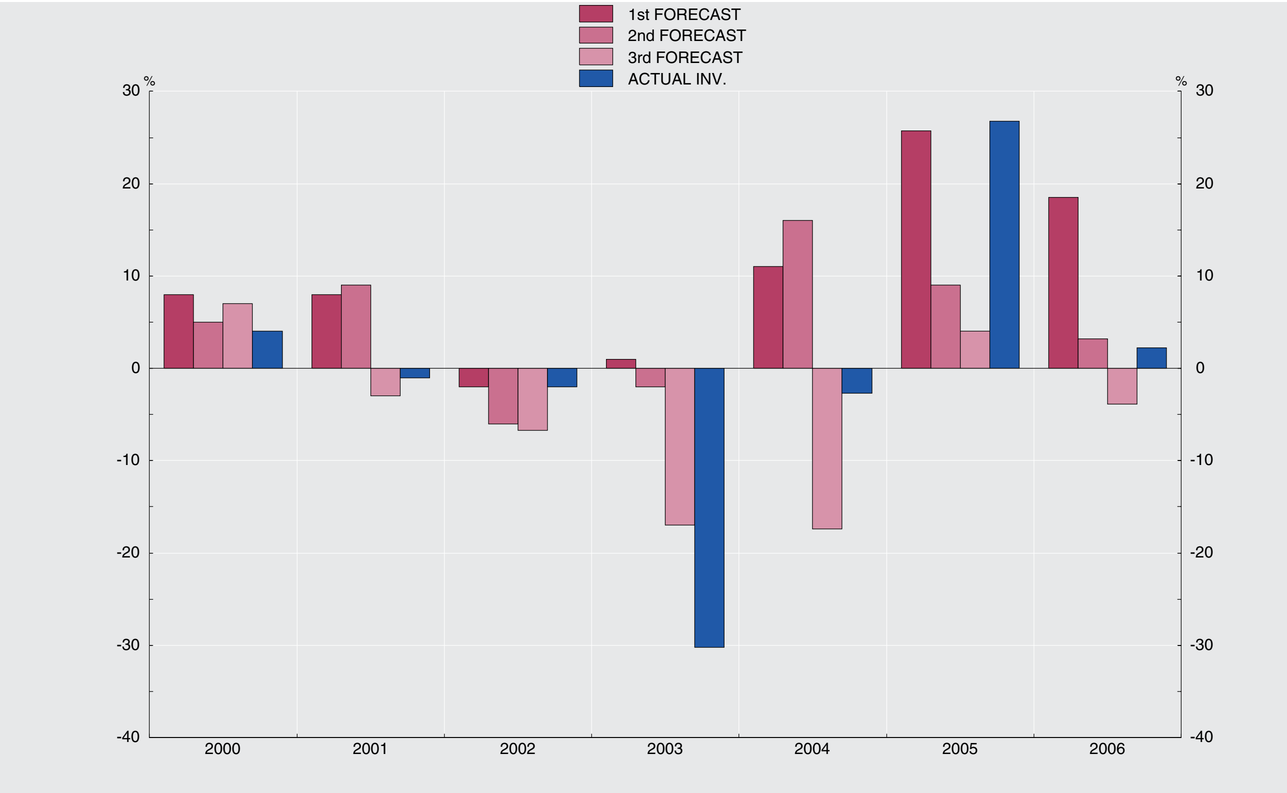
3.2. INVESTMENT IN INDUSTRY (EXCLUDING CONSTRUCTION): OPINION SURVEYS. SPAIN

■ Series depicted in chart.

Annual percentage changes at current prices

	ACTUAL INV. 1 ■	1st FORECAST 2 ■	2nd FORECAST 3 ■	3rd FORECAST 4 ■
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	2	19	3	-4
07	...	9	7	...

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.

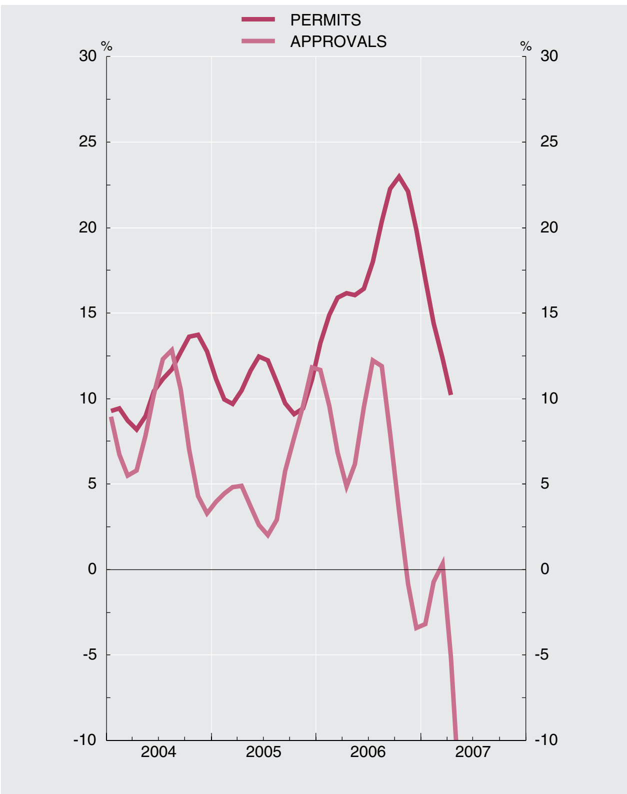
3.3. CONSTRUCTION. INDICATORS OF BUILDING STARTS AND CONSUMPTION OF CEMENT. SPAIN

■ Series depicted in chart.

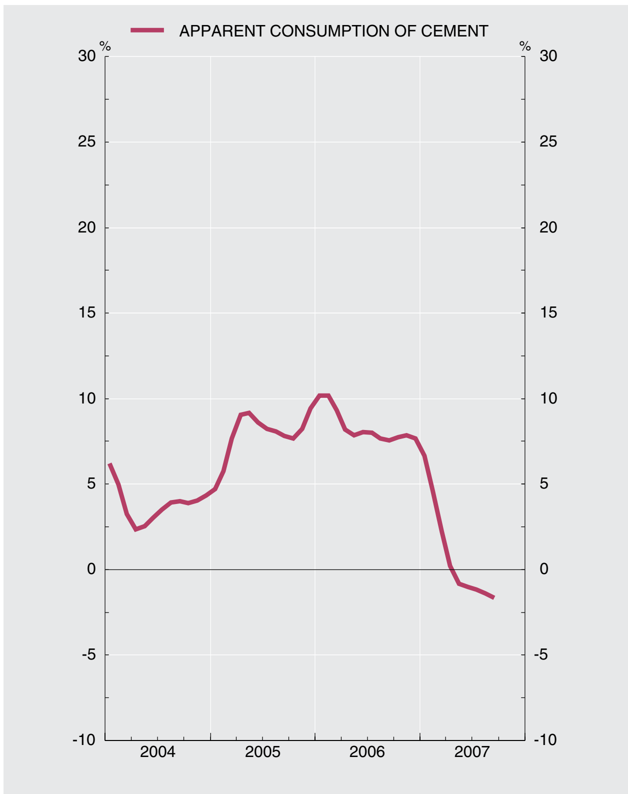
Annual percentage changes

		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	Residential	Housing (of which)	Non-residential	Civil engineering	
		1 ■	2	3	4	5 ■	6	7 ■	8	9	10	11	12	13	14 ■
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		7.7	8.4	8.6	4.4	5.3	4.8	18.5	18.5	40.4	14.7	30.2	51.1	10.7	7.3
06	P	22.0	20.1	20.4	31.9	14.2	16.5	31.3	31.3	26.9	61.8	57.3	15.9	33.3	8.5
06 *J-S*	P	17.5	15.5	15.8	27.4	19.7	23.0	23.1	23.1	32.9	58.4	85.0	24.3	18.9	8.5
07 *J-S*	A	...	...	...	...	...	...	...	...	...	...	...	...	...	0.6
06 *Jun*	P	1.6	4.6	3.9	-11.9	12.3	15.2	11.0	25.3	4.8	54.5	5.8	-3.4	14.8	10.8
Jul	P	9.9	10.2	10.3	8.7	13.5	20.6	0.7	21.3	-13.2	-47.7	4.5	7.3	8.7	9.4
Aug	P	28.3	22.5	24.4	65.7	34.1	36.8	31.1	22.9	44.2	18.5	44.5	58.2	26.9	6.3
Sep	P	28.7	30.4	31.0	19.5	83.9	93.7	25.3	23.1	70.1	184.8	179.7	41.0	10.9	1.7
Oct	P	46.3	42.5	42.7	67.5	18.3	20.1	58.0	26.7	37.2	164.2	32.5	10.1	66.7	13.1
Nov	P	36.1	31.4	32.0	63.0	-7.6	-8.5	45.1	28.3	-12.3	-19.5	-27.1	-10.4	100.1	7.1
Dec	P	20.6	23.0	23.7	9.9	-14.6	-16.4	61.3	31.3	25.9	120.0	21.3	-5.3	76.1	4.9
07 *Jan*	P	24.7	27.9	26.4	8.5	-1.4	-2.7	7.7	7.7	-16.9	-68.4	-16.2	33.2	19.8	15.1
Feb	P	-2.5	-2.3	-1.8	-3.6	-5.4	-5.3	56.3	23.1	95.3	2.6	22.5	139.0	32.1	4.0
Mar	P	24.2	18.7	19.3	47.9	23.8	27.8	3.0	15.2	9.8	-20.2	-24.2	27.7	-0.8	-0.5
Apr	P	6.4	14.2	14.3	-18.4	8.4	5.7	-12.1	7.7	-24.1	74.1	44.5	-37.3	-5.9	0.0
May	P	...	...	...	...	-19.0	-22.3	-9.3	3.0	-3.4	-46.1	-24.4	18.4	-11.4	-2.6
Jun	A	...	...	...	...	-25.2	-28.2	18.2	5.5	-1.0	-54.1	-35.6	12.9	29.1	-3.3
Jul	A	...	...	...	...	-33.9	-38.1	20.0	7.5	-24.3	-13.4	-51.0	-27.5	40.4	3.7
Aug	A	...	...	...	...	...	...	...	...	...	...	...	...	...	-2.7
Sep	A	...	...	...	...	...	...	...	...	...	...	...	...	...	-5.6

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

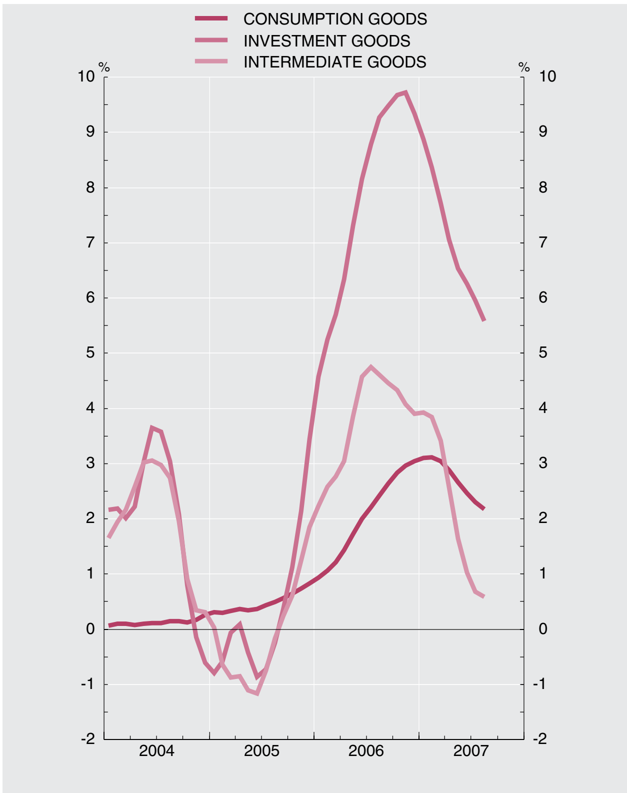
■ Series depicted in chart.

Annual percentage changes

		Overall Index		By end-use of goods				By branch of activity			Memorandum item: euro area				
		Total										of wich	By end-use of goods		
		Original series	12-month %change 12	Consum-ption	Investment	Inter-mediate goods	Energy	Mining and quarrying	Manufac-turing	Produc-tion and distribu-tion of electri-city, gas and water	Total	Manufac-turing	Consum-ption	Investment	Inter-mediate goods
		1	2 ■	3 ■	4 ■	5 ■	6	7	8	9	10 ■	11	12	13	14
04	M P	102.3	1.8	0.0	1.9	1.9	4.9	-4.8	1.2	7.0	2.2	2.2	0.6	3.4	2.4
05	M P	102.4	0.1	0.2	-0.7	-0.6	2.9	-4.0	-0.3	4.1	1.3	1.3	0.5	2.8	0.9
06	M P	106.2	3.7	2.1	8.2	3.8	0.9	2.4	4.0	1.1	4.0	4.4	2.5	5.8	5.0
06 *J-A*	M P	105.0	3.9	1.8	8.0	4.1	2.6	2.0	4.1	2.4	4.0	4.2	2.3	5.5	4.8
07 *J-A*	M P	108.3	3.1	3.3	7.2	2.5	-1.2	-0.2	3.7	-0.9	3.4	...	3.2	6.0	4.3
06 *May*	P	115.6	8.1	7.6	13.2	7.4	3.2	4.5	8.7	3.7	5.9	6.7	4.9	8.5	7.2
Jun	P	115.8	5.2	2.6	8.7	6.2	3.0	1.2	5.6	2.7	4.9	5.2	2.9	5.5	7.2
Jul	P	110.8	4.2	1.2	7.1	5.1	4.1	-7.3	3.9	7.2	3.6	3.9	1.5	4.4	5.2
Aug	P	79.8	5.0	2.0	14.0	5.2	3.3	-1.5	5.4	3.8	5.6	6.1	2.3	7.8	7.9
Sep	P	109.1	1.1	-0.5	3.4	1.5	0.1	-2.8	1.0	2.6	3.5	3.8	1.5	5.4	4.6
Oct	P	112.3	7.3	7.5	12.2	7.1	0.4	11.6	7.8	2.0	4.1	4.8	3.1	5.9	5.4
Nov	P	115.1	4.1	4.0	12.6	3.9	-6.8	1.0	5.5	-6.7	3.0	4.0	2.6	6.4	3.4
Dec	P	97.4	0.6	-0.8	6.6	0.5	-3.1	3.8	1.2	-3.0	5.0	6.1	4.3	7.5	7.8
07 *Jan*	P	109.6	7.5	8.4	13.6	7.9	-2.4	0.6	8.8	-1.7	3.2	5.6	4.5	7.0	5.4
Feb	P	106.5	3.6	3.6	10.3	4.1	-6.6	-9.4	5.1	-5.9	4.1	6.0	3.1	7.5	7.3
Mar	P	119.0	2.1	2.9	4.1	3.0	-4.2	-8.4	2.9	-2.0	4.2	5.7	4.4	6.7	6.6
Apr	P	102.8	6.3	6.2	8.6	4.7	7.8	0.7	6.1	9.0	2.9	3.9	2.9	5.2	3.7
May	P	118.0	2.1	2.6	4.0	0.1	3.9	-0.4	2.0	3.1	2.7	2.9	2.1	3.9	2.5
Jun	P	115.2	-0.5	-1.7	3.8	-1.4	-2.6	-2.0	-0.3	-1.9	2.3	2.6	1.2	4.5	2.5
Jul	P	114.7	3.5	4.4	10.4	2.3	-3.7	14.7	4.5	-4.5	3.9	4.6	2.8	7.1	3.8
Aug	P	80.3	0.6	0.6	2.7	-0.3	0.2	5.7	0.7	-0.6	4.3	...	5.0	6.5	3.2

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 indicator (a)	Production over the last three months	Trend in production (a)	Total orders (a)	Foreign orders	Stocks of finished products (a)	Business climate indicator: Consumption (a)	Business climate indicator: Investment (a)	Business climate indicator: Intermediate goods (a)	Business climate indicator: Other sectors (a)	Business climate indicator	Production	Orders	Trend: Production	Trend: Orders	Industry, excluding construction: Business climate indicator	Industry, excluding construction: Order Book	Construction climate indicator
	1 ■	2	3	4	5	6	7	8	9	10	11 ■	12	13	14	15	16 ■	17	18 ■
04 M	-3	4	10	-8	-17	11	-4	1	-5	-0	14	7	21	30	26	-5	-16	-12
05 M	-4	0	7	-9	-18	12	-1	-5	-6	1	22	31	35	30	22	-7	-17	-7
06 M	-2	7	6	-1	-11	12	-3	1	-3	-1	15	27	22	23	15	2	-	0
06 *J-S* M	-3	6	6	-2	-12	12	-4	-1	-3	-1	15	33	23	29	12	1	-2	-1
07 *J-S* M	-0	8	7	3	-6	10	-2	5	-1	-3	14	27	16	26	25	5	7	0
06 *Jun*	-0	10	9	1	-7	11	-2	1	0	-3	19	51	22	34	9	3	2	-1
Jul	-2	11	8	-2	-9	11	-2	-2	-1	-2	26	39	37	22	16	4	3	2
Aug	-3	12	2	-0	-9	12	-6	-5	-0	1	3	38	-1	7	3	3	3	2
Sep	-1	9	10	-0	-11	13	-1	3	-4	0	15	51	21	21	5	4	4	4
Oct	-1	10	7	1	-9	10	-5	6	-2	-3	7	10	13	12	3	5	5	3
Nov	-0	10	8	3	-10	13	-0	2	-1	-1	14	13	18	2	30	6	6	3
Dec	1	12	7	6	-9	9	-1	6	1	-2	17	9	32	7	38	6	8	2
07 *Jan*	1	3	8	6	-10	12	2	2	0	-1	10	19	9	28	8	5	6	1
Feb	0	5	8	4	-7	11	-1	4	0	-2	12	15	14	18	24	5	7	-
Mar	2	7	8	5	-8	9	-2	7	2	-4	13	6	9	52	44	6	8	-
Apr	-	9	4	5	-5	9	-3	3	1	-2	21	27	24	27	20	7	9	1
May	-1	9	6	1	-7	11	-3	4	-3	-1	17	39	19	26	17	6	8	-
Jun	0	14	9	1	-3	9	-2	7	-2	1	22	34	28	48	16	6	7	1
Jul	-0	13	5	2	-1	8	-1	8	-3	-4	20	53	25	19	29	5	6	-
Aug	-1	7	8	2	-8	14	-2	1	-2	-6	-	34	-4	19	47	5	7	-1
Sep	-1	6	5	1	-4	9	-4	7	-2	-7	14	17	21	-4	21	3	3	-

INDUSTRIAL BUSINESS CLIMATE
Percentage balances

CONSTRUCTION BUSINESS CLIMATE
Percentage balances

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

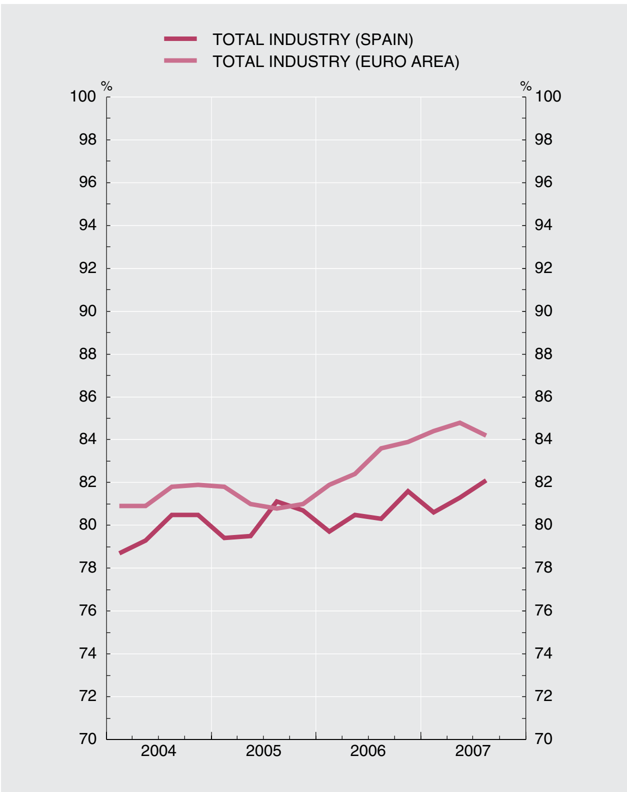
3.6. BUSINESS SURVEY: CAPACITY UTILISATION. SPAIN AND EURO AREA

■ Series depicted in chart.

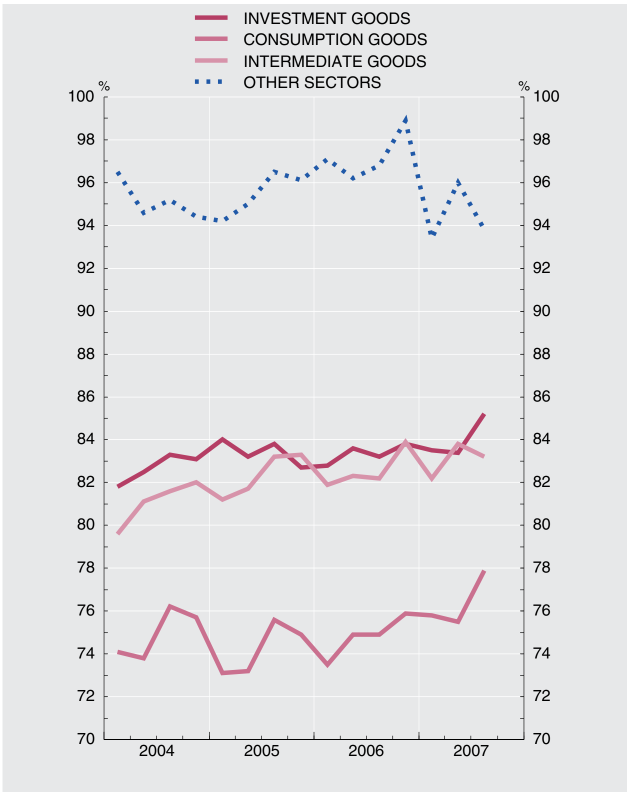
Percentages and percentage balances

	Total industry: Capacity utilisation: Over last three months (%)	Total industry: Capacity utilisation: Forecast (%)	Total industry: Installed capacity (Percentage balances)	Consumer goods: Capacity utilisation: Over last three months (%)	Consumer goods: Capacity utilisation: Forecast (%)	Consumer goods: Installed capacity (Percentage balances)	Investment goods: Capacity utilisation: Over last three months (%)	Investment goods: Capacity utilisation: Forecast (%)	Investment goods: Installed capacity (Percentage balances)	Intermediate goods: Capacity utilisation: Over last three months (%)	Intermediate goods: Capacity utilisation: Forecast (%)	Intermediate goods: Installed capacity (Percentage balances)	Other sectors: Capacity utilisation: Over last three months (%)	Other sectors: Capacity utilisation: Forecast (%)	Other sectors: Installed capacity (Percentage balances)	Memorandum item: euro area capacity utilisation (%)
	1 ■	2	3	4 ■	5	6	7 ■	8	9	10 ■	11	12	13 ■	14	15	16 ■
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
06	80.5	81.6	4	74.8	76.5	4	83.4	83.8	7	82.6	83.5	4	97.3	97.5	-	83.0
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
07 *Q1-Q3*	81.3	82.6	2	76.4	78.2	5	84.0	84.8	-2	83.1	84.3	1	94.4	95.3	-	84.5
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	-	83.6
Q4	81.6	82.4	2	75.9	76.5	3	83.8	84.8	5	83.9	84.8	-0	98.9	98.4	-	83.9
07 *Q1*	80.6	81.7	2	75.8	77.2	4	83.5	83.8	1	82.2	83.4	1	93.4	95.9	-	84.4
Q2	81.3	82.8	3	75.5	78.1	6	83.4	84.0	2	83.8	85.2	2	96.0	95.3	-	84.8
Q3	82.1	83.3	1	77.9	79.4	5	85.2	86.5	-7	83.2	84.2	1	93.8	94.6	-	84.2

CAPACITY UTILISATION. TOTAL INDUSTRY
Percentages



CAPACITY UTILISATION. BY TYPE OF GOOD
Percentages



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

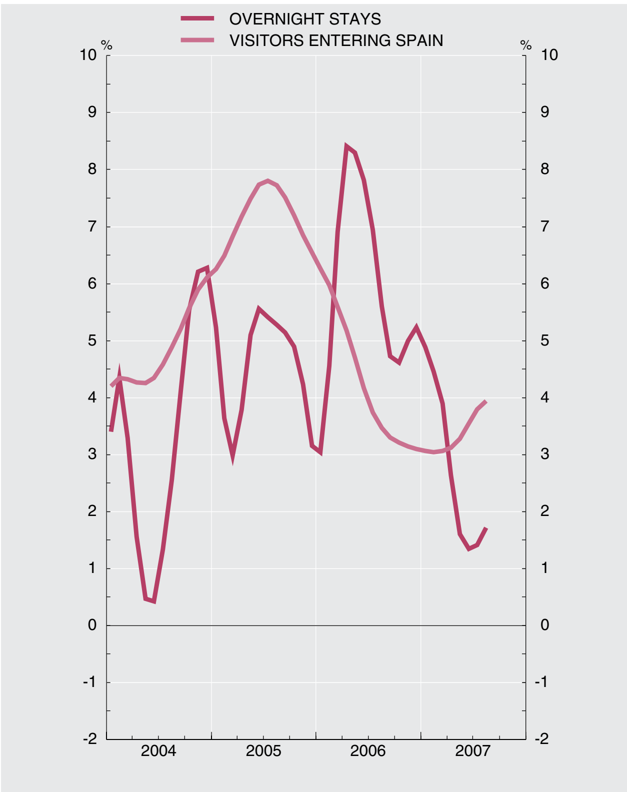
3.7. TOURISM AND TRANSPORT STATISTICS. SPAIN

■ Series depicted in chart.

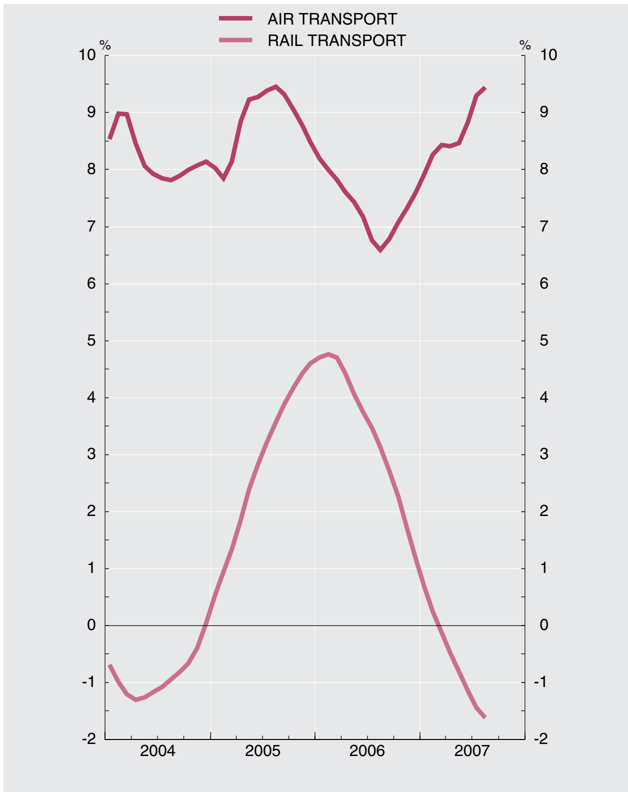
Annual percentage changes

		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
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		5.7	5.1	4.7	3.1	7.7	6.6	9.2	9.2	13.6	6.2	-3.0	-1.1	9.0	4.3	-2.5
06	P	5.9	6.2	6.2	6.5	3.7	4.0	3.3	6.7	6.7	6.8	-4.5	10.2	1.3	2.0	-3.1
06 *J-A*	P	6.6	7.8	7.1	8.3	3.9	4.4	3.2	6.7	6.2	7.0	-6.6	8.3	4.1	2.0	1.3
07 *J-A*	P	3.4	3.7	2.1	2.1	3.6	2.2	5.7	9.1	9.6	8.7	5.5	...	...	-0.8	-1.0
06 *May*		4.5	8.4	5.7	8.9	7.3	7.2	7.5	6.9	5.4	8.0	-6.3	-2.4	5.2	1.7	7.9
Jun		8.0	11.4	9.9	12.0	0.7	5.3	-7.7	9.0	7.3	10.1	-6.8	14.1	-0.4	0.4	-0.2
Jul		4.8	6.1	8.6	10.4	-1.3	1.1	-5.8	4.0	1.7	5.5	-2.8	11.9	3.9	5.0	1.9
Aug	P	4.5	4.9	4.4	4.6	2.2	1.5	3.3	3.9	2.5	4.8	-2.5	9.5	3.5	2.0	6.2
Sep	P	3.4	2.6	2.8	2.6	3.2	4.9	0.1	6.0	4.3	7.2	-3.3	10.6	4.4	0.5	-12.3
Oct	P	4.8	2.8	3.9	1.3	2.9	3.6	1.6	6.4	8.7	4.8	-3.9	15.0	10.5	5.8	-13.6
Nov	P	4.8	2.7	5.5	4.0	3.4	1.4	6.0	6.6	8.3	5.0	2.4	7.7	-40.0	1.9	-7.5
Dec	P	5.4	1.7	7.0	4.6	4.1	1.8	6.7	9.2	10.2	8.3	3.2	29.8	8.1	-0.1	-10.0
07 *Jan*	P	5.1	8.3	3.4	4.9	3.9	4.0	3.8	6.7	6.2	7.2	5.6	5.3	0.3	-0.0	-2.0
Feb	P	3.8	7.4	3.2	5.4	1.3	4.4	-2.6	9.1	8.9	9.4	6.5	5.6	6.9	-2.0	-3.7
Mar	P	7.5	8.6	6.9	7.9	6.6	6.9	6.1	12.0	10.7	13.2	1.3	17.3	1.7	5.6	4.0
Apr	P	1.8	1.7	2.9	2.0	-0.8	-3.5	3.5	6.1	7.6	5.0	4.2	-0.8	4.3	0.8	8.5
May	P	0.7	-0.6	-0.7	-1.0	-3.0	-1.4	-6.0	6.8	8.4	5.6	9.1	18.9	7.7	-0.7	-4.3
Jun	P	5.4	3.5	2.2	0.5	7.9	4.8	14.3	8.8	9.6	8.3	7.6	13.9	3.0	-2.0	-5.1
Jul	P	1.7	1.7	1.1	1.0	5.1	1.8	11.4	11.6	14.3	10.0	3.4	1.4	3.6	-1.9	2.5
Aug	P	3.6	5.3	1.3	2.7	5.9	3.0	9.7	10.5	10.0	10.9	6.7	...	...	-7.9	-6.6

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			Participation rate (%) (a)	Labour force				
						Annual change (b)			
	Thousands	Annual change	4-quarter % change		Thousands (a)	Total	Due to change in population over 16 years of age	Due to change in partici-pation rate	4-quarter % change
	1	2	3 ■	4	5	6 ■	7 ■	8 ■	9 ■
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
06 M	37 008	592	1.6	58.33	21 585	699	345	354	3.3
06 *Q1-Q2* M	36 866	605	1.7	58.14	21 433	1 435	703	732	3.5
07 *Q1-Q2* M	37 510	645	1.7	58.72	22 026	1 187	757	430	2.8
04 *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
Q3	37 065	575	1.6	58.44	21 661	705	336	368	3.4
Q4	37 236	583	1.6	58.58	21 812	657	342	315	3.1
07 *Q1*	37 429	629	1.7	58.58	21 925	589	368	221	2.8
Q2	37 592	661	1.8	58.86	22 127	597	389	208	2.8

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.

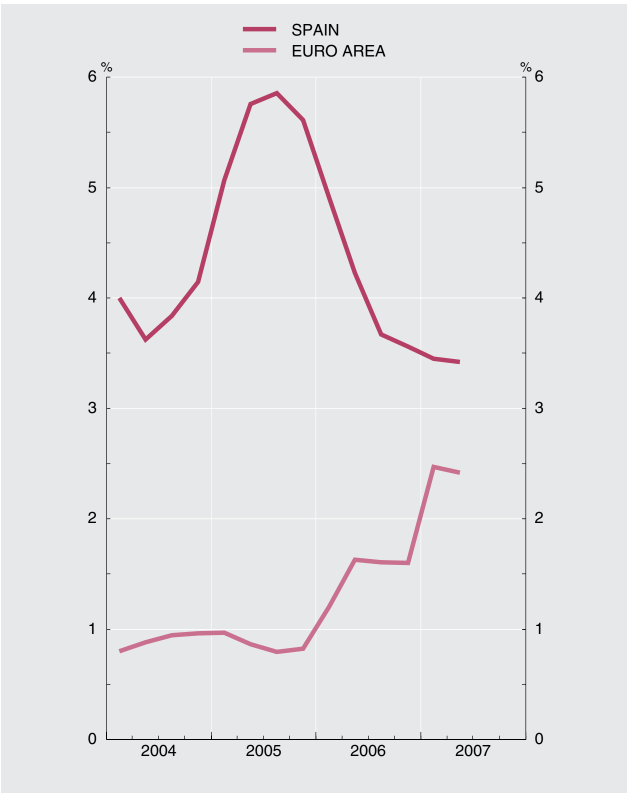
4.2. EMPLOYMENT AND WAGE-EARNERS. SPAIN AND EURO AREA

■ Series depicted in chart.

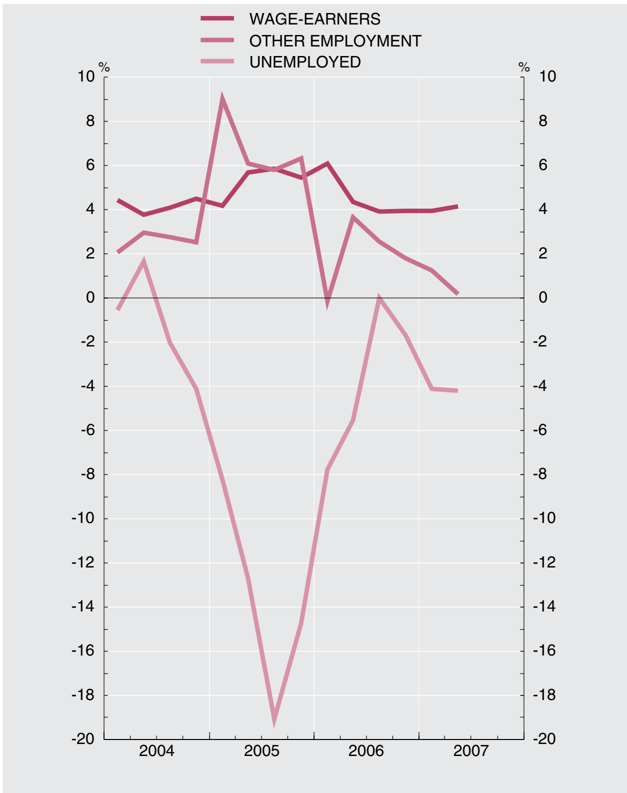
Thousands and annual percentage changes

	Employment: Total: Thousands	Employment: Total: Annual change	Employment: Total: 4-quarter % change	Employment: Wage-earners: Thousands	Employment: Wage-earners: Annual change	Employment: Wage-earners: 4-quarter % change	Employment: Other: Thousands	Employment: Other: Annual change	Employment: Other: 4-quarter % change	Unemployment: Thousands (a)	Unemployment: Annual change	Unemployment: 4-quarter % change	Unem-ployment rate (a)	Memorandum item: euro area: Employ-ment 4-quarter % change	Memorandum item: euro area: Unem-ployment rate
	1	2	3 ■	4	5	6 ■	7	8	9 ■	10	11	12 ■	13	14	15
04 M	17 971	675	3.9	14 721	593	4.2	3 250	82	2.6	2 214	-29	-1.3	10.97	0.9	8.82
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	0.9	8.57
06 M	19 748	774	4.1	16 208	706	4.6	3 540	68	2.0	1 837	-75	-3.9	8.51	1.5	7.89
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	1.4	8.08
07 *Q1-Q2* M	20 218	672	3.4	16 647	647	4.0	3 571	25	0.7	1 808	-78	-4.2	8.21	2.4	7.10
04 *Q4*	18 288	728	4.1	15 022	648	4.5	3 266	81	2.5	2 159	-93	-4.1	10.56	1.0	8.76
05 *Q1*	18 493	892	5.1	14 977	602	4.2	3 516	291	9.0	2 099	-188	-8.2	10.19	1.0	8.78
Q2	18 895	1 029	5.8	15 440	831	5.7	3 455	198	6.1	1 945	-282	-12.7	9.33	0.9	8.69
Q3	19 191	1 062	5.9	15 750	874	5.9	3 442	188	5.8	1 765	-416	-19.1	8.42	0.8	8.43
Q4	19 314	1 026	5.6	15 842	819	5.5	3 473	207	6.3	1 841	-318	-14.7	8.70	0.8	8.36
06 *Q1*	19 400	907	4.9	15 889	912	6.1	3 511	-5	-0.1	1 936	-163	-7.8	9.07	1.2	8.23
Q2	19 693	798	4.2	16 112	671	4.3	3 582	127	3.7	1 837	-108	-5.5	8.53	1.6	7.93
Q3	19 896	705	3.7	16 366	616	3.9	3 530	88	2.6	1 765	-	-	8.15	1.6	7.78
Q4	20 002	688	3.6	16 466	625	3.9	3 536	63	1.8	1 811	-31	-1.7	8.30	1.6	7.60
07 *Q1*	20 069	669	3.4	16 515	626	3.9	3 555	44	1.2	1 856	-80	-4.1	8.47	2.5	7.24
Q2	20 367	674	3.4	16 779	668	4.1	3 588	6	0.2	1 760	-77	-4.2	7.95	2.4	6.96

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.

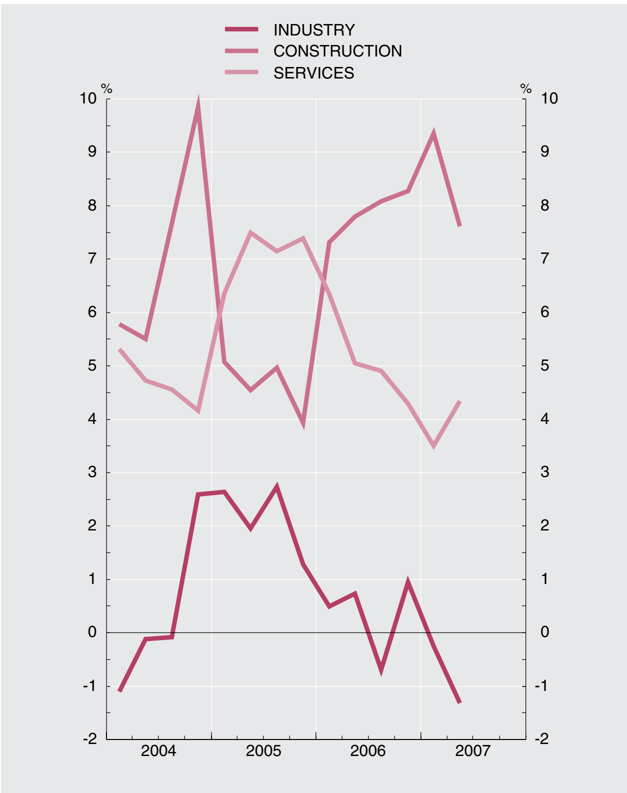
4.3. EMPLOYMENT BY BRANCH OF ACTIVITY. SPAIN (a)

■ Series depicted in chart.

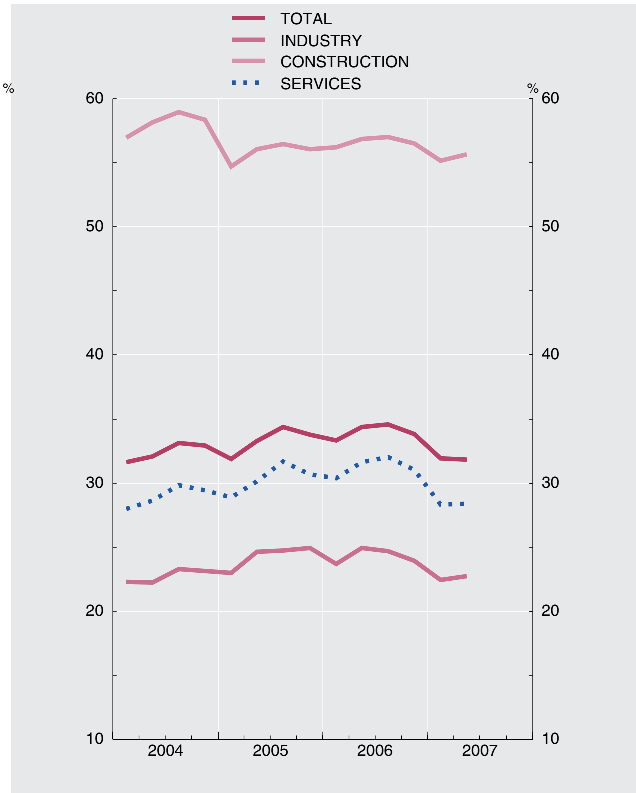
Annual percentage changes

	Total			Agriculture			Industry			Construction			Services			Memorandum item: employment in		
	Employment	Wage-earners	Proportion of temporary employment	Employment	Wage-earners	Proportion of temporary employment	Employment	Wage-earners	Proportion of temporary employment	Employment	Wage-earners	Proportion of temporary employment	Employment	Wage-earners	Proportion of temporary employment	Branches other than agriculture	Branches other than agriculture excluding general government	Services excluding general government
	1	2	3 ■	4	5	6	7 ■	8	9 ■	10 ■	11	12 ■	13 ■	14	15 ■	16	17	18
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	...	...
06 M	4.1	4.6	34.0	-5.6	-1.4	59.3	0.4	0.5	24.3	7.9	8.1	56.6	5.1	5.3	31.3	4.6	...	...
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	...	...
07 *Q1-Q2* M	3.4	4.0	-5.8	-1.6	4.0	1.4	-0.8	-0.6	-7.2	8.5	9.6	-2.0	3.9	4.3	-8.5	3.8	...	...
04 *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	...	...
Q3	3.7	3.9	34.6	-8.0	-6.1	57.4	-0.7	-0.6	24.7	8.1	8.3	57.0	4.9	4.8	32.0	4.3	...	...
Q4	3.6	3.9	33.8	-8.4	-7.2	59.2	1.0	0.9	24.0	8.3	8.2	56.5	4.3	4.5	31.0	4.2	...	...
07 *Q1*	3.4	3.9	32.0	0.5	7.3	63.3	-0.3	-0.3	22.4	9.4	10.0	55.1	3.5	3.8	28.4	3.6	...	...
Q2	3.4	4.1	31.8	-3.8	0.5	58.7	-1.3	-1.0	22.7	7.6	9.2	55.6	4.3	4.8	28.4	3.8	...	...

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.

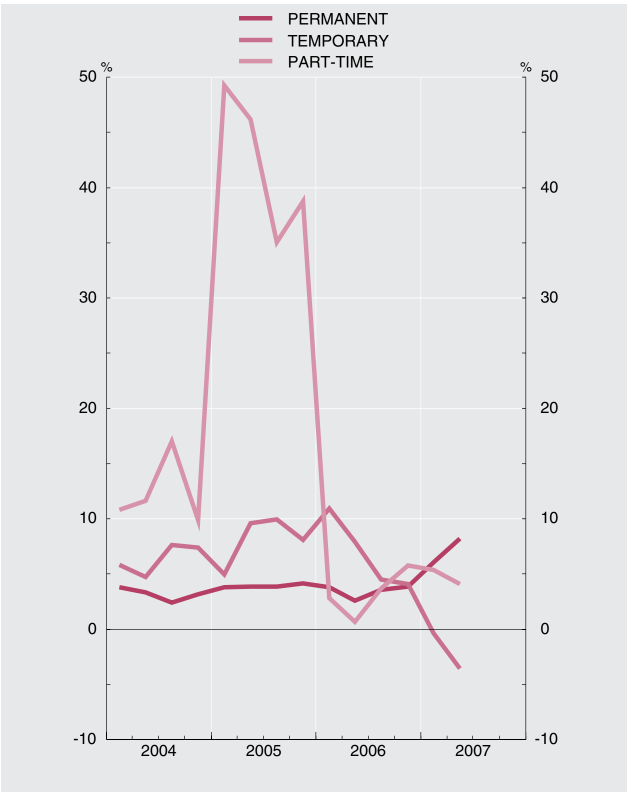
4.4. WAGE-EARNERS BY TYPE OF CONTRACT AND UNEMPLOYMENT BY DURATION. SPAIN. (a)

■ Series depicted in chart.

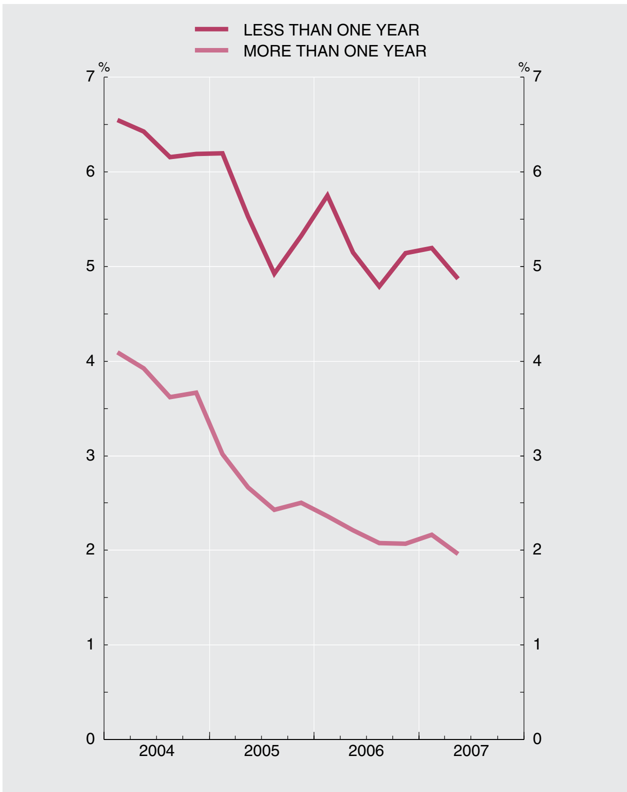
Thousands, annual percentage changes and %

	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
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	...	...	...
06 M	358	3.5	348	6.7	34.03	645	4.7	61	3.2	12.13	5.20	-2.0	2.18	-14.9	...	...	...
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	...	...	...
07 *Q1-Q2* M	755	7.1	-108	-2.0	31.90	587	4.2	94	4.7	12.50	5.03	-5.0	2.06	-7.3	...	...	...
04 *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	...	...	...
Q3	371	3.6	245	4.5	34.59	549	3.9	67	3.7	11.49	4.79	0.6	2.08	-11.5	...	...	...
Q4	406	3.9	218	4.1	33.82	515	3.7	109	5.8	12.19	5.14	-0.5	2.07	-14.5	...	...	...
07 *Q1*	645	6.1	-19	-0.4	31.95	519	3.7	107	5.4	12.66	5.19	-7.2	2.17	-5.8	...	...	...
Q2	865	8.2	-197	-3.6	31.85	587	4.2	81	4.1	12.34	4.87	-2.6	1.96	-8.9	...	...	...

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).

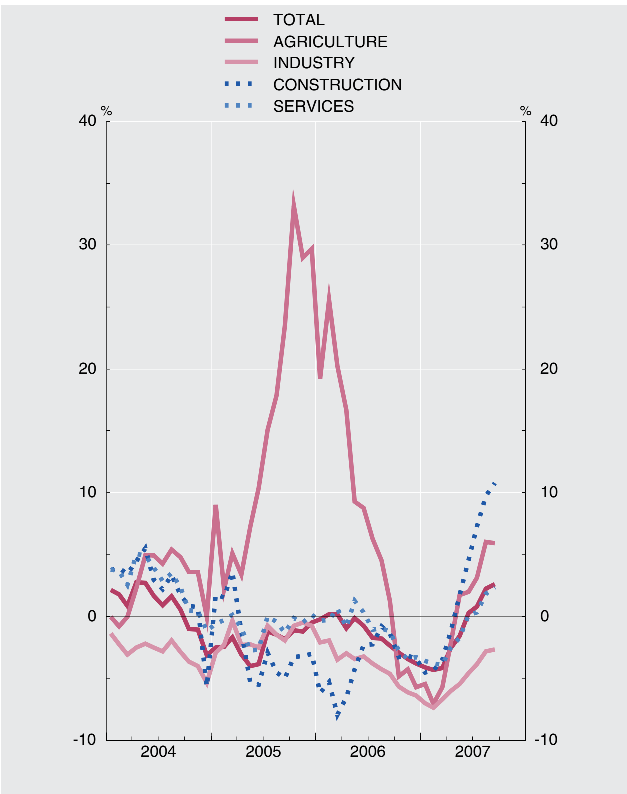
Note: As a result of the change in the population base (2001 Census), all the series in this table have been revised as from 1996. In addition, since 2005 Q1 the new obligatory variables referred to in Regulation (EC) 2257/2003 (on the adaptation of the list of labour force survey characteristics) have 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: Total: Thousands 1	Registered unemployment: Total: Annual change Thousands 2	Registered unemployment: Total: 12 month % change 3 ■	First time job-seekers: 12 month % change 4	Previously employed: 12-month % change: Total 5	Previously employed: Agriculture 6 ■	Previously employed: Branches other than agriculture: Total 7	Industry 8 ■	Construction 9 ■	Services 10 ■	Contracts: Total: Thousands 11	Contracts: Total: 12 month % change 12	Contracts: Percentage of total: Permanent 13	Part time 14	Temporary 15	Placements: Total: Thousands 16	Placements: Total: 12 month % change 17 ■
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
06	M	2 039	-30	-1.5	-0.6	-1.6	7.4	-1.9	-4.0	-4.0	-1.0	1 544	7.9	11.77	23.39	88.23	1 475	6.0
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
07 *J-S*	M	2 022	-27	-1.3	0.2	-1.5	-0.4	-1.5	-5.2	2.1	-1.3	1 540	1.4	11.97	23.13	88.03	1 492	2.0
06 *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
Oct		1 993	-60	-2.9	0.6	-3.4	-4.8	-3.3	-5.7	-3.3	-2.8	1 819	11.1	13.17	26.95	86.83	1 740	8.0
Nov		2 023	-72	-3.5	-0.1	-3.9	-4.3	-3.9	-6.1	-3.2	-3.5	1 660	5.8	13.97	24.83	86.03	1 559	3.7
Dec		2 023	-80	-3.8	-3.3	-3.9	-5.7	-3.8	-6.4	-3.4	-3.3	1 386	4.3	16.96	23.90	83.04	1 244	-4.0
07 *Jan*		2 083	-89	-4.1	-2.4	-4.3	-5.4	-4.3	-7.0	-4.5	-3.6	1 653	12.3	15.45	20.97	84.55	1 540	8.6
Feb		2 075	-94	-4.3	-2.6	-4.5	-7.1	-4.4	-7.4	-4.4	-3.8	1 408	3.0	12.49	22.28	87.51	1 365	4.0
Mar		2 059	-89	-4.1	-2.4	-4.4	-5.7	-4.3	-6.7	-3.5	-3.9	1 564	0.6	12.35	22.91	87.65	1 519	1.6
Apr		2 023	-53	-2.5	0.3	-2.9	-2.2	-2.9	-6.0	-1.2	-2.5	1 386	6.3	12.19	22.84	87.81	1 360	7.1
May		1 973	-31	-1.6	0.3	-1.8	1.8	-1.9	-5.4	1.8	-1.7	1 625	-0.7	11.71	22.90	88.29	1 587	-0.5
Jun		1 966	6	0.3	3.0	-0.0	2.0	-0.1	-4.6	4.6	0.1	1 582	-4.4	11.27	23.39	88.73	1 529	-3.9
Jul		1 970	15	0.8	2.1	0.6	3.2	0.5	-3.9	7.3	0.3	1 755	5.0	10.30	24.89	89.70	1 694	6.2
Aug		2 028	45	2.2	2.2	2.3	6.1	2.1	-2.8	9.8	1.8	1 287	-2.7	9.91	22.51	90.09	1 249	-0.3
Sep		2 017	51	2.6	1.6	2.7	5.9	2.6	-2.7	10.8	2.4	1 596	-4.7	12.05	25.50	87.95	1 584	-2.7

REGISTERED UNEMPLOYMENT
Annual percentage changes



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

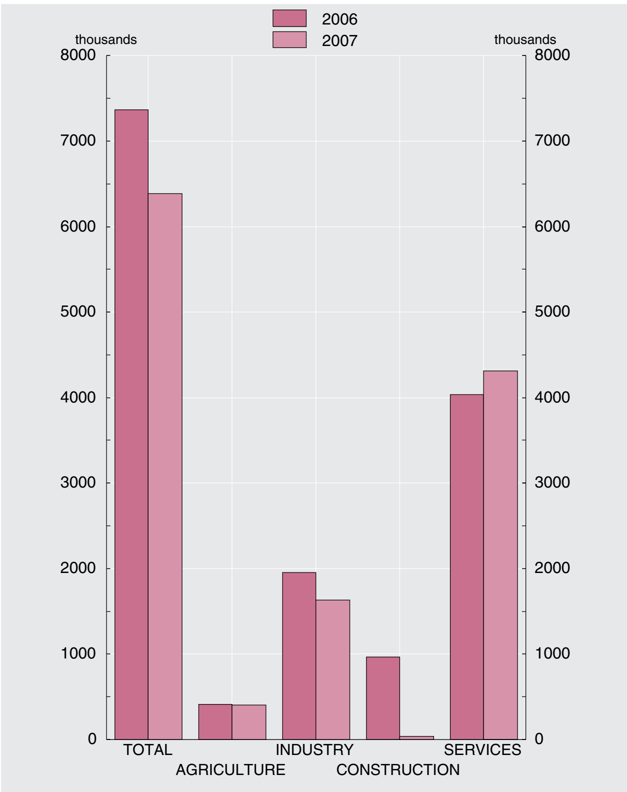
Source: Instituto de Empleo Servicio Público de Empleo Estatal (INEM).
Note: The underlying series for this indicator are in Tables 24.16 and 24.17 of the BE Boletín estadístico.

4.6. COLLECTIVE BARGAINING AGREEMENTS

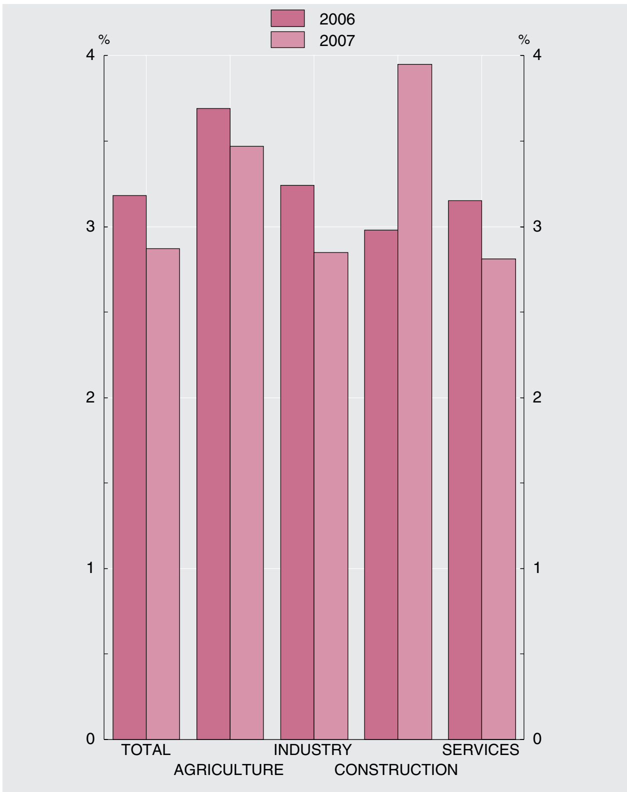
■ Series depicted in chart. *Thousands and %*

	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 ■
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	10 756	3.17	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	10 499	3.27	6 765	2 156	8 921	540	656	2 445	1 072	4 748	3.21	3.35	3.24	3.94	3.26	2.97	3.20
06 *Mar*	9 870	3.22	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	10 175	3.24	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	10 318	3.25	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	10 363	3.25	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	10 369	3.25	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	10 369	3.25	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
Sep	10 484	3.27	6 424	1 342	7 766	1 060	432	2 113	1 011	4 210	3.16	3.38	3.19	3.66	3.31	2.97	3.14
Oct	10 495	3.27	6 594	1 477	8 071	752	469	2 150	1 072	4 380	3.16	3.42	3.21	3.73	3.31	2.97	3.16
Nov	10 496	3.27	6 651	1 797	8 448	525	579	2 187	1 072	4 611	3.18	3.43	3.23	3.80	3.32	2.97	3.18
Dec	10 499	3.27	6 765	2 156	8 921	540	656	2 445	1 072	4 748	3.21	3.35	3.24	3.94	3.26	2.97	3.20
07 *Jan*	6 113	2.87	3 245	1	3 245	-464	311	938	3	1 993	2.84	2.37	2.84	3.61	2.74	2.77	2.77
Feb	6 116	2.87	4 019	4	4 022	-809	336	1 038	33	2 614	2.84	2.97	2.84	3.60	2.80	3.98	2.74
Mar	6 154	2.87	4 723	13	4 736	-491	352	1 108	34	3 242	2.88	2.89	2.88	3.54	2.80	3.97	2.82
Apr	6 359	2.87	4 723	19	4 742	-1 630	354	1 108	34	3 245	2.88	3.11	2.88	3.54	2.80	3.97	2.83
May	6 360	2.87	4 723	45	4 767	-1 650	354	1 126	34	3 254	2.88	2.93	2.88	3.54	2.80	3.97	2.83
Jun	6 368	2.87	5 396	192	5 588	-1 459	397	1 225	34	3 931	2.87	2.63	2.86	3.49	2.80	3.97	2.81
Jul	6 371	2.87	5 454	499	5 953	-1 372	400	1 485	34	4 033	2.88	2.90	2.88	3.48	2.85	3.97	2.82
Aug	6 371	2.87	5 573	809	6 382	-985	403	1 631	34	4 315	2.87	2.86	2.87	3.47	2.85	3.95	2.81

EMPLOYEES AFFECTED
January-August



AVERAGE WAGE SETTLEMENT
January-August



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

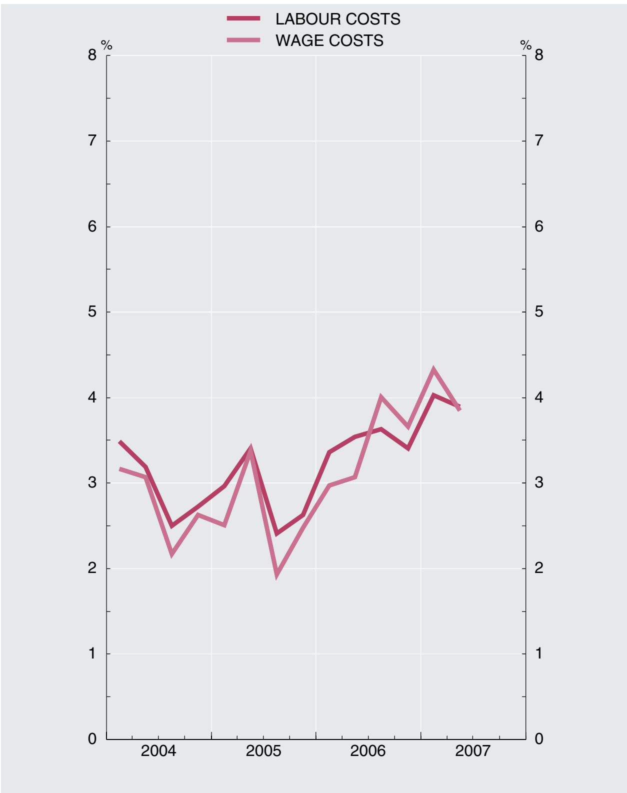
4.7. QUARTERLY LABOUR COSTS SURVEY

■ Series depicted in chart.

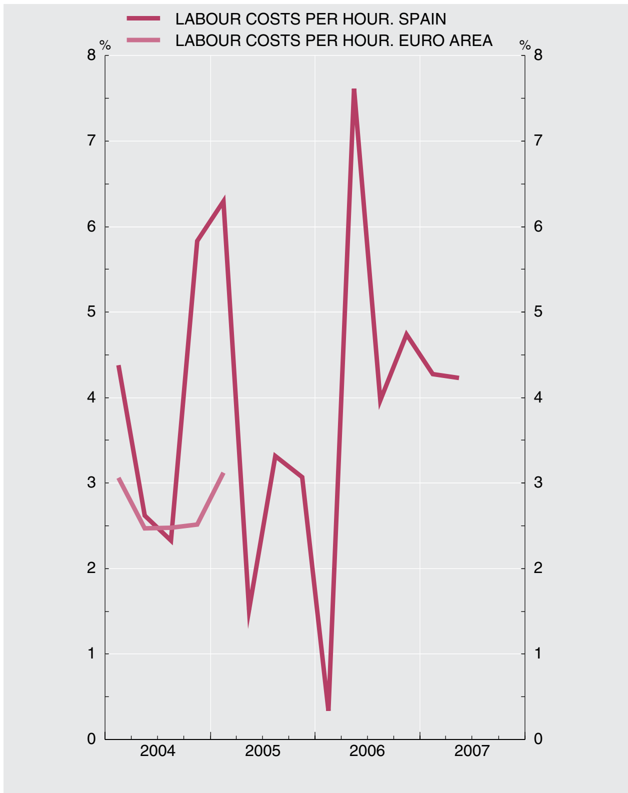
Annual percentage change

	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 ■
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	...
06 M	3.5	3.7	4.0	3.6	4.2	3.4	3.6	3.7	3.7	4.2	3.6	...
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	...
07 *Q1-Q2* M	4.0	3.4	4.7	4.2	4.3	4.1	3.4	4.7	4.4	4.4	3.6	...
04 *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	...
Q3	3.6	3.6	4.1	3.8	4.0	4.0	4.1	4.2	4.3	4.4	2.6	...
Q4	3.4	3.4	3.7	3.7	4.7	3.7	3.6	3.9	4.0	5.0	2.6	...
07 *Q1*	4.0	4.2	5.0	4.0	4.3	4.3	3.7	5.5	4.5	4.6	3.2	...
Q2	3.9	2.7	4.4	4.4	4.2	3.8	3.1	3.9	4.3	4.2	4.0	...

PER WORKER AND MONTH
Annual percentage change



PER HOUR WORKED
Annual percentage change



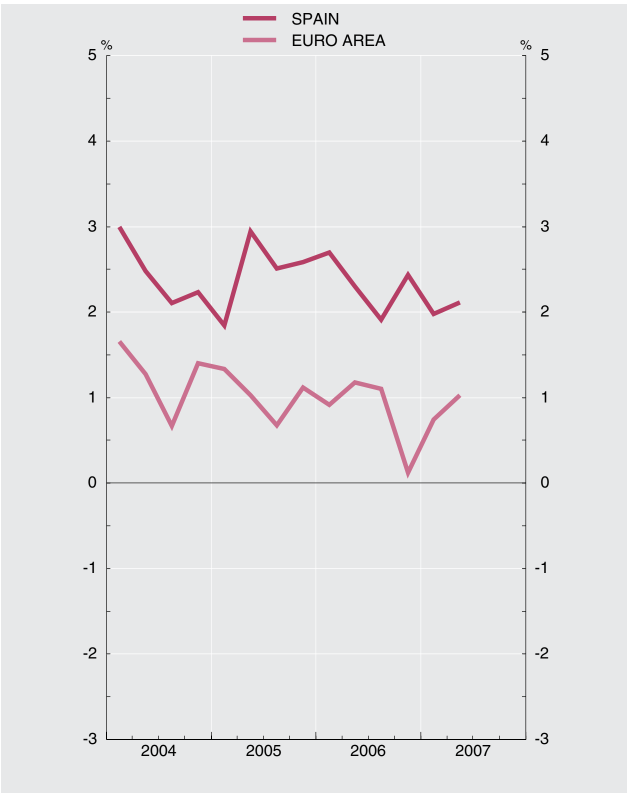
Sources: INE (Quarterly labour costs survey) and Eurostat.
Note: The underlying series for this indicator are in Tables 24.25, 24.26 and 24.27 of de BE Boletín estadístico.
a. Whole economy, excluding the agriculture, public administration, education and health sectors

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

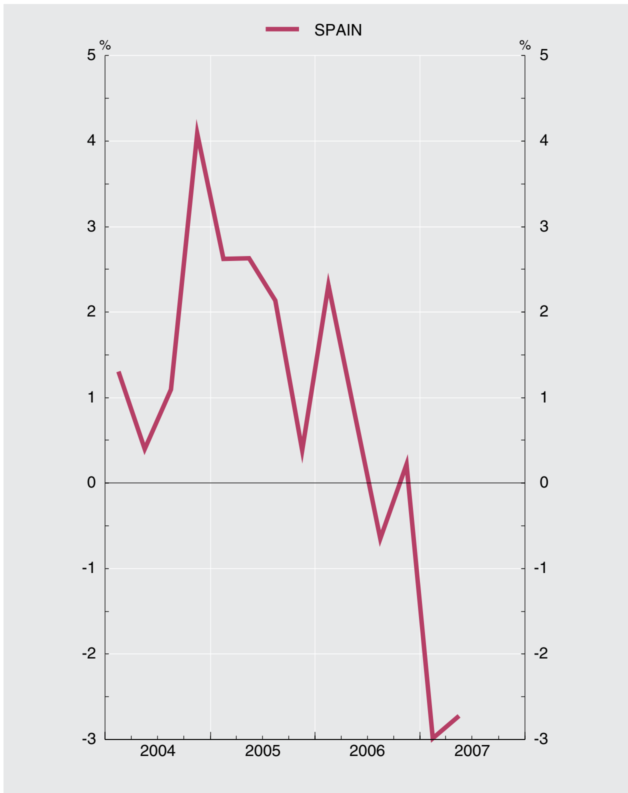
■ Series depicted in chart. *Annual percentage changes*

		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
04	P	2.4	1.3	3.0	2.1	0.6	0.9	3.3	1.8	2.7	0.9	1.7	...
05	P	2.5	1.0	2.8	1.8	0.4	0.7	3.6	1.6	3.2	0.9	1.9	...
06	P	2.3	0.8	3.0	2.2	0.7	1.3	3.9	2.9	3.2	1.5	0.7	...
04 *Q3*	P	2.1	0.7	3.0	1.6	0.9	0.9	3.6	1.8	2.7	0.9	1.1	...
Q4	P	2.2	1.4	2.9	2.0	0.7	0.6	3.4	1.6	2.7	1.0	4.1	...
05 *Q1*	P	1.8	1.3	2.8	1.6	1.0	0.3	3.6	1.3	2.6	1.0	2.6	...
Q2	P	2.9	1.0	3.6	1.6	0.6	0.6	3.7	1.4	3.1	0.9	2.6	...
Q3	P	2.5	0.7	2.3	1.6	-0.2	0.9	3.4	1.7	3.7	0.8	2.1	...
Q4	P	2.6	1.1	2.8	2.2	0.2	1.0	3.7	1.9	3.5	0.8	0.4	...
06 *Q1*	P	2.7	0.9	3.0	2.2	0.3	1.3	3.7	2.5	3.4	1.2	2.3	...
Q2	P	2.3	1.2	2.5	2.4	0.2	1.2	3.8	2.9	3.6	1.6	0.8	...
Q3	P	1.9	1.1	3.1	2.4	1.2	1.2	3.9	2.9	2.7	1.6	-0.6	...
Q4	P	2.4	0.1	3.4	1.8	0.9	1.7	4.0	3.3	3.1	1.6	0.2	...
07 *Q1*	P	2.0	0.7	2.8	2.1	0.8	1.3	4.1	3.2	3.3	2.5	-3.0	...
Q2	P	2.1	1.0	2.9	1.8	0.8	0.7	4.0	2.5	3.2	2.4	-2.7	...

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.

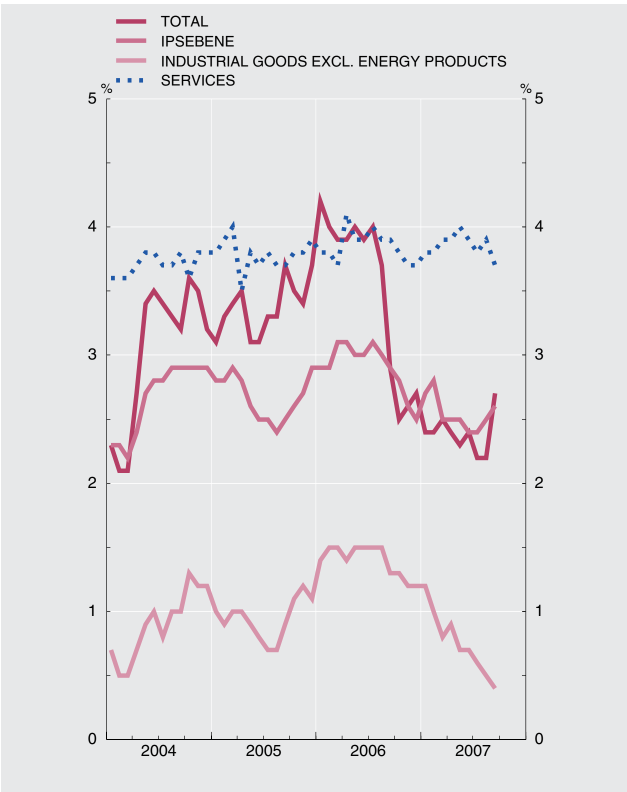
5.1. CONSUMER PRICE INDEX. SPAIN (2006=100)

■ 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 (a)	Cumulative % change during year (b)	Unprocessed food	Processed food	Industrial goods excl. energy products	Energy	Services	IPSEBENE (c)	Original series	12-month % change
	1	2	3 ■	4	5 ■	6 ■	7 ■	8 ■	9 ■	10 ■	11	12
04 M	93.5	_	3.0	3.2	4.6	3.6	0.9	4.9	3.7	2.7	106.8	0.9
05 M	96.6	_	3.4	3.7	3.3	3.5	0.9	9.6	3.8	2.7	109.9	2.9
06 M	100.0	_	3.5	2.7	4.4	3.6	1.4	8.2	3.9	2.9	108.9	-0.9
06 *J-S* M	99.7	0.2	3.8	1.2	4.2	3.8	1.5	10.9	3.9	3.0	111.4	-1.0
07 *J-S* M	102.1	0.2	2.4	1.0	4.7	2.7	0.8	-0.9	3.9	2.5	...	...
06 *Jun*	100.8	0.2	3.9	2.3	3.9	3.9	1.5	12.0	3.9	3.0	113.3	6.0
Jul	100.2	-0.6	4.0	1.7	5.4	4.0	1.5	10.1	4.0	3.1	103.6	0.7
Aug	100.4	0.2	3.7	1.9	5.4	3.6	1.5	8.2	3.9	3.0	102.8	0.4
Sep	100.2	-0.2	2.9	1.7	5.6	3.5	1.3	0.9	3.9	2.9	100.6	1.1
Oct	100.6	0.4	2.5	2.1	5.2	3.4	1.3	-1.9	3.8	2.8	101.9	2.3
Nov	100.9	0.2	2.6	2.4	5.0	2.9	1.2	0.3	3.7	2.6	107.7	0.7
Dec	101.1	0.3	2.7	2.7	4.5	2.2	1.2	2.6	3.7	2.5	107.0	-5.8
07 *Jan*	100.5	-0.7	2.4	-0.7	3.5	2.9	1.2	-1.3	3.8	2.7	111.8	-6.7
Feb	100.5	0.1	2.4	-0.6	3.7	3.5	1.0	-1.8	3.8	2.8	113.8	-6.3
Mar	101.3	0.8	2.5	0.1	5.2	2.3	0.8	-0.3	3.9	2.5	115.3	1.5
Apr	102.7	1.4	2.4	1.5	6.4	2.2	0.9	-1.5	3.9	2.5	120.3	6.7
May	103.0	0.3	2.3	1.8	6.0	2.3	0.7	-1.7	4.0	2.5	116.2	0.4
Jun	103.2	0.2	2.4	2.0	5.0	2.2	0.7	-0.2	3.9	2.4	116.3	2.6
Jul	102.4	-0.7	2.2	1.3	4.7	2.2	0.6	-1.2	3.8	2.4	106.1	2.5
Aug	102.5	0.1	2.2	1.4	4.0	2.8	0.5	-2.2	3.9	2.5	...	...
Sep	102.9	0.3	2.7	1.7	4.0	3.7	0.4	2.3	3.7	2.6	...	...

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. For annual periods: average growth for each year on the previous year.
b. For annual periods: December-on-December growth rate.
c. Index of non-energy processed goods and service prices.

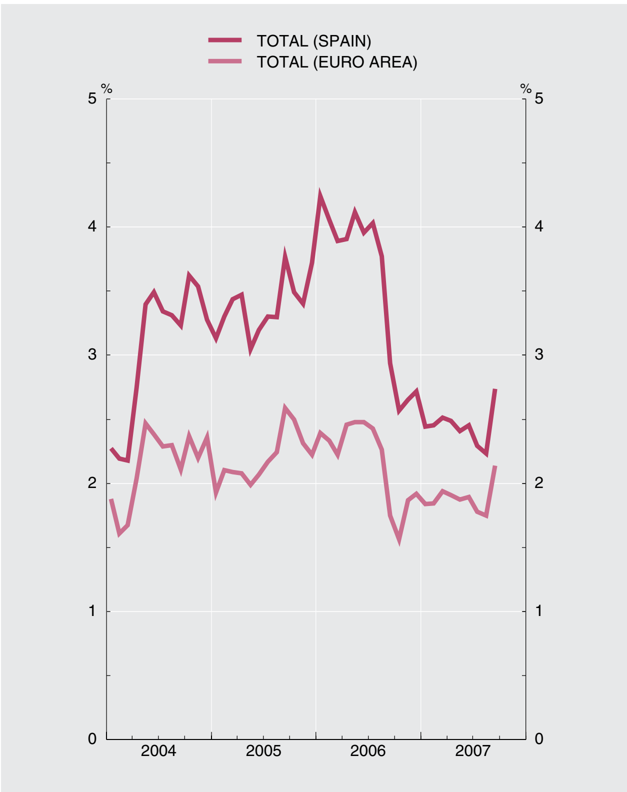
5.2. HARMONISED INDEX OF CONSUMER PRICES. SPAIN AND EURO AREA (2005=100) (a)

■ Series depicted in chart.

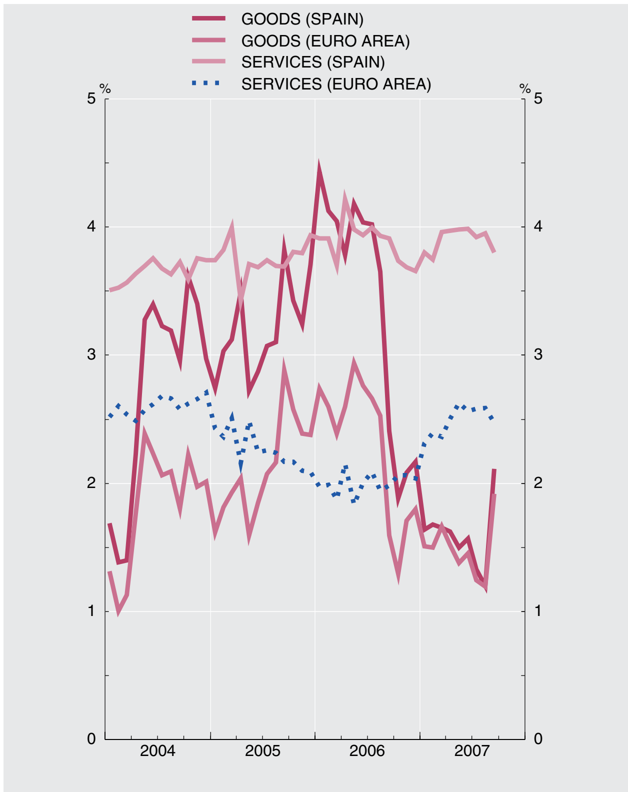
Annual percentage changes

		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 ■
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
06	M	3.6	2.2	3.4	2.3	3.9	2.4	3.9	2.1	3.9	2.8	3.1	2.3	1.5	0.6	8.0	7.7	3.9	2.0
06 *J-S*	M	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
07 *J-S*	M P	2.4	1.9	1.6	1.5	3.4	2.5	2.6	2.2	4.2	2.9	0.4	1.0	0.8	1.0	-0.8	0.8	3.9	2.5
06 *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		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
Oct		2.6	1.6	1.9	1.3	4.0	3.0	3.6	2.3	4.4	4.2	0.5	0.5	1.4	0.8	-1.9	-0.5	3.7	2.1
Nov		2.7	1.9	2.1	1.7	3.6	3.0	2.9	2.2	4.4	4.4	1.1	1.1	1.4	0.8	0.3	2.1	3.7	2.1
Dec		2.7	1.9	2.2	1.8	3.0	2.7	2.1	2.1	3.9	3.7	1.7	1.4	1.4	0.9	2.6	2.9	3.7	2.0
07 *Jan*		2.4	1.8	1.6	1.5	3.1	2.8	3.0	2.2	3.3	3.7	0.7	0.9	1.3	0.9	-1.2	0.9	3.8	2.3
Feb		2.5	1.8	1.7	1.5	3.6	2.4	3.7	2.1	3.6	2.8	0.4	1.1	1.1	1.1	-1.7	0.8	3.7	2.4
Mar		2.5	1.9	1.7	1.7	3.3	2.3	2.0	1.9	4.6	2.9	0.6	1.4	0.9	1.2	-0.3	1.8	4.0	2.4
Apr		2.5	1.9	1.6	1.5	3.6	2.7	1.9	1.9	5.4	3.9	0.4	1.0	0.9	1.1	-1.4	0.4	4.0	2.5
May		2.4	1.9	1.5	1.4	3.5	2.4	2.0	1.9	5.2	3.1	0.2	0.9	0.8	1.0	-1.6	0.3	4.0	2.6
Jun		2.5	1.9	1.6	1.5	3.2	2.4	2.0	2.0	4.4	3.0	0.5	1.0	0.7	1.0	-0.2	0.9	4.0	2.6
Jul		2.3	1.8	1.3	1.2	3.0	2.3	1.9	1.9	4.2	2.8	0.2	0.7	0.6	0.9	-1.2	-	3.9	2.6
Aug		2.2	1.7	1.2	1.2	3.2	2.5	2.8	2.5	3.7	2.4	-0.1	0.6	0.5	1.0	-2.1	-0.9	4.0	2.6
Sep	P	2.7	2.1	2.1	1.9	3.8	2.7	3.9	3.1	3.7	2.1	1.0	1.5	0.4	1.0	2.3	3.0	3.8	2.5

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).

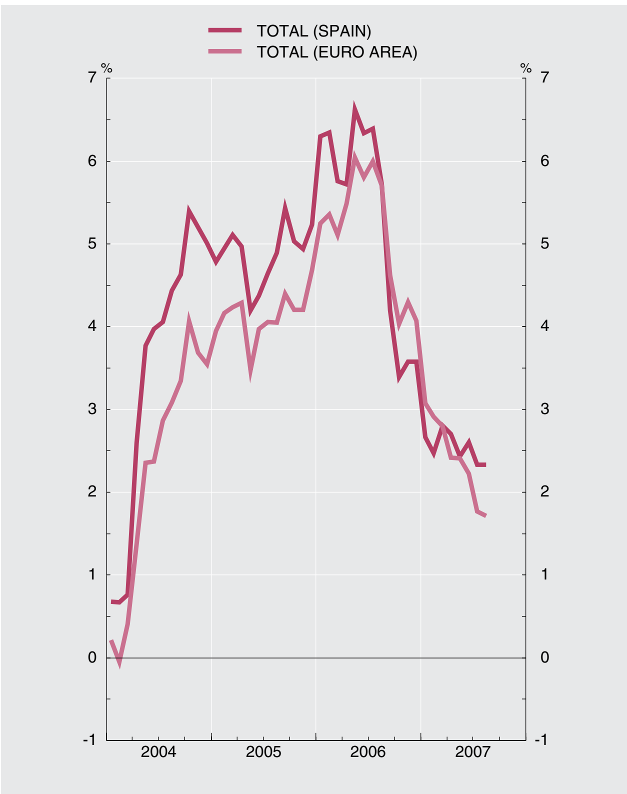
5.3. PRODUCER PRICE INDEX. SPAIN AND EURO AREA (a)

■ Series depicted in chart.

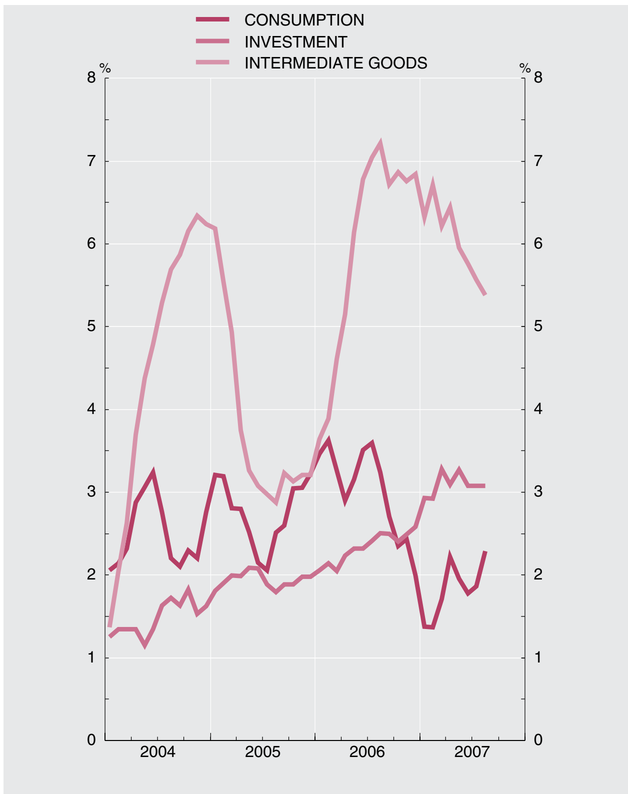
Annual percentage changes

		Total (100%)			Consumption (32.1 %)		Investment (18.3 %)		Intermediate (31.6 %)		Energy (18.0%)		Memorandum item: euro area				
													Total	Consump- tion	Invest- ment	Intermediate	Energy
		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	12- month % change	12- month % change	12- month % change	12- month % change	12- month % change
		1	2	3 ■	4	5 ■	6	7 ■	8	9 ■	10	11	12 ■	13	14	15	16
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
06	M P	118.6	_	5.3	_	3.0	_	2.3	_	6.0	_	11.0	5.1	1.7	1.4	4.8	13.5
06 *J-A*	M P	118.5	_	6.1	_	3.3	_	2.3	_	5.6	_	16.0	5.6	1.7	1.2	4.0	17.0
07 *J-A*	M P	121.5	_	2.5	_	1.8	_	3.1	_	6.0	_	-2.2	2.4	1.7	1.9	5.4	-0.2
06 *May*	P	119.2	0.8	6.6	0.3	3.2	0.2	2.3	1.0	6.1	1.3	17.8	6.0	1.7	1.2	4.5	18.6
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	5.2	15.9
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	1.9	1.6	6.1	14.9
Aug	P	120.1	0.2	5.7	-0.1	3.2	0.1	2.5	0.3	7.2	-0.1	10.2	5.7	1.9	1.6	6.5	12.6
Sep	P	119.3	-0.7	4.2	-0.3	2.7	0.1	2.5	0.3	6.7	-3.2	4.1	4.6	1.7	1.7	6.4	7.8
Oct	P	118.8	-0.4	3.4	-	2.3	0.1	2.4	0.5	6.9	-2.7	0.5	4.0	1.7	1.8	6.3	5.2
Nov	P	118.8	-	3.6	-	2.4	0.2	2.5	0.3	6.8	-0.8	1.0	4.3	1.6	1.9	6.1	6.9
Dec	P	118.8	-	3.6	-	2.0	0.2	2.6	0.1	6.8	-	2.3	4.1	1.4	1.8	6.1	6.2
07 *Jan*	P	119.5	0.6	2.7	0.4	1.4	1.0	2.9	0.7	6.3	0.3	-1.1	3.1	1.5	2.0	6.2	1.7
Feb	P	120.2	0.6	2.5	0.6	1.4	0.4	2.9	1.2	6.7	-0.4	-2.5	2.9	1.6	2.1	6.0	1.1
Mar	P	120.9	0.6	2.8	0.3	1.7	0.4	3.3	0.4	6.2	1.2	-1.6	2.8	1.5	2.0	5.9	1.0
Apr	P	121.5	0.5	2.7	0.5	2.2	0.1	3.1	0.7	6.4	0.7	-2.6	2.4	1.6	2.0	5.8	-0.7
May	P	122.1	0.5	2.4	0.1	2.0	0.4	3.3	0.6	6.0	1.0	-2.8	2.4	1.7	2.0	5.4	-0.2
Jun	P	122.3	0.2	2.6	0.1	1.8	-	3.1	0.2	5.8	0.6	-1.4	2.2	1.6	1.9	5.1	-0.7
Jul	P	122.7	0.3	2.3	0.2	1.9	0.1	3.1	0.2	5.6	0.9	-2.5	1.8	1.9	1.7	4.6	-2.0
Aug	P	122.9	0.2	2.3	0.3	2.3	0.1	3.1	0.2	5.4	-0.4	-2.8	1.7	2.3	1.6	4.3	-2.1

PRODUCER PRICE INDEX. TOTAL
Annual percentage changes



PRODUCER PRICE INDEX. COMPONENTS
Annual percentage changes



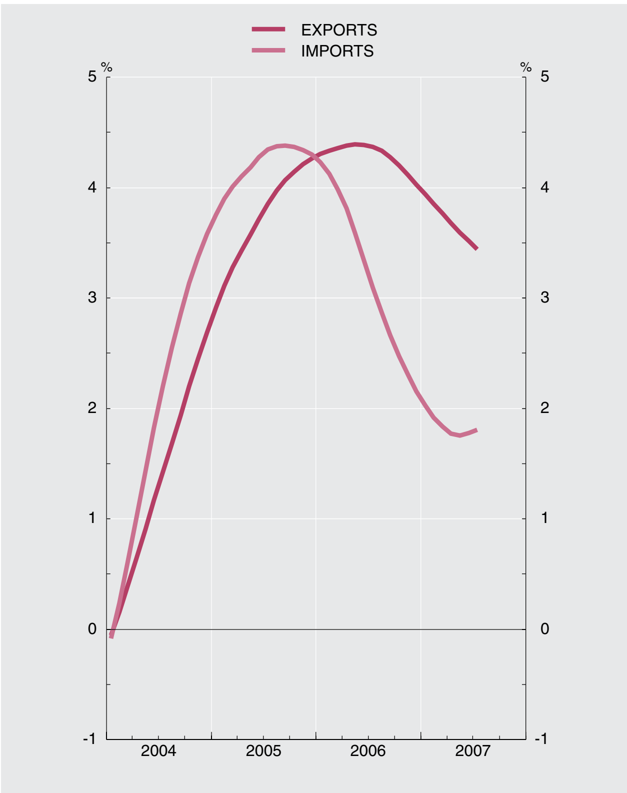
Sources: INE and ECB.
Note: The underlying series for this indicator, for Spain, are in Table 25.3 of the BE Boletín estadístico.
a. Spain: 2000=100; euro area: 2000=100.

5.4. UNIT VALUE INDICES FOR SPANISH FOREIGN TRADE

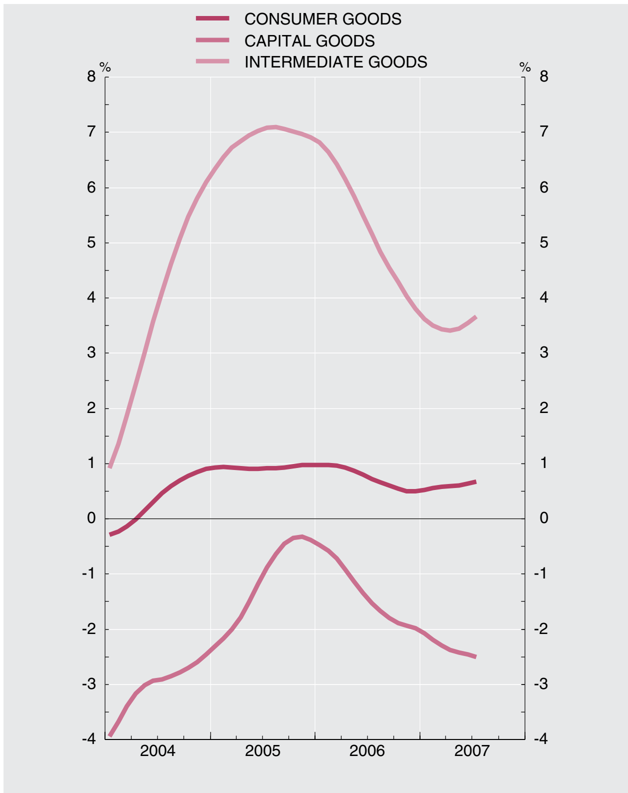
■ Series depicted in chart. *Annual percentage changes*

	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
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
06	4,8	3,7	3,0	6,1	18,0	5,6	3,4	-0,1	-1,7	6,1	21,5	2,1
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
07 *J-J*	3,3	3,1	-0,1	4,2	-8,8	5,3	0,5	1,8	-2,4	0,5	-7,0	3,5
06 *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
Aug	5,7	4,2	8,6	6,5	17,7	6,1	2,3	-0,6	-0,5	4,0	18,1	-0,3
Sep	5,4	5,6	-4,6	7,1	14,9	7,0	0,8	2,4	-5,0	1,0	8,0	0,4
Oct	5,7	5,9	-4,0	7,2	14,6	7,5	1,7	0,1	-8,2	4,5	8,9	3,2
Nov	3,4	3,2	-4,7	5,3	6,0	6,3	0,2	-5,4	-0,7	2,8	1,6	4,0
Dec	3,9	2,1	8,3	4,7	-2,8	4,7	1,2	-2,2	4,1	2,1	7,7	0,5
07 *Jan*	3,3	1,4	3,2	4,6	-4,8	5,6	0,8	8,6	0,8	-3,2	-5,9	-1,2
Feb	4,5	4,9	-2,3	5,5	-13,7	7,0	0,5	1,9	-4,0	1,0	-10,2	5,1
Mar	3,9	3,6	4,2	4,0	-12,3	5,5	1,9	1,8	-4,1	3,2	-6,6	7,1
Apr	2,5	4,4	-5,4	2,9	-12,4	4,3	-2,0	1,1	-5,9	-2,6	-7,6	0,0
May	3,4	2,3	-2,9	5,4	-6,9	6,4	-2,5	-2,5	-4,1	-2,2	-13,1	1,7
Jun	4,0	5,1	1,9	3,6	-2,7	4,2	3,1	1,6	-2,5	4,9	-1,8	7,0
Jul	1,9	0,5	0,3	3,2	-8,9	4,0	1,8	0,3	2,7	2,3	-3,8	4,9

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).

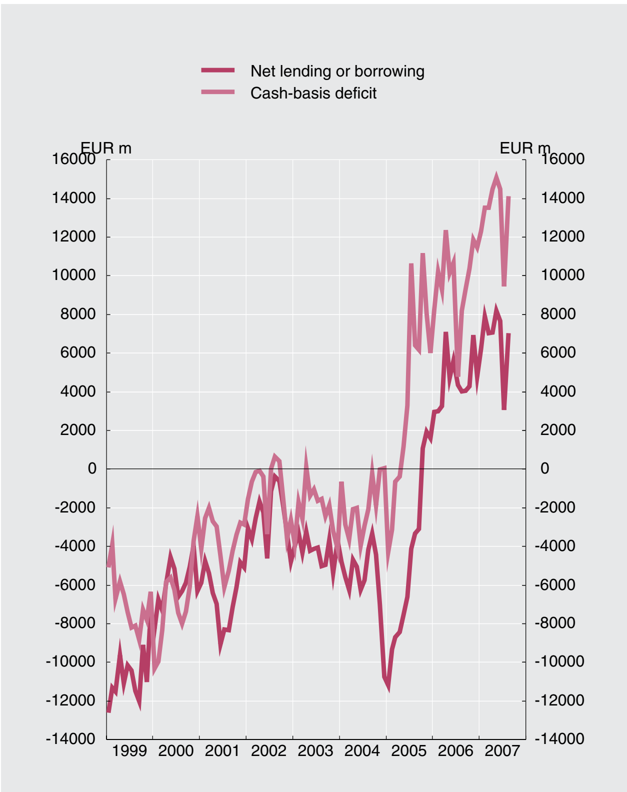
6.1. STATE RESOURCES ANS USES ACCORDING TO THE NACIONAL ACCOUNTS (A). SPAIN

■ Series depicted in chart.

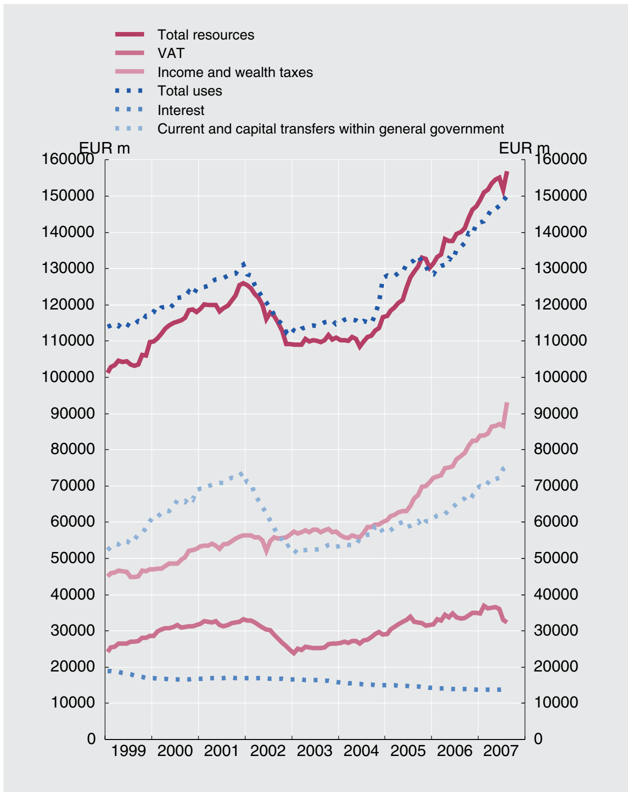
EUR millions

		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 a 13 ■	9	10 ■	11 ■	12	13	14=15-16 ■	15	16
99		-7 303	109 643	28 574	16 836	6 059	46 909	11 265	116 946	15 013	16 958	60 249	3 750	20 976	-6 354	110 370	116 724
00		-6 330	118 005	31 566	17 171	5 419	52 671	11 178	124 335	12 881	16 817	68 917	4 336	21 384	-2 431	118 693	121 124
01		-5 076	126 032	33 160	17 838	7 335	56 312	11 387	131 108	12 890	17 031	73 716	4 269	23 202	-2 884	125 193	128 077
02		-4 780	109 142	24 701	11 431	5 614	56 616	10 780	113 922	13 526	16 652	53 800	4 596	25 348	-2 626	108 456	111 082
03		-3 692	111 008	26 542	10 918	5 089	57 398	11 061	114 700	13 966	15 890	53 259	4 009	27 576	-4 132	109 655	113 787
04		-10 762	116 577	28 950	10 988	4 730	60 054	11 855	127 339	14 831	15 060	57 177	8 760	31 511	59	114 793	114 734
05	P	1 590	130 171	31 542	11 068	4 401	70 986	12 174	128 581	15 665	14 343	60 311	5 122	33 140	6 022	128 777	122 755
06	P	4 766	147 201	34 929	11 331	5 261	82 541	13 139	142 435	16 883	13 820	69 299	5 442	36 991	11 471	141 847	130 375
06 *J-A*	P	10 088	91 885	23 789	7 226	2 850	50 722	7 298	81 797	10 746	9 211	42 096	2 529	17 215	4 578	88 879	84 301
07 *J-A*	A	12 357	101 644	21 274	8 489	3 767	61 218	6 896	89 287	11 518	9 310	48 321	1 907	18 231	7 228	99 653	92 426
06 *Nov*	P	-2 561	9 059	1 291	1 060	1 018	4 706	984	11 620	1 318	1 137	5 600	132	3 433	-1 517	8 512	10 030
Dec	P	-15 035	10 757	270	980	891	5 869	2 747	25 792	2 281	1 134	8 962	2 026	11 389	-5 598	9 485	15 083
07 *Jan*	A	2 894	11 116	-477	1 097	313	9 803	380	8 222	1 226	1 179	5 020	-	797	-3 742	12 189	15 932
Feb	A	9 918	20 572	15 637	945	244	3 444	302	10 654	1 332	1 059	4 827	113	3 323	9 973	19 855	9 882
Mar	A	-5 731	6 119	249	876	1 015	2 673	1 306	11 850	1 342	1 190	6 668	173	2 477	-3 915	5 738	9 653
Apr	A	13 165	24 444	7 923	1 102	347	14 360	712	11 279	1 334	1 141	5 848	864	2 092	14 190	24 317	10 127
May	A	-6 481	3 919	161	995	539	851	1 373	10 400	1 328	1 184	5 495	186	2 207	-5 286	3 423	8 709
Jun	A	-8 039	4 162	21	1 115	311	1 077	1 638	12 201	2 301	1 159	5 684	86	2 971	-7 051	3 604	10 655
Jul	A	2 301	16 300	1 521	1 245	723	11 950	861	13 999	1 337	1 216	8 822	285	2 339	-852	16 648	17 500
Aug	A	4 330	15 012	-3 761	1 114	275	17 060	324	10 682	1 318	1 182	5 957	200	2 025	3 911	13 879	9 968

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).

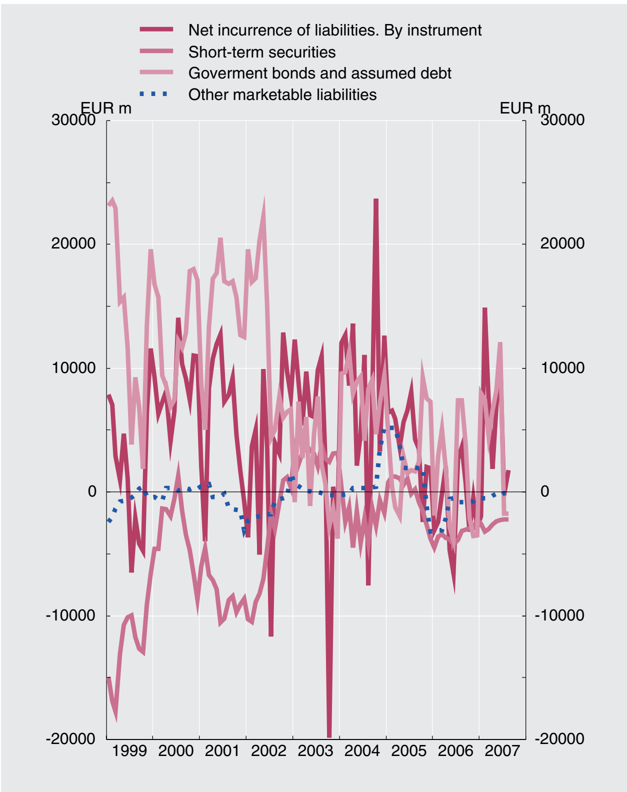
a. Except in interest rate swaps, where the EDP criterion in followed. That is to say, the net outcome of these transactions is considered to be interest and not financial transactions (the ESA 95 criterion), whereby they influence the calculation of net lending or borrowing.

6.2. STATE FINANCIAL TRANSACTIONS (A). SPAIN

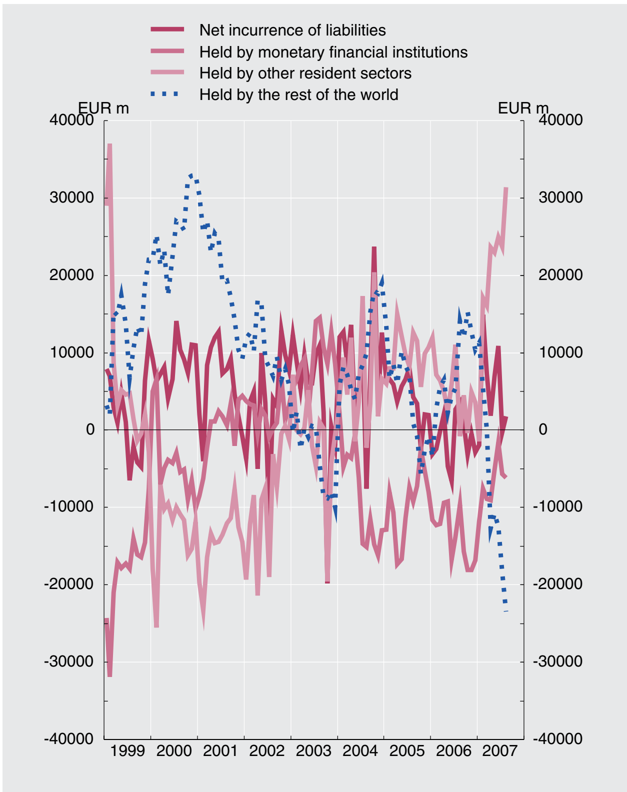
■ Series depicted in chart. *EUR millions*

		Net lending (+) or net borrowing(-)	Net acquisition of financial assets		Net incurrence of liabilities											Net incurrence of liabilities (excluding other accounts payable)
			Total	Of which: Deposits at the Banco de España	Total	Of which: In currencies other than the peseta/euro	By instrument: Short-term securities	Goverment bonds and assumed debt	Banco de España loans	Other marketable liabilities (b)	Other accounts payable	By counterpart sector: Held by resident sectors: Total	Monetary financial institutions	Other resident sectors	Rest of the world	
		1	2	3	4 ■	5	6 ■	7 ■	8	9 ■	10	11	12 ■	13 ■	14 ■	15
99		-7 303	4 264	4 574	11 567	209	-6 629	19 592	-499	-446	-451	-10 458	-7 605	-2 853	22 026	12 018
00		-6 330	4 625	5 690	10 955	1 162	-8 683	17 127	-499	283	2 727	-21 968	-10 117	-11 851	32 924	8 228
01		-5 076	-5 852	-20 141	-776	803	-8 616	12 521	-499	-3 101	-1 081	-9 982	4 424	-14 406	9 206	305
02		-4 780	2 942	-95	7 722	-888	346	6 655	-486	1 488	-280	1 932	3 148	-1 215	5 790	8 002
03		-3 692	-5 749	0	-2 057	-135	3 146	-3 761	-486	-281	-675	7 918	8 524	-606	-9 975	-1 381
04		-10 762	1 872	-0	12 634	-1 600	-1 688	9 416	-486	5 204	188	-6 341	-12 978	6 637	18 975	12 446
05	P	1 590	3 505	0	1 915	-1 910	-3 771	7 276	-486	-3 180	2 076	2 673	-8 026	10 699	-758	-161
06	P	4 766	1 870	-200	-2 896	175	-2 198	-3 488	-486	-533	3 809	-13 253	-16 865	3 613	10 357	-6 704
06 *J-A*	P	10 088	1 772	-200	-8 316	1 189	-1 912	-3 438	-	-546	-2 421	-15 430	-12 854	-2 576	7 114	-5 895
07 *J-A*	A	12 357	8 707	-2	-3 650	-21	-1 948	-1 690	-519	-129	636	23 069	-2 135	25 204	-26 719	-4 286
06 *Nov*	P	-2 561	2 023	-1	4 584	6	1 764	2 221	-	12	586	4 156	482	3 674	427	3 997
Dec	P	-15 035	-11 427	-0	3 608	9	-1 805	2 286	-486	13	3 599	4 257	-395	4 652	-648	9
07 *Jan*	A	2 894	-2 101	-0	-4 995	9	1 628	106	-	8	-6 735	-7 098	-2 688	-4 410	2 103	1 741
Feb	A	9 918	24 708	0	14 790	8	-3 064	3 148	-	-1	14 708	17 844	2 372	15 473	-3 054	82
Mar	A	-5 731	-8 269	20	-2 538	4	2 220	686	-	7	-5 451	424	116	308	-2 962	2 913
Apr	A	13 165	7 525	6 773	-5 640	-11	-2 623	969	-519	21	-3 488	6 087	-3 011	9 098	-11 727	-2 152
May	A	-6 481	-3 444	107	3 037	9	2 148	985	-	24	-120	2 294	3 749	-1 455	743	3 157
Jun	A	-8 039	-3 539	-4 491	4 500	8	-2 681	6 511	-	-136	805	4 072	1 662	2 410	428	3 695
Jul	A	2 301	-6 897	-2 109	-9 198	-56	2 031	-15 135	-	-78	3 984	-2 466	-4 380	1 913	-6 732	-13 183
Aug	A	4 330	725	-301	-3 605	8	-1 606	1 040	-	27	-3 066	1 913	46	1 867	-5 518	-539

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).

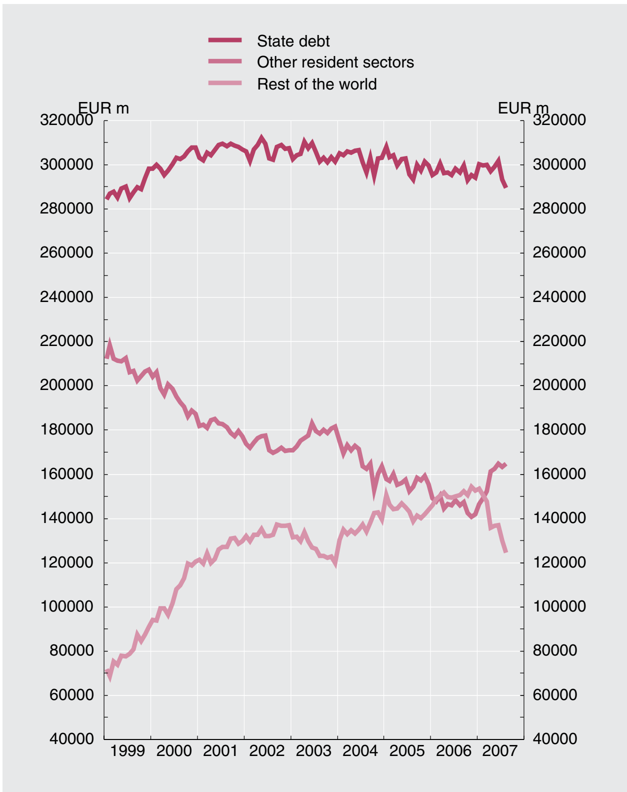
6.3. STATE: LIABILITIES OUTSTANDING. SPAIN

■ 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		301 476	5 105	38 702	250 337	7 873	4 564	192 399	10 952	181 447	120 029	300	6 821
04	P	303 254	3 267	35 996	250 125	7 388	9 746	182 967	19 412	163 554	139 700	300	7 186
05	P	299 578	2 154	31 647	254 442	6 902	6 588	178 398	22 810	155 588	143 990	300	6 020
06 *Oct*	P	293 134	523	31 106	249 106	6 902	6 020	163 622	21 017	142 605	150 529	100	5 645
Nov	P	295 340	516	32 762	249 643	6 902	6 033	162 670	21 792	140 878	154 462	100	5 960
Dec	P	294 332	515	31 087	250 784	6 416	6 046	163 603	21 788	141 815	152 517	100	5 794
07 *Jan*	A	300 173	519	32 703	255 001	6 416	6 054	168 342	21 788	146 553	153 620	100	5 772
Feb	A	299 752	386	29 614	257 670	6 416	6 052	170 980	21 788	149 192	150 560	100	5 777
Mar	A	299 862	382	31 834	255 553	6 416	6 060	176 083	23 783	152 300	147 563	120	5 681
Apr	A	297 000	381	29 191	255 895	5 832	6 081	184 612	23 439	161 174	135 826	6 893	5 718
May	A	299 174	382	31 340	255 896	5 832	6 105	186 043	23 439	162 604	136 570	7 000	5 716
Jun	A	301 746	386	28 640	261 304	5 832	5 969	188 394	23 535	164 859	136 887	2 508	6 166
Jul	A	293 196	386	30 511	250 962	5 832	5 891	186 580	23 384	163 196	130 000	399	6 106
Aug	A	289 434	384	28 765	248 919	5 832	5 917	190 488	25 580	164 908	124 526	98	6 106

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).

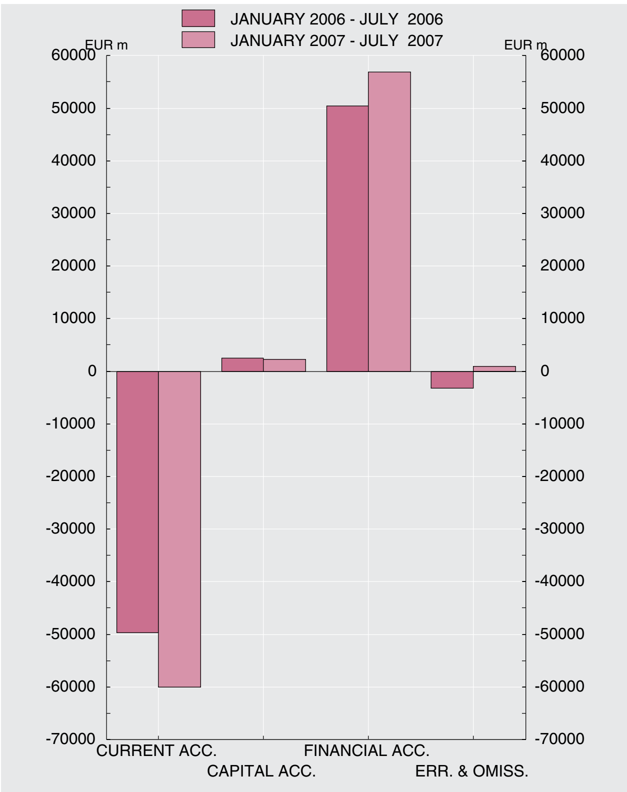
7.1. THE SPANISH BALANCE OF PAYMENTS VIS-à-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD. CURRENT ACCOUNT

■ Series depicted in chart.

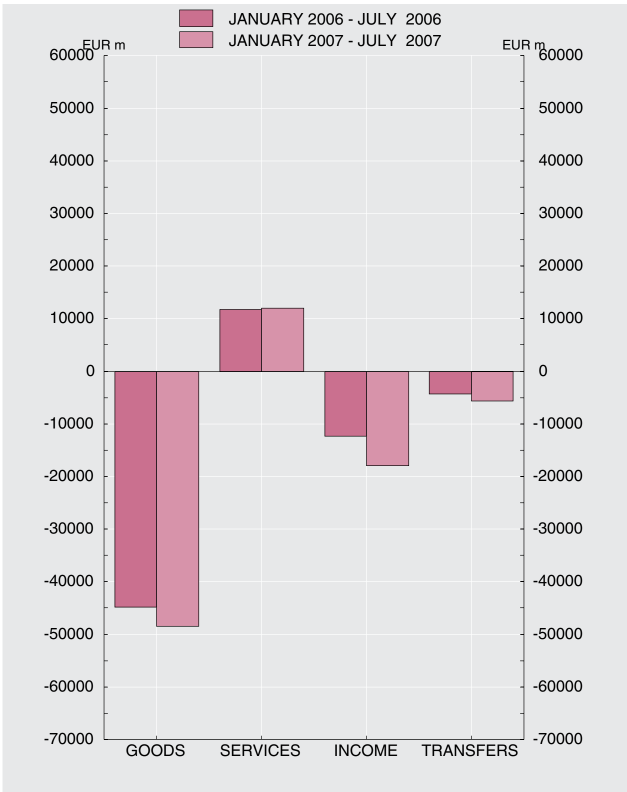
EUR millions

		Current account (a)													Capital account	Current account plus capital account	Financial account	Errors and omis-sion
			Goods			Services					Income			Current trans-fers (bal-ance)	(bal-ance)		(balance) (b)	
		Total (balance)	Balance	Receipts	Payments	Balance	Receipts		Payments		Balance	Receipts	Pay-ments					
							Total	Of which Travel	Total	Of which 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) ■
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		-66 860	-68 603	157 978	226 581	22 240	76 247	38 558	54 008	12 125	-17 103	31 870	48 974	-3 393	8 180	-58 679	60 818	-2 139
06	P	-84 736	-80 142	172 421	252 563	22 143	84 461	40 710	62 319	13 266	-20 983	39 031	60 014	-5 754	6 175	-78 562	81 471	-2 909
06 *J-J*	P	-49 711	-44 812	101 138	145 951	11 728	47 043	22 290	35 315	7 026	-12 366	21 347	33 712	-4 261	2 507	-47 204	50 457	-3 252
07 *J-J*	P	-60 082	-48 500	108 660	157 160	11 991	51 847	23 041	39 857	7 676	-17 911	27 482	45 393	-5 661	2 309	-57 773	56 839	934
06 *Apr*	P	-7 392	-6 166	13 353	19 519	1 181	5 887	2 663	4 706	942	-1 814	2 573	4 387	-593	227	-7 166	6 830	336
May	P	-5 675	-6 710	15 703	22 413	2 310	7 081	3 352	4 771	702	-901	4 361	5 262	-374	645	-5 031	5 670	-639
Jun	P	-6 083	-6 802	15 422	22 223	2 125	7 651	3 988	5 526	1 207	-1 678	3 168	4 846	272	201	-5 882	5 588	294
Jul	P	-8 445	-6 453	13 789	20 242	3 116	8 658	4 936	5 542	1 334	-4 200	2 957	7 156	-908	572	-7 873	8 039	-167
Aug	P	-6 438	-7 441	11 419	18 860	3 386	8 748	5 149	5 362	1 588	-1 666	2 395	4 060	-718	731	-5 708	7 049	-1 341
Sep	P	-7 452	-6 790	14 319	21 109	2 493	7 725	4 447	5 232	1 289	-2 310	2 687	4 998	-844	3	-7 449	7 125	324
Oct	P	-7 540	-7 560	15 491	23 052	2 559	7 955	3 924	5 397	1 192	-2 248	2 671	4 920	-290	363	-7 178	7 293	-115
Nov	P	-10 269	-7 910	15 329	23 239	1 120	6 452	2 630	5 332	1 168	-2 288	2 772	5 060	-1 191	583	-9 686	7 849	1 837
Dec	P	-3 326	-5 629	14 725	20 354	857	6 539	2 269	5 681	1 002	-105	7 159	7 264	1 551	1 989	-1 337	1 699	-362
07 *Jan*	P	-8 622	-6 452	14 205	20 657	952	6 434	2 673	5 483	1 114	-1 949	3 808	5 757	-1 172	1 301	-7 320	7 650	-329
Feb	P	-8 981	-6 021	15 130	21 151	819	5 849	2 290	5 030	910	-1 939	2 790	4 729	-1 839	131	-8 850	9 376	-526
Mar	P	-7 885	-6 774	16 599	23 373	1 130	6 856	2 814	5 726	1 076	-2 226	3 823	6 049	-14	102	-7 783	7 292	491
Apr	P	-8 851	-6 944	14 539	21 483	1 140	6 542	2 717	5 402	996	-2 120	3 834	5 954	-927	276	-8 575	6 468	2 107
May	P	-8 181	-7 045	16 279	23 324	2 151	7 415	3 358	5 264	779	-2 693	3 271	5 964	-594	244	-7 937	8 400	-464
Jun	P	-7 683	-7 451	16 363	23 814	2 429	8 442	4 124	6 013	1 252	-2 483	5 870	8 353	-178	102	-7 581	9 042	-1 461
Jul	P	-9 879	-7 813	15 545	23 358	3 371	10 309	5 065	6 938	1 548	-4 499	4 087	8 586	-937	153	-9 726	8 610	1 116

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).

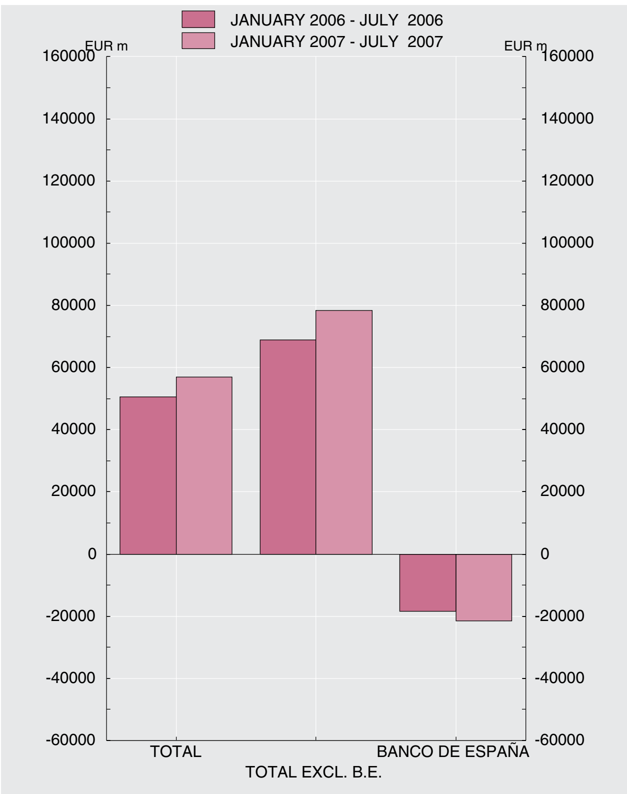
b. A positive sign for the financial account balance (the net change in liabilities exceeds the net change in financial assets) means a net credit inflow, i.e. a net foreign loan to Spain (increase in the debtor position or decrease in the creditor position).

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

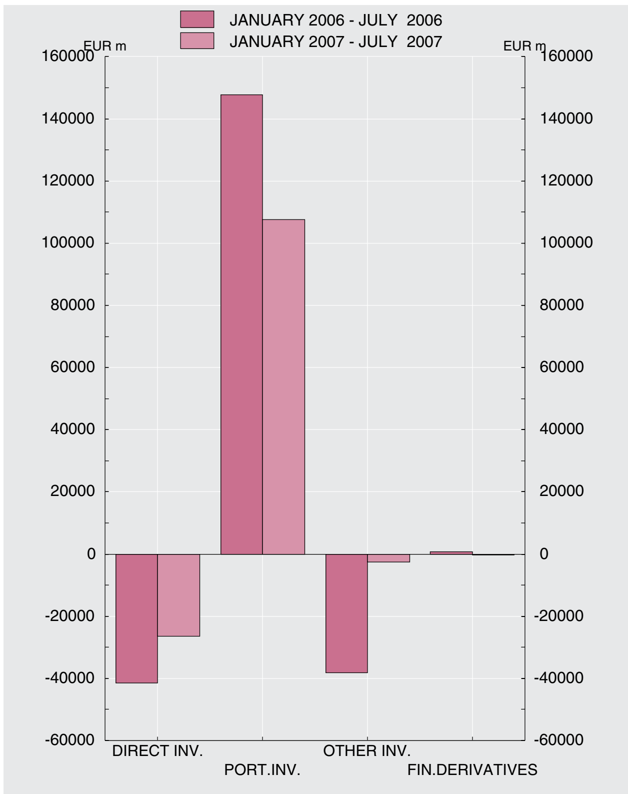
■ Series depicted in chart. *EUR millions*

		Financial account (NCL-NCA)	Total, excluding Banco de España: Total (NCL-NCA)	Direct investment: Balance (NCL-NCA)	Direct investment: Spanish investment abroad (NCA)	Direct investment: Foreign investment in Spain (NCL) (b)	Portfolio investment: Balance (NCL-NCA)	Portfolio investment: Spanish investment abroad (NCA)	Portfolio investment: Foreign investment in Spain (NCL) (c)	Other investment (d): Balance (NCL-NCA)	Other investment (d): Spanish investment abroad (NCA)	Other investment (d): Foreign investment in Spain (NCL)	Net financial derivatives (NCL-NCA)	Banco de España: Balance (NCL-NCA)	Banco de España: Reserves (e)	Banco de España: Claims with the Eurosystem (e)	Banco de España: 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
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		60 818	62 932	-13 517	33 636	20 119	58 734	79 741	138 475	17 349	47 253	64 601	366	-2 114	1 439	14 855	-18 409
06	P	81 471	107 271	-55 531	71 486	15 955	198 314	-5 103	193 210	-37 556	70 361	32 806	2 044	-25 800	-480	-12 327	-12 993
06 *J-J*	P	50 457	68 864	-41 505	53 311	11 806	147 817	-2 888	144 929	-38 272	44 707	6 435	824	-18 407	240	-17 058	-1 590
07 *J-J*	P	56 839	78 341	-26 432	41 492	15 060	107 643	15 911	123 553	-2 527	46 525	43 998	-342	-21 502	-346	-10 390	-10 766
06 *Apr*	P	6 830	10 023	-1 734	6 708	4 973	12 801	-3 083	9 719	-1 304	7 163	5 860	259	-3 193	440	-3 502	-131
May	P	5 670	3 688	-3 588	3 854	266	39 269	-16 669	22 601	-31 039	7 426	-23 613	-955	1 982	171	2 240	-429
Jun	P	5 588	9 873	-5 467	4 995	-472	27 088	-2 903	24 185	-12 747	4 409	-8 338	1 000	-4 285	-270	-4 148	134
Jul	P	8 039	10 470	-1 349	6 753	5 405	21 176	-1 722	19 454	-9 432	5 854	-3 578	74	-2 430	113	-1 897	-646
Aug	P	7 049	-1 972	-2 874	2 770	-104	2 192	2 103	4 295	-1 453	1 954	500	163	9 021	-150	10 682	-1 511
Sep	P	7 125	10 138	-3 248	4 679	1 431	15 316	-7 069	8 247	-1 759	11 038	9 279	-171	-3 013	-482	-1 975	-557
Oct	P	7 293	17 408	1 358	1 316	2 674	15 675	-3 055	12 621	-1 119	11 615	10 497	1 493	-10 114	4	-5 821	-4 297
Nov	P	7 849	7 235	-4 313	4 412	98	14 458	4 662	19 120	-2 231	5 081	2 849	-679	614	-20	3 750	-3 116
Dec	P	1 699	5 600	-4 950	4 999	49	2 856	1 143	3 999	7 279	-4 033	3 246	415	-3 901	-73	-1 905	-1 923
07 *Jan*	P	7 650	6 609	-2 105	4 550	2 445	16 709	-346	16 363	-8 633	6 318	-2 315	638	1 041	45	963	33
Feb	P	9 376	16 999	1 403	474	1 877	17 715	5 409	23 124	-2 190	10 289	8 098	71	-7 623	32	-6 077	-1 578
Mar	P	7 292	6 518	-4 662	2 483	-2 179	18 410	5 597	24 007	-7 622	19 297	11 675	392	774	-33	2 645	-1 838
Apr	P	6 468	20 239	-6 340	12 778	6 438	18 014	932	18 946	7 472	-13 089	-5 617	1 093	-13 771	-17	-12 813	-941
May	P	8 400	6 564	-9 661	11 760	2 099	9 722	5 364	15 086	7 987	4 585	12 572	-1 484	1 836	-29	3 622	-1 756
Jun	P	9 042	10 692	-885	1 627	743	12 394	1 260	13 654	-801	8 449	7 648	-16	-1 650	-308	321	-1 663
Jul	P	8 610	10 720	-4 183	7 820	3 637	14 679	-2 306	12 373	1 260	10 677	11 937	-1 036	-2 109	-35	949	-3 023

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.

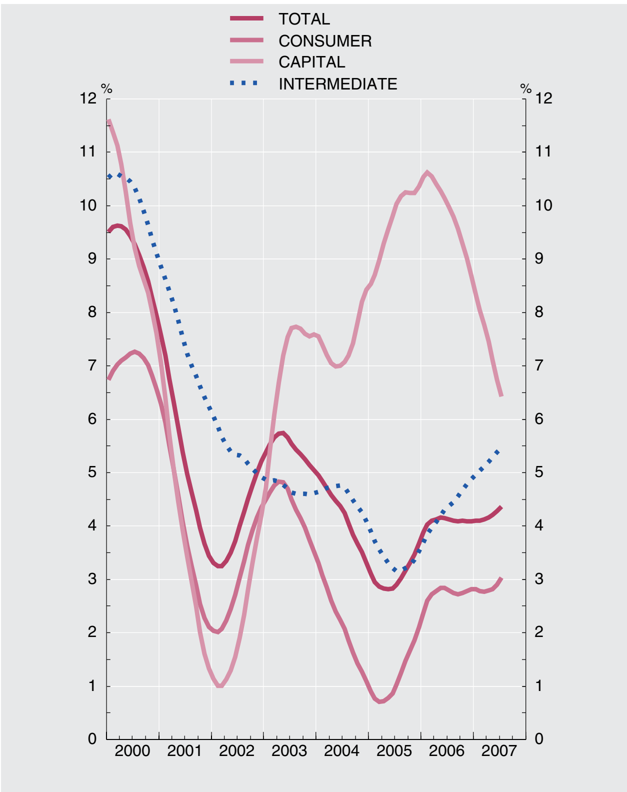
7.3. SPANISH FOREIGN TRADE WITH OTHER EURO AREA COUNTRIES AND WITH THE REST OF THE WORLD EXPORT AND DISPATCHES

■ Series depicted in chart.

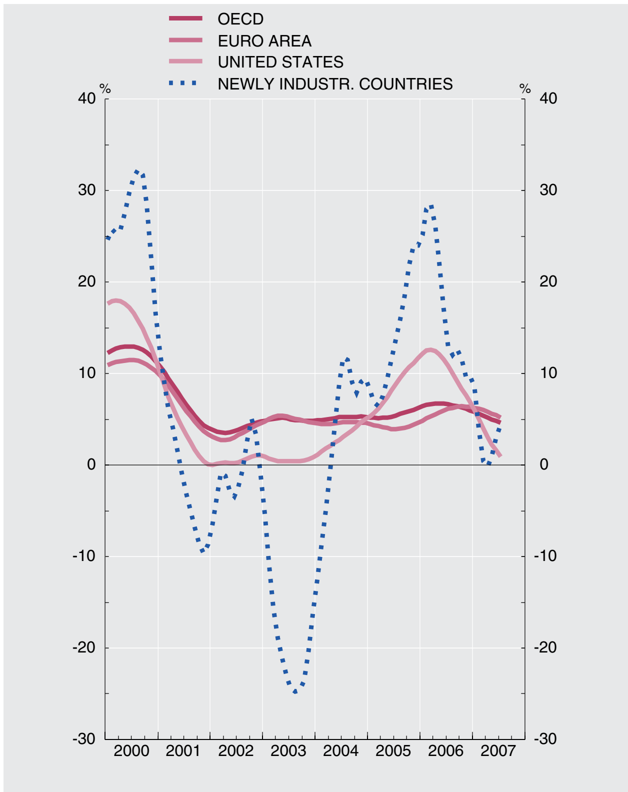
Eur millions and annual percentage changes

	Total			By product (deflated data) (a)					By geographical area (nominal data)							
						Intermediate			EU 25			OECD				
	EUR millions	Nominal	Deflated (a)	Consumer	Capital	Total	Energy	Non-energy	Total	of which: EU 15	of which: Euro area	Total	of which: United States	OPEC	Other American countries	Newly industrialised countries
	1	2	3 ■	4 ■	5 ■	6 ■	7	8	9	10	11 ■	12 ■	13 ■	14	15	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	155 005	5.5	0.8	-0.9	5.3	1.4	-8.9	2.0	2.5	2.3	2.1	4.2	10.2	10.4	11.8	14.5
06 *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
Aug	11 264	13.5	7.5	6.5	26.1	5.1	-12.6	6.4	9.3	8.7	10.6	10.3	26.3	25.2	79.4	4.1
Sep	14 092	4.3	-1.0	-5.3	18.9	-1.1	-16.2	-0.2	3.8	3.6	4.9	3.1	-1.2	-0.6	11.1	23.5
Oct	15 264	15.5	9.3	5.0	27.0	9.9	-21.1	11.6	17.6	17.3	18.2	14.5	-4.1	-1.5	57.0	31.3
Nov	15 097	3.5	0.1	-0.5	-8.6	2.8	-39.6	5.0	7.5	6.9	8.3	5.9	3.5	-16.8	-28.7	-15.3
Dec	14 538	9.4	5.2	8.5	-7.0	5.8	31.8	4.4	1.6	0.9	2.8	4.9	40.5	14.2	23.6	9.9
07 *Jan*	13 969	9.5	6.0	9.7	-18.6	8.5	-15.1	9.7	11.4	10.5	13.6	9.0	4.7	31.0	-16.4	76.6
Feb	14 860	6.2	1.7	-2.4	7.4	3.8	-3.4	4.1	3.0	2.5	4.4	4.5	20.8	-16.6	58.2	-23.2
Mar	16 302	5.5	1.6	0.3	-6.4	4.0	-19.7	5.2	8.4	7.4	9.2	5.9	-2.8	15.7	-24.0	-8.1
Apr	14 399	9.4	6.7	6.7	18.6	4.5	-6.7	5.0	9.0	8.1	10.1	4.8	-12.0	45.0	42.2	-4.6
May	16 019	3.5	0.2	-5.9	1.6	4.6	-6.2	5.1	4.4	3.4	5.6	2.5	-22.1	-11.0	-14.4	-10.9
Jun	16 110	6.0	2.0	-2.2	0.5	5.3	-3.3	5.6	3.4	2.3	3.0	4.2	24.3	14.2	22.0	14.4
Jul	15 322	12.7	10.6	13.2	-5.8	12.2	15.5	12.0	12.7	12.1	13.7	11.7	9.4	27.7	-20.9	8.0

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.

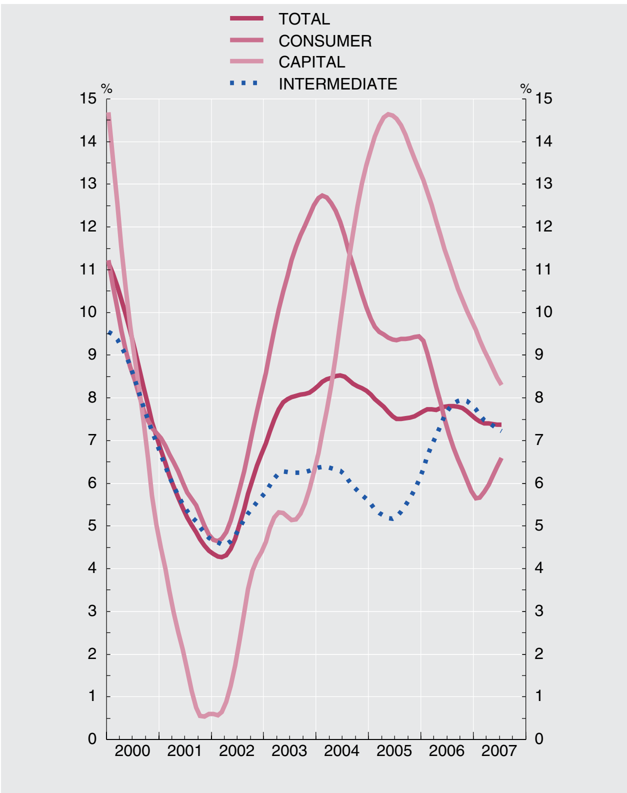
7.4. SPANISH FOREIGN TRADE WITH OTHER EURO AREA COUNTRIES AND WITH THE REST OF THE WORLD IMPORTS AND ARRIVALS

■ Series depicted in chart.

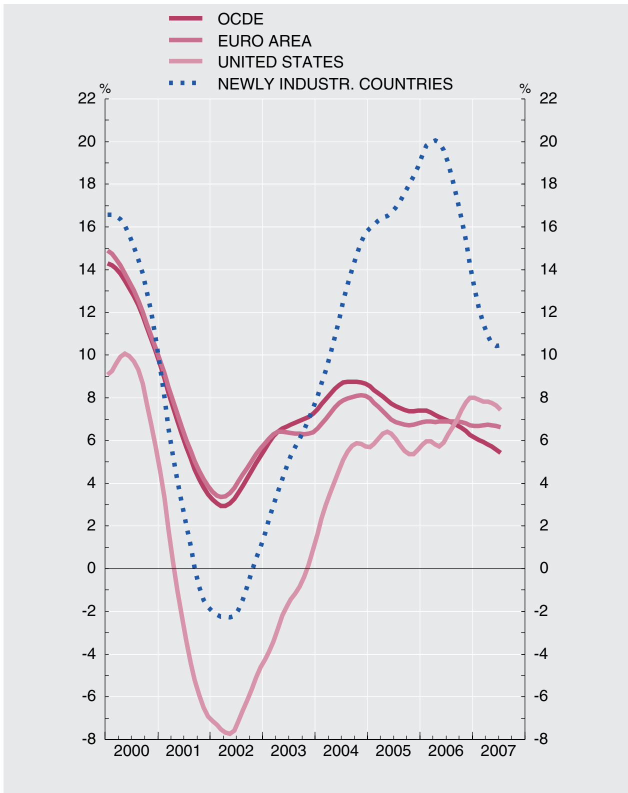
Eur millions and annual percentage changes

	Total: EUR millions	Total: Nom-inal	Total: De-flated (a)	By product (deflated data) (a): Con-sumer	By product: Capital	By product: Intermediate: Total	By product: Intermediate: Energy	By product: Intermediate: Non-energy	By geographical area (nominal data): EU 25: Total	EU 25 of which: EU 15	EU 25 of which: Euro area	OECD: Total	OECD of which: United States	OPEC	Other American coun-tries	Newly industri-alised coun-tries
	1	2	3 ■	4 ■	5 ■	6 ■	7	8	9	10	11 ■	12 ■	13 ■	14	15	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	232 954	11.8	6.4	8.4	17.6	3.4	10.9	1.5	5.5	5.2	5.3	6.1	-0.1	36.9	29.3	11.2
06 *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
Aug	19 342	13.0	10.5	4.9	5.2	14.4	1.3	19.0	8.9	8.0	8.2	9.0	-4.6	26.1	24.6	28.8
Sep	21 740	5.4	4.6	-0.5	2.3	7.6	-8.5	11.7	3.0	2.1	1.6	3.4	-3.2	-7.1	39.8	9.8
Oct	23 665	19.2	17.2	13.6	31.5	16.5	15.1	16.9	13.3	13.5	14.8	13.9	18.1	38.1	51.8	41.5
Nov	23 871	9.1	8.8	8.9	-4.6	12.5	1.3	15.2	8.2	6.9	8.9	8.5	19.4	-2.0	-16.0	9.8
Dec	20 934	2.3	1.1	0.3	-8.1	3.8	2.6	4.1	-4.7	-5.4	-3.5	-3.3	36.8	12.2	29.1	24.3
07 *Jan*	21 592	11.7	10.8	-7.9	32.2	17.9	4.0	21.6	10.1	6.4	5.8	7.7	15.4	1.6	17.2	0.3
Feb	21 749	6.1	5.5	1.8	14.7	5.5	3.2	6.1	4.8	5.6	6.2	5.1	7.5	-8.9	41.2	-1.8
Mar	24 106	2.7	0.8	3.1	14.8	-2.7	-12.0	-0.5	4.9	5.2	5.7	2.7	-3.6	-19.6	-1.7	0.6
Apr	22 059	10.0	12.3	10.6	9.3	13.5	1.9	16.4	12.1	12.3	13.3	11.8	11.6	-11.3	5.5	-1.9
May	23 943	4.1	6.8	-0.1	17.6	8.0	6.4	8.4	5.6	5.3	7.5	6.5	18.0	-10.0	-26.2	-10.6
Jun	24 426	6.8	3.6	7.2	6.2	1.4	1.0	1.5	6.7	6.2	6.2	6.3	18.1	-2.4	3.3	13.7
Jul	23 983	15.4	13.4	15.0	0.6	14.8	10.6	15.8	14.4	13.4	14.9	15.1	4.1	-1.1	22.2	2.5

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 .

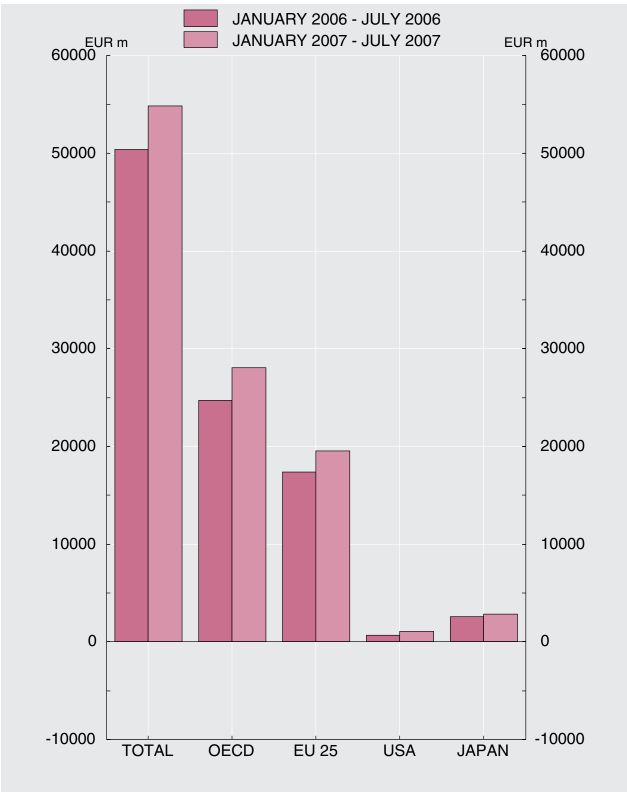
7.5. SPANISH FOREIGN TRADE WITH OTHER EURO AREA COUNTRIES AND WITH THE REST OF THE WORLD. TRADE BALANCE. GEOGRAPHICAL DISTRIBUTION

■ Series depicted in chart.

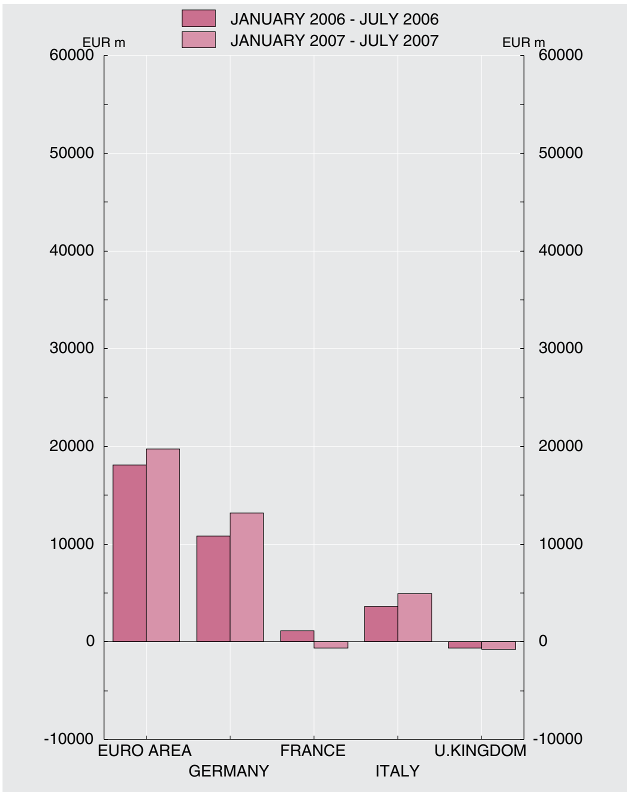
EUR millions

	World total	European Union (EU 25)									OECD			OPEC	Other American countries	Newly industrialised countries
		Total	European Union (EU 15)								Total	of which:				
			Total	Euro area				United Kingdom	Other EU 15 members			United States of América	Japan			
				Total	of which:											
					Germany	France	Italy									
	1 ■	2 ■	3	4 ■	5 ■	6 ■	7 ■	8 ■	9		10 ■	11 ■	12 ■	13	14	15
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	-77 950	-30 553	-29 889	-29 596	-16 749	-3 112	-6 938	-210	-82		-41 592	-1 092	-4 769	-13 683	-3 089	-3 411
06	-92 249	-33 476	-31 940	-32 084	-18 689	-1 625	-7 184	294	-150		-45 357	-1 062	-4 652	-18 384	-3 316	-4 564
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
07 *J-J*	-54 878	-20 473	-19 532	-19 720	-13 186	612	-4 926	764	-577		-28 070	-1 071	-2 827	-9 039	-1 683	-2 630
06 *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
Aug	-8 078	-2 856	-2 773	-2 708	-1 491	-165	-483	-68	3		-3 752	2	-326	-1 716	-123	-301
Sep	-7 647	-2 359	-2 256	-2 251	-1 396	-83	-460	-5	-0		-3 437	-43	-372	-1 476	-429	-322
Oct	-8 402	-2 612	-2 481	-2 582	-1 597	93	-672	97	4		-3 939	-95	-455	-1 601	-582	-439
Nov	-8 775	-3 075	-2 890	-2 844	-1 642	65	-898	87	-134		-4 392	-202	-375	-1 336	-531	-476
Dec	-6 396	-2 961	-2 807	-2 709	-1 483	-209	-606	-78	-20		-3 565	37	-361	-1 422	84	-405
07 *Jan*	-7 624	-2 214	-1 825	-1 918	-1 456	112	-438	150	-57		-3 089	-138	-375	-1 330	-383	-354
Feb	-6 889	-2 374	-2 316	-2 375	-1 756	167	-605	145	-86		-3 338	-80	-401	-1 206	-180	-341
Mar	-7 804	-2 837	-2 799	-2 826	-1 840	170	-642	183	-156		-3 907	-136	-475	-1 183	-425	-355
Apr	-7 660	-3 344	-3 257	-3 061	-1 908	-68	-749	-113	-83		-4 559	-337	-389	-1 153	-3	-285
May	-7 924	-2 863	-2 679	-2 718	-1 974	153	-714	81	-42		-4 191	-269	-407	-1 268	-192	-394
Jun	-8 316	-3 617	-3 508	-3 606	-2 199	-24	-897	188	-90		-4 529	73	-410	-1 463	-111	-540
Jul	-8 661	-3 225	-3 148	-3 217	-2 052	102	-881	132	-63		-4 458	-184	-368	-1 437	-390	-361

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.

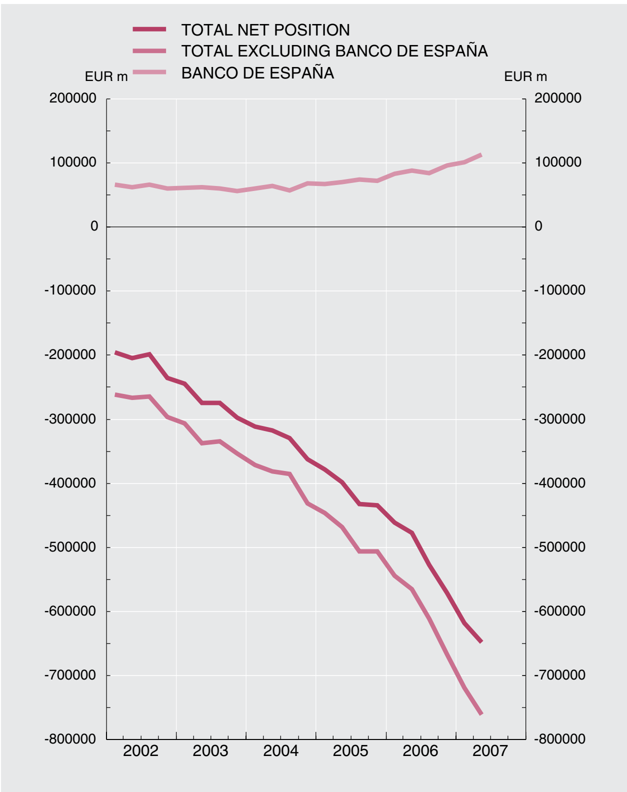
7.6. SPANISH INTERNATIONAL INVESTMENT POSITION VIS-à-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD SUMMARY

■ Series depicted in chart.

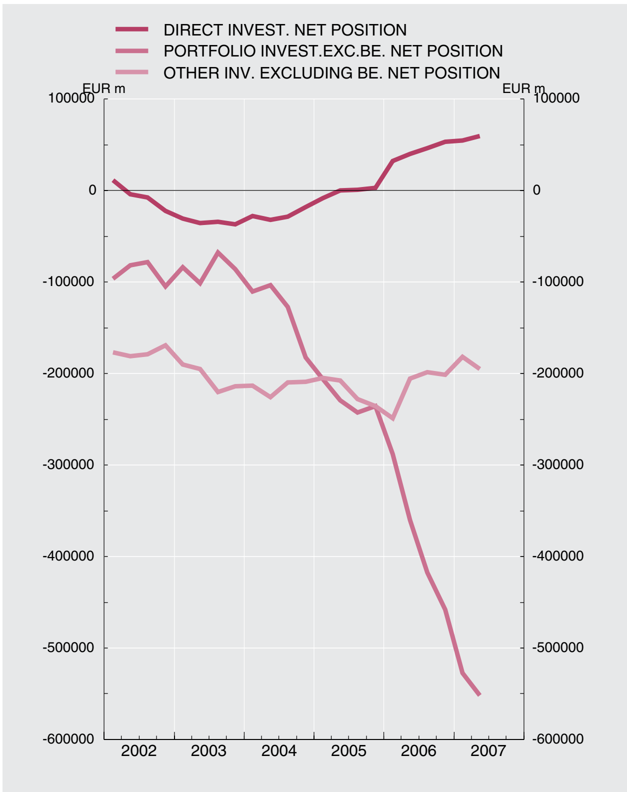
End-of-period stocks in EUR billions

	Net interna- tional invest- ment 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			Financial derivat- ives Net position (assets- liabil.)	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 invest- ment abroad (assets)	Foreign invest- ment in Spain (liabil.)	Net position (assets- liabil.)	Spanish invest- ment abroad (assets)	Foreign invest- ment in Spain (liabil.)	Net position (assets- liabil.)	Spanish invest- ment abroad (assets)	Foreign invest- ment in Spain (liabil.)					
	1=2+13 ■	2=3+6+ 9+12 ■	3=4-5 ■	4	5	6=7-8 ■	7	8	9=10-11 ■	10	11		13= 14to16 ■	14	14	15
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	-236.0	-296.6	-22.1	223.1	245.2	-105.7	256.8	362.5	-168.9	197.4	366.3	-	60.6	38.4	22.7	-0.4
03	-297.7	-353.8	-37.4	231.6	268.9	-102.3	319.8	422.0	-214.2	204.0	418.1	-	56.1	21.2	18.3	16.6
04 *Q2*	-317.7	-381.9	-32.4	247.6	280.0	-123.4	347.9	471.3	-226.1	222.1	448.2	-	64.2	16.2	27.9	20.0
Q3	-329.0	-385.8	-28.6	254.2	282.9	-147.2	344.4	491.5	-210.0	229.7	439.7	-	56.8	15.9	20.5	20.4
Q4	-362.9	-431.0	-18.4	272.3	290.7	-203.2	359.3	562.5	-209.4	222.2	431.6	-	68.1	14.5	31.9	21.7
05 *Q1*	-378.7	-446.0	-8.3	287.3	295.6	-232.7	366.5	599.2	-205.0	240.3	445.2	-	67.3	13.3	25.2	28.8
Q2	-398.3	-468.6	0.3	298.8	298.5	-261.4	390.8	652.2	-207.5	255.7	463.2	-	70.4	13.7	22.0	34.7
Q3	-432.3	-506.3	0.4	302.8	302.4	-278.9	417.7	696.6	-227.8	255.5	483.3	-	74.0	14.0	21.2	38.7
Q4	-434.3	-506.4	2.6	317.0	314.4	-273.6	454.7	728.4	-235.4	269.1	504.5	-	72.2	14.6	17.1	40.5
06 *Q1*	-461.2	-544.2	32.1	348.5	316.5	-327.1	476.7	803.8	-249.2	286.5	535.7	-	83.0	15.4	26.8	40.8
Q2	-477.0	-564.8	39.9	360.7	320.8	-399.2	444.3	843.5	-205.5	301.6	507.1	-	87.8	14.6	32.2	41.0
Q3	-527.3	-611.1	46.5	375.7	329.2	-459.1	447.7	906.8	-198.5	316.6	515.1	-	83.8	15.0	25.4	43.4
Q4	-570.9	-666.9	52.8	387.2	334.4	-508.9	455.7	964.6	-201.3	328.6	529.9	-9.6	96.0	14.7	29.4	52.0
07 *Q1*	-618.6	-719.4	54.4	392.5	338.1	-580.7	460.7	1 041.3	-181.9	363.0	544.9	-11.2	100.8	14.0	31.9	54.9
Q2	-648.3	-760.9	59.6	418.5	358.9	-609.4	471.9	1 081.3	-195.2	366.6	561.8	-15.9	112.6	12.9	40.7	59.0

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.

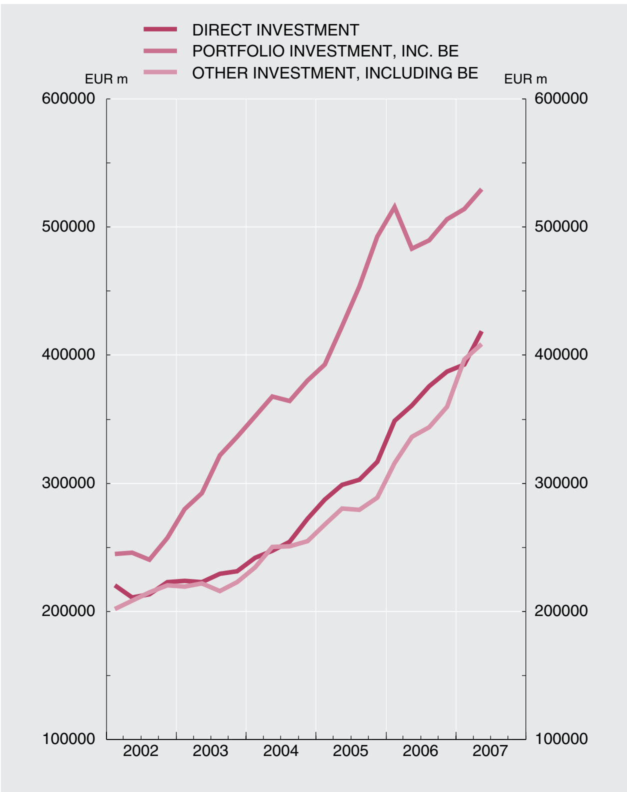
7.7. SPANISH INTERNATIONAL INVESTMENT POSITION VIS-à-VIS OTHER EURO AREA RESIDENTES AND THE REST OF THE WORLD BREAKDOWN BY INVESTMENT

■ Series depicted in chart.

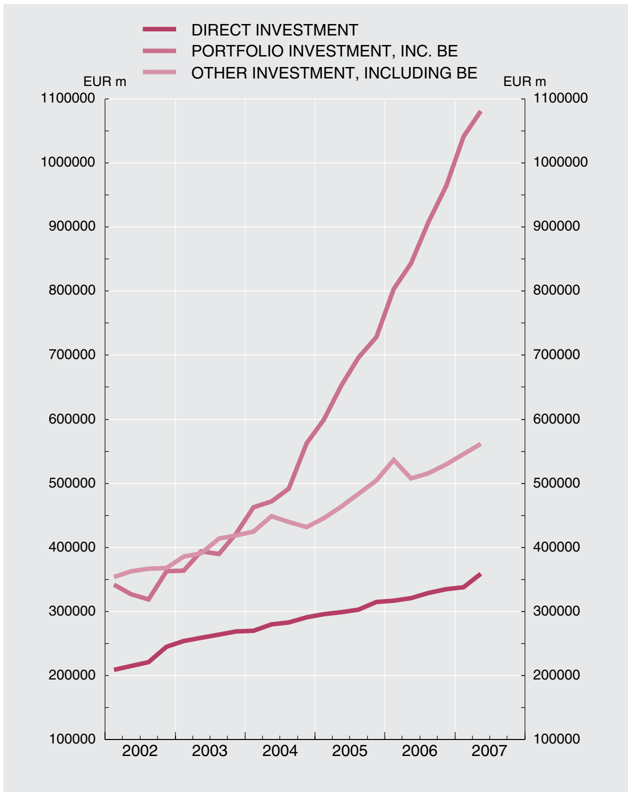
End-of-period stocks in EUR millions

	Direct investment				Portfolio investment, including Banco de España				Other investment, including Banco de España		Financial derivatives	
	Spanish investment abroad		Foreign investment in Spain		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 ■	11	12
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	245 492	220 483	367 646	-	-
03	217 086	14 477	207 096	61 828	62 677	273 344	147 878	274 166	222 670	418 202	-	-
04 *Q2*	230 136	17 465	214 813	65 228	75 271	292 225	149 108	322 159	250 458	448 162	-	-
Q3	234 813	19 406	218 183	64 681	71 014	293 161	150 702	340 847	250 801	439 721	-	-
Q4	254 696	17 627	223 215	67 501	78 053	302 067	183 211	379 279	254 992	431 651	-	-
05 *Q1*	267 443	19 861	225 155	70 423	79 829	313 130	184 793	414 446	267 804	445 247	-	-
Q2	278 521	20 234	229 158	69 333	83 676	339 219	178 505	473 699	280 368	463 249	-	-
Q3	281 577	21 228	229 623	72 789	93 654	360 155	204 334	492 267	279 437	483 386	-	-
Q4	295 784	21 209	239 162	75 254	104 157	388 472	197 347	531 035	288 964	504 641	-	-
06 *Q1*	328 771	19 763	239 311	77 144	119 452	395 944	214 645	589 149	315 929	536 197	-	-
Q2	339 595	21 143	244 871	75 972	122 047	361 127	206 547	636 951	336 270	507 419	-	-
Q3	355 871	19 848	247 800	81 435	126 170	363 383	232 494	674 271	343 688	515 241	-	-
Q4	365 573	21 666	253 186	81 234	133 193	373 001	245 683	718 897	359 617	530 054	32 973	42 569
07 *Q1*	371 787	20 754	254 335	83 796	140 408	373 512	256 533	784 777	396 600	545 076	34 211	45 407
Q2	402 523	15 936	269 041	89 857	154 734	374 812	266 848	814 469	408 798	561 847	39 920	55 857

SPANISH INVESTMENT ABROAD



FOREIGN INVESTMENT IN SPAIN



Source: BE.
Note: See footnote to Indicator 7.6

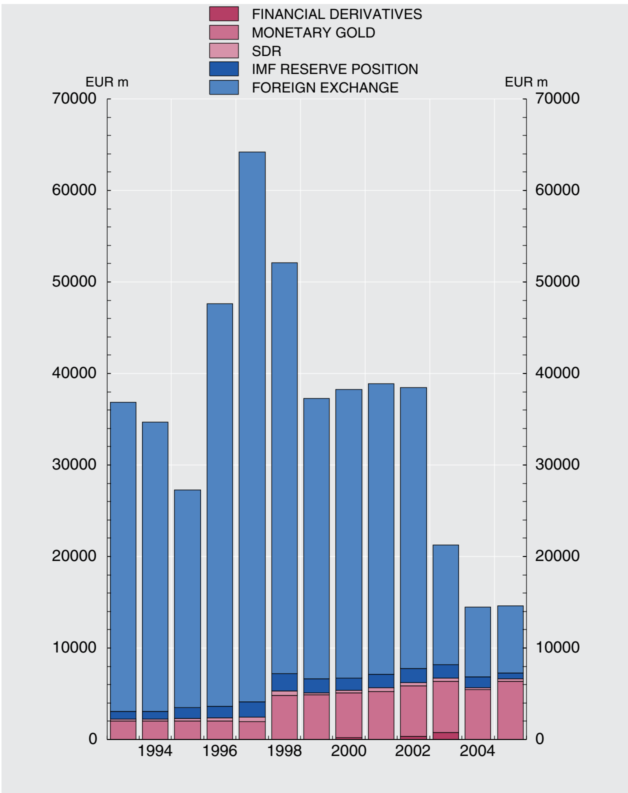
7.8. SPANISH RESERVE ASSETS

■ Series depicted in chart.

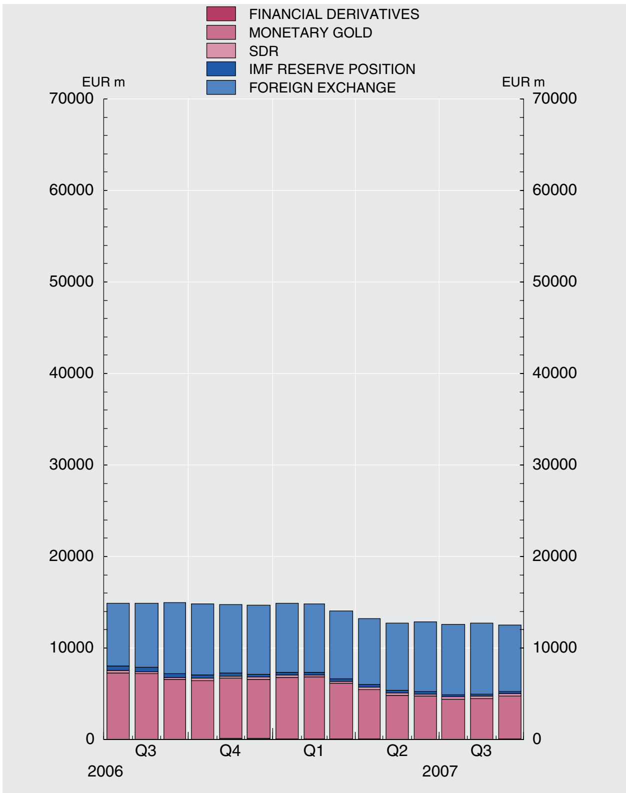
End-of-period stocks in EUR millions

	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	14 601	7 306	636	281	6 400	-21	14.7
06 *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
Oct	14 809	7 723	361	258	6 470	-3	13.7
Nov	14 750	7 489	322	254	6 544	141	13.4
Dec	14 685	7 533	303	254	6 467	127	13.4
07 *Jan*	14 893	7 557	307	261	6 716	52	13.4
Feb	14 800	7 459	261	251	6 735	94	13.4
Mar	14 045	7 410	255	251	6 037	91	12.1
Apr	13 232	7 252	252	249	5 379	100	10.8
May	12 696	7 332	281	243	4 829	11	9.9
Jun	12 873	7 616	281	244	4 732	0	9.9
Jul	12 572	7 647	261	246	4 397	20	9.1
Aug	12 734	7 764	249	245	4 460	16	9.1
Sep	12 493	7 227	245	241	4 711	69	9.1

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 'International Reserves and Foreign Currency Liquidity
Guidelines for a Data Template', October 2001 (http://dsbb.imf.org/Applications/web/sddsguide). 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 *Q3*	744 144	177 307	3 290	1 780	160 058	12 179	-	367 992	353	183 340	54 498	129 801
Q4	775 767	174 827	4 312	335	157 552	12 628	-	379 423	326	187 752	61 652	129 693
04 *Q1*	818 597	189 370	3 592	489	172 254	13 035	-	398 303	361	186 529	77 928	133 485
Q2	859 825	186 801	3 200	428	170 051	13 121	-	430 763	353	207 118	84 615	138 676
Q3	870 725	192 431	2 873	1 755	174 457	13 346	-	427 166	362	198 299	92 532	135 974
Q4	906 924	202 222	2 776	705	181 878	16 864	-	431 337	301	194 245	104 720	132 071
05 *Q1*	958 093	204 821	2 513	1 024	183 038	18 246	-	460 500	467	202 197	125 535	132 301
Q2	1 038 112	213 926	2 110	437	194 059	17 320	-	490 258	587	232 191	139 670	117 810
Q3	1 080 406	213 357	3 088	1 424	191 719	17 126	-	517 879	400	264 976	150 727	101 776
Q4	1 144 519	213 399	2 465	65	192 798	18 072	-	548 891	981	276 566	164 457	106 887
06 *Q1*	1 238 087	214 061	4 628	11	191 300	18 121	-	589 522	1 003	295 771	193 633	99 115
Q2	1 258 174	213 327	3 620	345	191 381	17 981	-	580 901	2 186	268 475	208 797	101 443
Q3	1 307 270	214 162	6 070	1 469	188 569	18 054	-	602 346	5 274	267 202	225 647	104 224
Q4	1 369 701	215 553	4 836	662	191 871	18 183	-	622 807	6 252	277 169	236 038	103 347
07 *Q1*	1 457 640	219 213	4 901	37	195 616	18 659	-	657 875	11 371	295 511	251 968	99 026
Q2	1 515 630	213 701	5 446	440	189 073	18 741	-	683 737	10 672	294 344	269 408	109 312

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 *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	146 248	2 321	20 013	359	53 044	69 437	405	669	84 614	36 527	48 088
Q2	1	1	152 757	2 561	18 246	229	61 378	69 314	403	625	89 504	37 429	52 075
Q3	0	0	160 970	3 312	18 630	634	67 310	70 153	393	537	90 157	37 826	52 331
Q4	16	16	177 355	4 043	19 005	1 175	85 561	66 675	414	482	95 994	38 687	57 307
05 *Q1*	0	0	194 372	4 274	20 554	787	98 620	68 943	405	788	98 399	39 311	59 088
Q2	71	71	232 694	3 839	19 887	1 569	133 435	72 779	397	788	101 164	41 303	59 861
Q3	42	42	244 375	3 401	19 249	1 636	142 932	76 146	365	646	104 752	42 350	62 402
Q4	126	126	273 260	3 380	17 906	996	166 955	83 133	363	527	108 842	43 381	65 462
06 *Q1*	462	462	321 300	2 905	19 004	408	195 679	102 435	359	510	112 741	46 957	65 784
Q2	291	291	349 851	4 283	17 841	330	226 684	99 856	352	506	113 804	48 227	65 577
Q3	158	158	372 845	4 641	21 393	830	244 071	101 063	349	499	117 758	51 471	66 287
Q4	154	154	410 438	4 786	22 266	694	275 114	106 750	340	489	120 749	51 718	69 031
07 *Q1*	154	154	452 611	5 303	21 082	541	315 618	109 275	325	467	127 787	51 935	75 851
Q2	96	96	478 782	5 491	26 761	1 054	334 378	110 311	321	467	139 314	52 333	86 981

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
06 *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	-
Oct	433 484	313 068	120 001	432	-9	84	92	261 353	591 532	22 866	327 789	-25 256	5 562	166 570	-
Nov	428 935	308 796	120 002	-	5	175	43	252 396	594 677	15 133	327 060	-30 353	5 361	171 178	-
Dec	442 027	321 852	119 999	119	-1	151	93	261 057	616 005	4 996	326 659	-33 285	5 152	175 819	-
07 *Jan*	435 688	317 755	120 000	-1 996	-1	101	171	257 241	610 602	13 826	323 822	-43 365	3 374	175 024	49
Feb	418 118	289 075	130 001	-902	2	61	119	236 075	604 440	4 649	321 665	-51 350	3 203	178 840	-
Mar	420 564	280 636	140 909	-480	1	95	597	234 586	608 664	5 280	321 550	-57 808	2 903	183 075	-
Apr	434 240	285 048	150 001	-1 180	-1	667	295	247 831	619 122	14 826	326 080	-60 037	3 924	182 485	-
May	433 181	283 588	149 999	-107	-3	257	553	244 184	622 961	12 149	326 288	-64 638	4 944	184 053	-
Jun	437 662	288 001	150 003	-300	-10	223	254	245 845	628 079	13 369	326 082	-69 521	4 464	187 353	-
Jul	452 796	302 818	150 003	114	32	138	308	257 101	637 586	17 403	316 883	-81 004	2 914	192 780	-
Aug	452 518	282 934	160 437	9 185	4	238	280	251 830	640 337	10 625	317 107	-82 024	1 897	198 790	-
Sep	453 015	219 501	235 000	-888	-0	321	918	256 963	636 467	26 525	317 894	-88 135	5 898	190 154	-

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
06 *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	-
Oct	21 333	17 413	3 908	23	-9	-	0	30 132	81 689	8 621	16 037	-44 142	-26 775	-25 416	-1 359	17 977	-
Nov	21 334	17 392	3 939	-	2	0	0	29 670	81 557	11 191	15 636	-47 443	-26 688	-25 443	-1 245	18 352	-
Dec	21 181	17 497	3 671	10	-2	5	0	26 202	84 859	7 042	15 432	-50 267	-24 501	-23 640	-861	19 480	-
07 *Jan*	21 704	18 536	3 170	-	-1	-	0	25 995	84 423	8 554	15 350	-51 631	-22 709	-22 011	-698	18 418	-
Feb	22 588	19 883	2 692	12	1	-	0	25 658	83 187	10 180	15 269	-52 440	-22 025	-21 757	-268	18 954	-
Mar	20 302	16 637	3 939	-	-0	-	274	22 613	83 729	8 474	15 065	-54 525	-21 554	-21 032	-521	19 243	-
Apr	19 143	15 571	3 876	-232	-0	-	72	25 505	85 050	10 537	14 604	-55 479	-26 784	-26 289	-495	20 423	-
May	20 278	16 315	3 997	-	-2	0	32	34 020	84 242	20 763	14 040	-56 944	-33 112	-32 805	-307	19 370	-
Jun	18 243	15 824	2 419	-	-0	-	0	33 209	84 836	21 333	13 529	-59 432	-35 156	-34 802	-354	20 191	-
Jul	18 355	15 804	2 520	2	31	-	2	24 807	85 999	14 606	12 826	-62 972	-27 547	-27 106	-441	21 095	-
Aug	18 179	15 657	2 341	183	-1	-	1	21 241	85 141	12 237	12 661	-63 477	-24 307	-24 045	-262	21 245	-
Sep	20 937	12 319	8 673	-49	-5	-	1	18 791	83 558	11 531	12 559	-63 738	-17 965	-17 669	-296	20 111	-

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

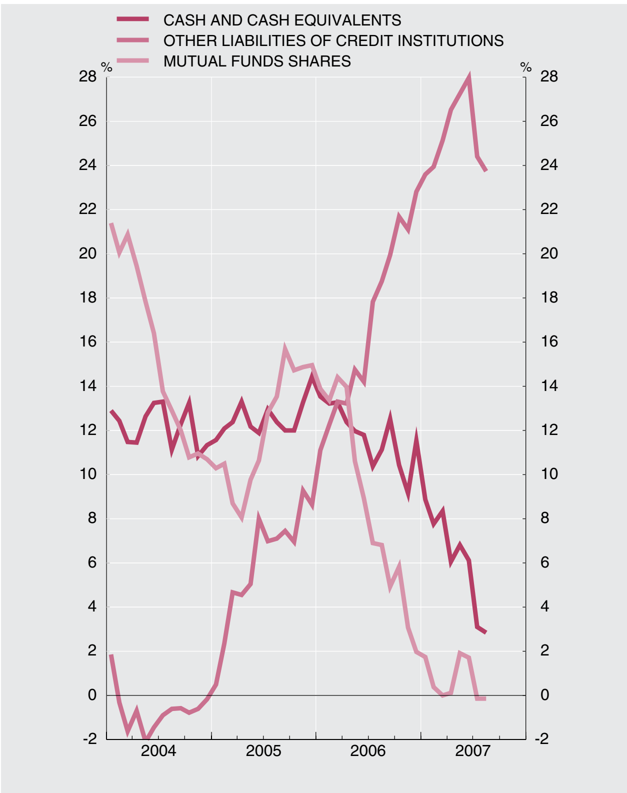
8.2 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

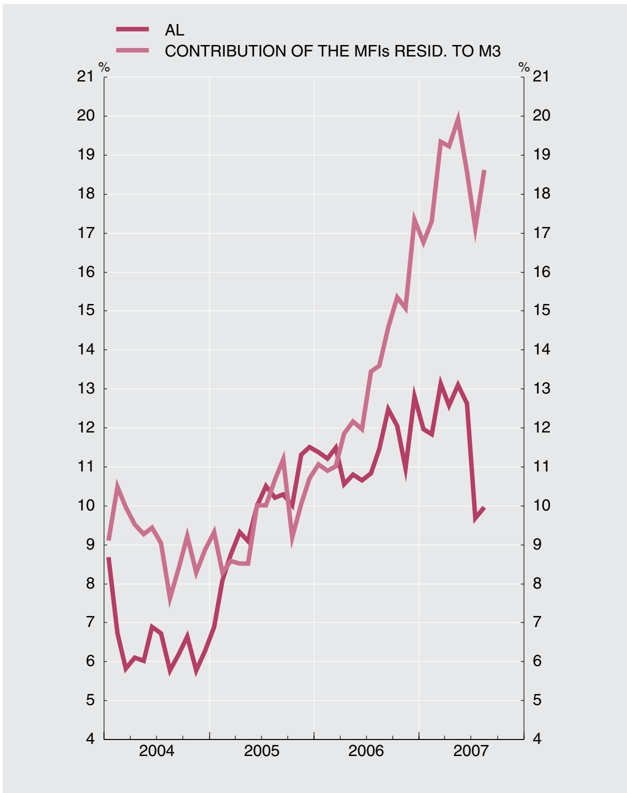
EUR millions and %

	Cash and cash equivalents				Other liabilities of credit institutions					Mutual funds shares				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 ■
04	401 569	11.3	19.7	9.5	277 903	-0.2	8.4	-28.4	-8.3	192 531	10.7	6.1	16.1	6.3	8.9
05	459 550	14.4	16.1	14.0	301 892	8.6	10.5	-0.6	5.3	221 306	14.9	7.7	22.6	11.5	10.7
06	512 581	11.5	9.9	11.9	370 743	22.8	22.8	29.4	0.9	225 687	2.0	-10.1	13.1	12.8	17.3
06 *May*	466 598	12.0	14.9	11.3	322 995	14.8	13.5	26.4	0.3	225 730	10.6	-4.8	26.3	10.8	12.2
Jun	486 718	11.8	14.4	11.2	328 954	14.2	13.9	24.2	-10.3	225 521	8.9	-3.8	22.0	10.7	12.0
Jul	486 852	10.4	12.7	9.9	335 784	17.8	16.7	31.9	-4.1	225 387	6.9	-6.0	20.1	10.8	13.4
Aug	476 857	11.1	12.4	10.8	343 448	18.8	17.7	32.3	-3.3	227 969	6.8	-6.8	20.7	11.5	13.6
Sep	490 567	12.5	11.4	12.8	346 011	19.9	19.3	32.4	-5.5	227 577	4.9	-7.7	17.4	12.5	14.6
Oct	481 540	10.5	10.5	10.4	350 953	21.7	20.5	36.0	1.2	229 123	5.8	-7.4	18.9	12.0	15.3
Nov	486 157	9.1	10.6	8.8	358 407	21.1	21.4	26.8	-3.5	226 128	3.1	-9.6	15.1	11.0	15.1
Dec	512 581	11.5	9.9	11.9	370 743	22.8	22.8	29.4	0.9	225 687	2.0	-10.1	13.1	12.8	17.3
07 *Jan*	490 546	8.9	9.2	8.8	378 948	23.6	26.0	18.1	-4.0	225 798	1.8	-9.0	11.1	12.0	16.8
Feb	491 056	7.8	8.6	7.6	385 824	23.9	26.6	16.7	-4.1	225 755	0.4	-7.1	6.5	11.8	17.3
Mar	501 750	8.3	8.3	8.4	397 943	25.1	27.7	15.8	8.9	228 073	0.0	-3.1	2.4	13.1	19.3
Apr	491 186	6.0	7.2	5.8	402 752	26.5	28.5	20.6	7.1	228 575	0.1	-2.1	1.8	12.6	19.2
May	498 400	6.8	7.2	6.7	411 053	27.3	28.0	25.3	17.9	230 073	1.9	-3.7	6.2	13.1	19.9
Jun	516 493	6.1	6.5	6.0	421 009	28.0	28.5	30.5	5.4	229 351	1.7	-6.0	8.0	12.6	18.6
Jul P	501 957	3.1	5.1	2.6	417 730	24.4	27.0	13.9	8.3	225 037	-0.2	-7.8	5.9	9.7	17.1
Aug P	490 439	2.8	5.2	2.3	424 971	23.7	26.2	13.2	10.5	227 669	-0.1	-3.3	2.4	10.0	18.6

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.

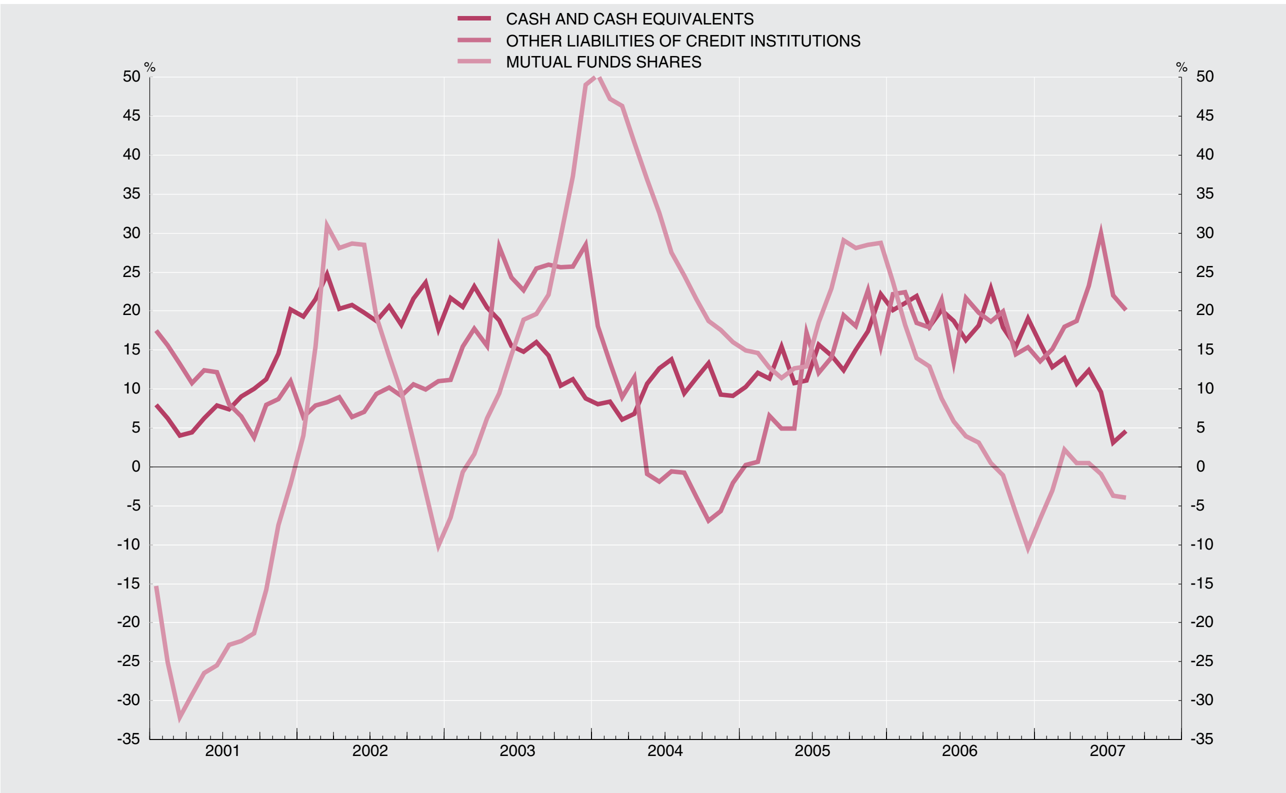
e. Defined as cash and cash equivalents, other liabilities of credit institutions and Fixed income mutual funds shares in euros.

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		Stocks	Annual growth rate	Annual growth rate	
					Other deposits (c)	Repos + credit instit.' securit.+ dep. in branches abroad			Fixed income in EUR (d)	Other
	1	2 ■	3	4 ■	5	6	7	8 ■	9	10
04	93 249	9.1	62 387	-2.1	24.6	-19.7	23 738	16.0	18.5	13.5
05	113 928	22.2	72 002	15.4	30.5	-0.1	30 552	28.7	14.8	42.8
06	135 637	19.1	83 068	15.4	17.4	12.6	27 359	-10.5	-15.5	-6.4
06 *May*	117 318	20.1	72 484	21.4	19.1	24.7	28 671	8.8	-5.8	22.6
Jun	123 650	18.7	73 432	13.4	12.7	14.3	28 369	5.8	-7.5	18.6
Jul	122 855	16.2	74 640	21.6	21.1	22.4	28 654	3.9	-8.1	15.2
Aug	119 085	18.1	77 780	19.8	21.8	17.0	29 057	3.1	-8.9	14.3
Sep	126 645	22.9	78 383	18.6	24.3	11.3	29 075	0.5	-10.0	9.8
Oct	121 704	17.9	77 920	20.0	22.0	17.1	28 899	-1.0	-9.8	6.7
Nov	124 657	15.4	79 092	14.4	19.5	7.5	28 178	-5.9	-12.0	-0.7
Dec	135 637	19.1	83 068	15.4	17.4	12.6	27 359	-10.5	-15.5	-6.4
07 *Jan*	127 160	15.9	81 579	13.6	24.5	-0.1	28 093	-6.7	-12.6	-2.0
Feb	128 151	12.8	82 331	15.1	28.2	-1.3	28 740	-3.1	-6.4	-0.5
Mar	132 866	13.9	85 940	18.0	30.7	1.8	29 765	2.2	2.4	2.0
Apr	127 169	10.7	85 073	18.7	28.8	5.1	29 234	0.5	1.5	-0.3
May	131 861	12.4	89 324	23.2	29.8	14.2	28 803	0.5	-1.9	2.2
Jun	135 571	9.6	95 421	29.9	36.9	20.0	28 110	-0.9	-4.7	2.0
Jul P	126 703	3.1	91 038	22.0	30.3	10.2	27 581	-3.7	-8.1	-0.5
Aug P	124 550	4.6	93 412	20.1	27.4	9.8	27 903	-4.0	-3.7	-4.2

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.

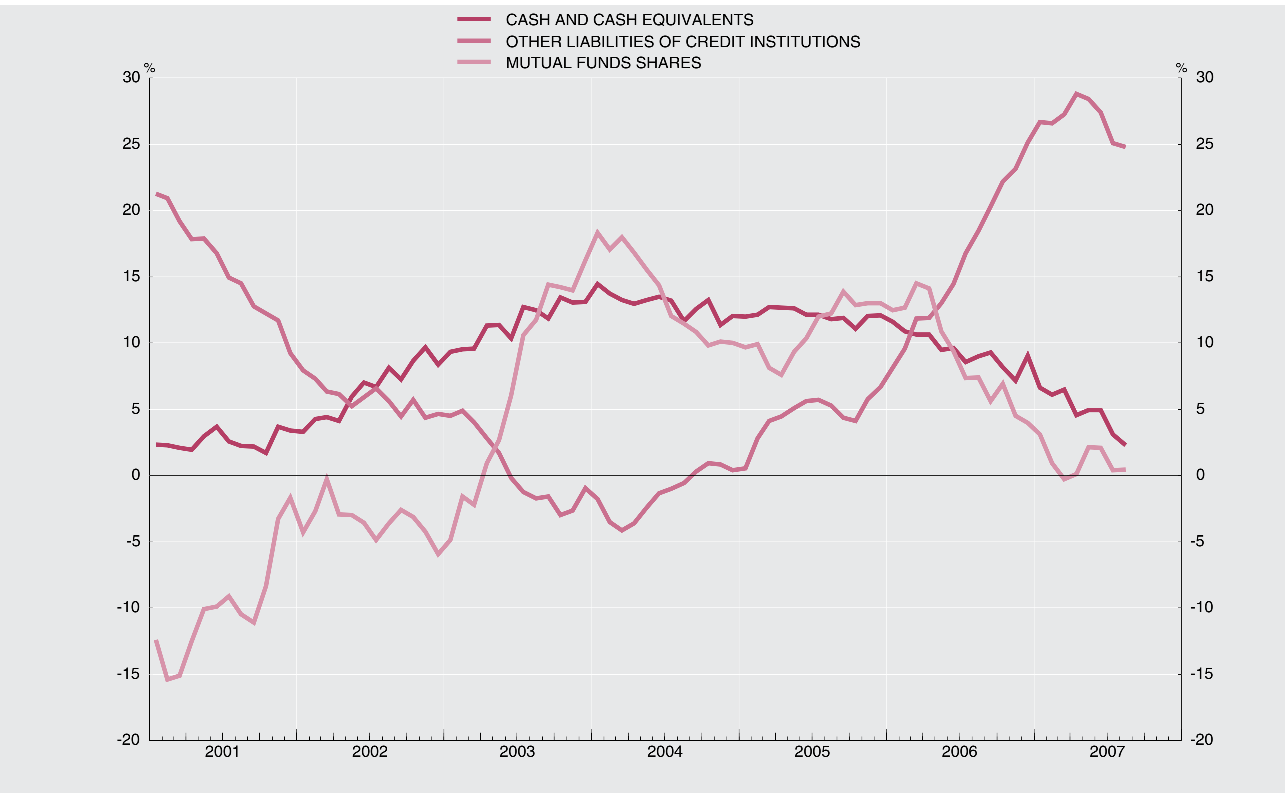
8.4 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ 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		Stocks	Annual growth rate	Annual growth rate		Stocks	Annual growth rate	Annual growth rate	
			Cash	Deposits (b)			Other deposits (c)	Repos + credit instit.' securit.+ dep. in branches abroad			Fixed income in EUR (d)	Other
	1	2 ■	3	4	5	6 ■	7	8	9	10 ■	11	12
04	308 320	12.0	20.4	9.8	215 516	0.4	6.1	-30.7	168 793	10.0	4.5	16.4
05	345 622	12.1	15.2	11.2	229 890	6.7	7.3	1.8	190 753	13.0	6.7	19.6
06	376 944	9.1	10.1	8.8	287 675	25.1	23.8	36.5	198 328	4.0	-9.3	16.5
06 *May*	349 279	9.5	14.5	8.0	250 511	13.0	12.5	16.6	197 059	10.9	-4.6	26.9
Jun	363 068	9.6	14.1	8.3	255 522	14.4	14.2	16.6	197 152	9.4	-3.3	22.5
Jul	363 997	8.5	12.4	7.4	261 144	16.8	16.0	23.5	196 733	7.4	-5.8	20.8
Aug	357 772	9.0	12.2	8.0	265 669	18.5	17.0	31.4	198 912	7.4	-6.4	21.8
Sep	363 922	9.3	11.3	8.7	267 628	20.3	18.3	38.7	198 501	5.6	-7.4	18.7
Oct	359 836	8.1	10.4	7.5	273 033	22.2	20.2	40.5	200 224	6.9	-7.0	20.9
Nov	361 500	7.1	10.7	6.1	279 315	23.1	21.8	34.9	197 950	4.5	-9.2	17.8
Dec	376 944	9.1	10.1	8.8	287 675	25.1	23.8	36.5	198 328	4.0	-9.3	16.5
07 *Jan*	363 387	6.6	9.4	5.8	297 369	26.7	26.2	30.0	197 705	3.1	-8.5	13.3
Feb	362 905	6.1	8.8	5.3	303 493	26.6	26.3	28.6	197 014	0.9	-7.2	7.6
Mar	368 884	6.5	8.5	5.9	312 003	27.3	27.1	28.5	198 308	-0.3	-3.8	2.4
Apr	364 017	4.5	7.4	3.6	317 679	28.8	28.4	31.5	199 340	0.1	-2.6	2.1
May	366 540	4.9	7.4	4.2	321 729	28.4	27.7	34.2	201 270	2.1	-3.9	6.8
Jun	380 922	4.9	6.8	4.4	325 589	27.4	26.9	31.2	201 241	2.1	-6.2	8.9
Jul P	375 254	3.1	5.3	2.4	326 692	25.1	26.3	15.6	197 456	0.4	-7.7	6.8
Aug P	365 888	2.3	5.4	1.3	331 559	24.8	26.0	15.7	199 766	0.4	-3.2	3.4

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.

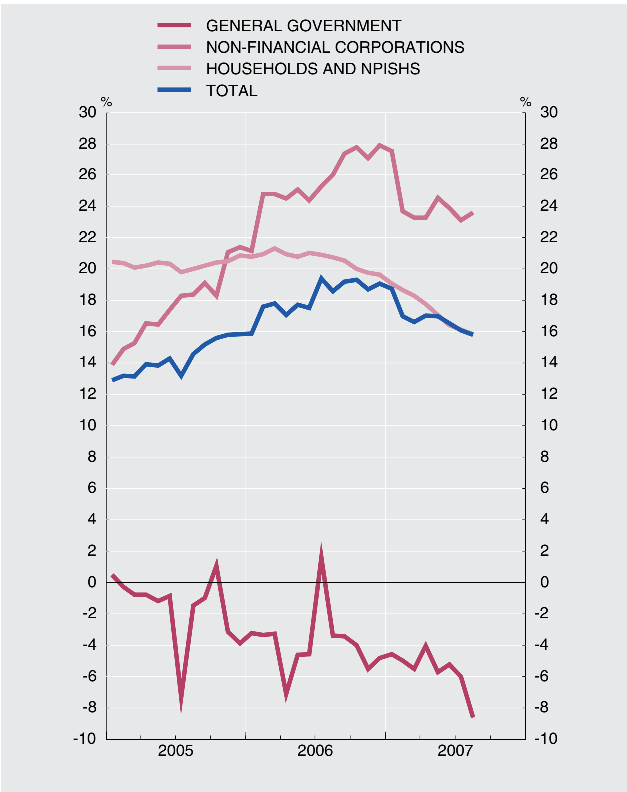
8.5. FINANCING OF NON-FINANCIAL SECTORS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

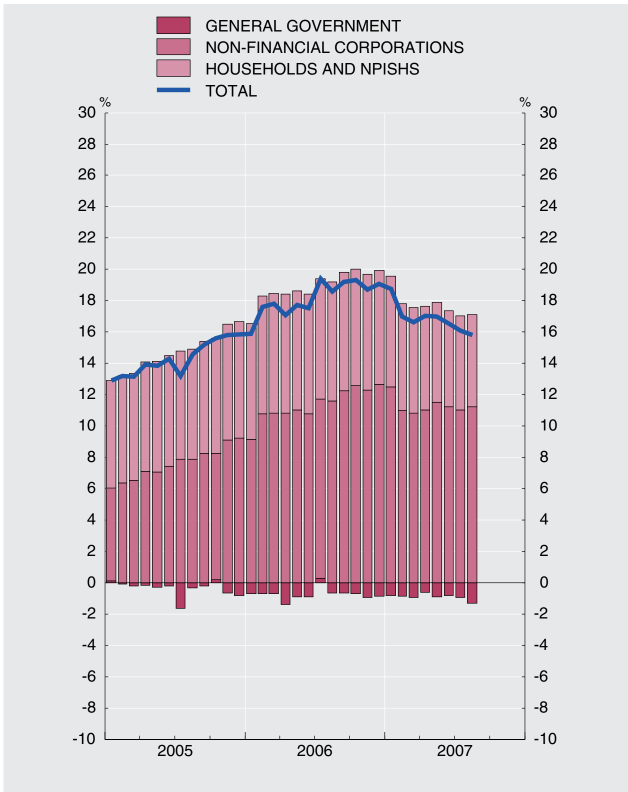
EUR millions and %

	Total			Annual growth rate							Contribution to col. 3						
	Stocks	Effective flow	Annual growth rate	General government (b)	Non-financial corp. and households and NPISHs	By sectors: Non-financial corporations	By sectors: Households and NPISHs	By instruments: Credit institutions' loans & securit. funds	By instruments: Securities other than shares	By instruments: External loans	General government (b)	Non-financial corp. and households and NPISHs	By sectors: Non-financial corporations	By sectors: Households and NPISHs	By instrumentss: Credit institutions' loans & securit. funds	By instrumentss: Securities other than shares	By instrumentss: External loans
	1	2	3 ■	4 ■	5	6 ■	7 ■	8	9	10	11 ■	12	13 ■	14 ■	15	16	17
04	1 510 072	165 523	12.4	-0.2	16.3	13.2	20.2	19.1	-1.2	3.5	-0.0	12.4	5.6	6.8	12.0	-0.0	0.4
05	1 756 788	239 370	15.9	-3.9	21.2	21.4	20.9	23.0	23.7	10.7	-0.8	16.7	9.2	7.5	15.2	0.2	1.3
06	2 095 767	335 476	19.1	-4.8	24.2	27.9	19.6	24.4	135.1	15.6	-0.8	19.9	12.7	7.3	17.1	1.0	1.8
06 *May*	1 883 186	31 830	17.7	-4.6	23.1	25.1	20.8	23.3	78.9	18.5	-0.9	18.6	11.0	7.6	15.8	0.6	2.2
Jun	1 929 372	44 666	17.5	-4.6	22.9	24.4	21.0	23.2	94.3	16.0	-0.9	18.4	10.8	7.7	15.8	0.8	1.9
Jul	1 964 218	34 689	19.4	1.6	23.3	25.3	20.9	23.5	112.3	16.4	0.3	19.1	11.4	7.7	16.3	0.9	2.0
Aug	1 969 125	5 475	18.6	-3.4	23.7	26.0	20.8	24.0	112.6	16.1	-0.6	19.2	11.6	7.6	16.4	0.9	1.9
Sep	1 999 646	33 161	19.2	-3.4	24.3	27.4	20.6	24.4	123.3	17.2	-0.6	19.8	12.3	7.6	16.9	0.9	2.0
Oct	2 014 059	14 317	19.3	-4.0	24.3	27.8	20.0	24.2	132.5	17.6	-0.7	20.0	12.6	7.4	17.0	1.0	2.1
Nov	2 047 341	31 303	18.7	-5.5	23.8	27.1	19.8	24.6	131.0	12.4	-1.0	19.7	12.3	7.4	17.2	1.0	1.5
Dec	2 095 767	47 364	19.1	-4.8	24.2	27.9	19.6	24.4	135.1	15.6	-0.8	19.9	12.7	7.3	17.1	1.0	1.8
07 *Jan*	2 119 936	20 466	18.8	-4.6	23.7	27.5	19.1	24.3	132.0	13.5	-0.8	19.6	12.5	7.1	17.0	1.0	1.6
Feb	2 131 579	10 966	17.0	-5.0	21.5	23.7	18.7	23.7	61.5	5.5	-0.8	17.8	11.0	6.9	16.5	0.7	0.7
Mar	2 165 612	29 742	16.6	-5.5	21.1	23.3	18.3	23.3	58.9	5.2	-0.9	17.6	10.8	6.7	16.3	0.7	0.7
Apr	2 172 293	11 050	17.0	-4.0	20.9	23.3	17.8	22.6	56.7	7.9	-0.6	17.6	11.0	6.6	16.0	0.6	1.0
May	2 209 960	37 019	17.0	-5.7	21.2	24.5	17.1	22.5	55.9	10.7	-0.9	17.9	11.5	6.4	16.0	0.6	1.3
Jun	2 262 273	43 530	16.5	-5.2	20.6	23.9	16.4	21.9	30.2	11.9	-0.8	17.4	11.2	6.1	15.5	0.4	1.4
Jul P	2 290 137	31 808	16.1	-6.0	20.1	23.1	16.2	21.2	30.3	11.9	-0.9	17.0	11.0	6.0	15.2	0.4	1.4
Aug P	2 290 697	621	15.8	-8.6	20.2	23.6	15.8	21.2	30.7	12.9	-1.3	17.1	11.2	5.9	15.2	0.4	1.5

FINANCING OF NON-FINANCIAL SECTORS
Annual percentage change



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



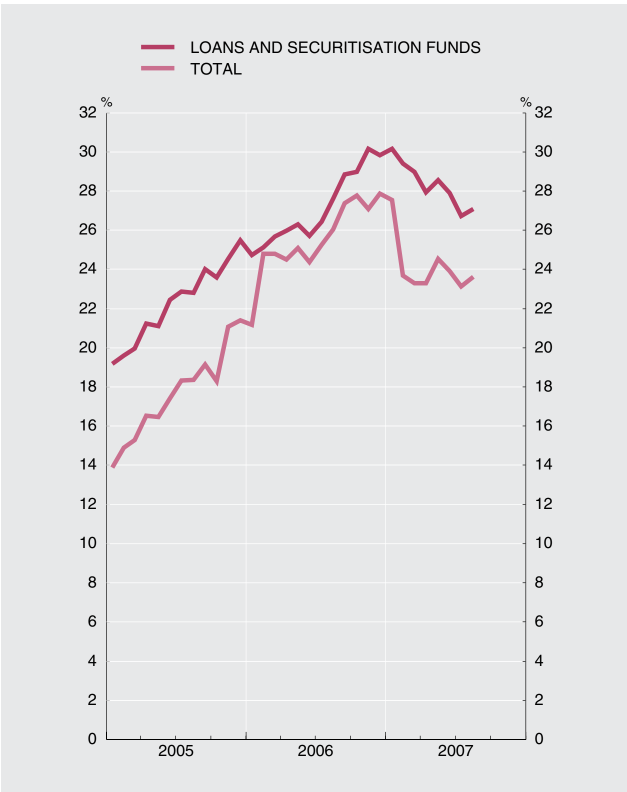
Source: BE.
GENERAL NOTE: Tables 8.2 to 8.7 were revised in September 2000, to take into account the criteria used to compile the Financial Accounts of the Spanish economy in accordance with ESA 95 (see the box appearing in the article "Evolución reciente de la economía española" in the September 2000 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)

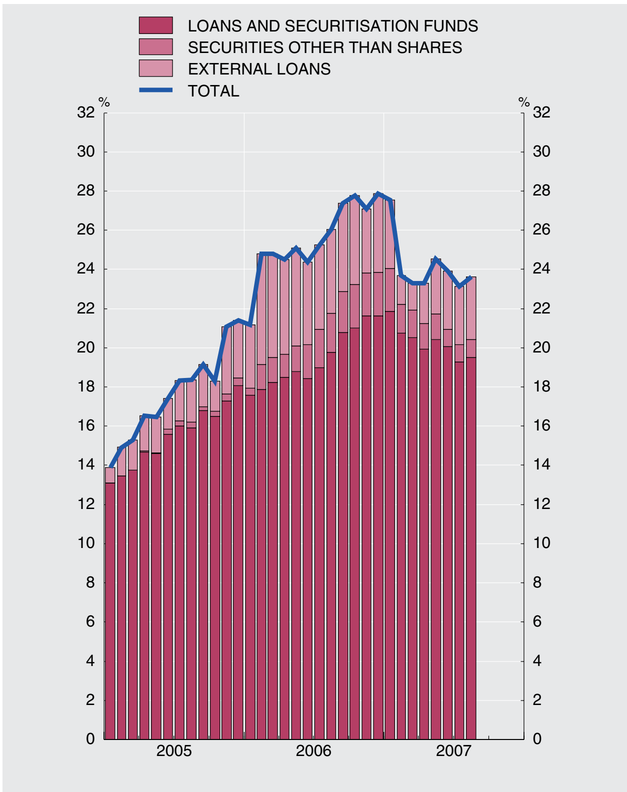
■ Series depicted in chart. *EUR millions and %*

	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
04	650 617	75 420	13.2	461 109	17.8	12.2	10 678	-	-1.2	-0.0	178 830	3.4	1.0	15 538
05	797 581	139 236	21.4	578 229	25.5	18.1	13 207	2 634	23.7	0.4	206 145	10.7	2.9	5 581
06	1 023 962	222 367	27.9	750 137	29.8	21.6	31 044	19 474	135.1	2.2	242 781	15.6	4.0	3 230
06 *May*	884 997	9 500	25.1	632 774	26.3	18.8	20 958	10 277	78.9	1.3	231 266	18.5	5.0	4 640
Jun	905 074	18 488	24.4	651 356	25.7	18.4	25 737	14 765	94.3	1.7	227 982	15.9	4.2	4 569
Jul	935 883	30 626	25.3	674 374	26.4	19.0	27 634	16 252	112.3	2.0	233 875	16.3	4.3	4 434
Aug	935 431	76	26.0	674 023	27.6	19.8	27 551	16 436	112.6	2.0	233 857	16.1	4.3	4 345
Sep	959 120	26 253	27.4	696 660	28.8	20.8	28 436	17 203	123.3	2.1	234 025	17.1	4.5	4 245
Oct	979 276	20 035	27.8	713 145	29.0	21.0	29 674	18 149	132.5	2.2	236 457	17.6	4.6	3 844
Nov	997 610	16 316	27.1	729 232	30.1	21.6	30 111	18 282	131.0	2.2	238 267	12.3	3.3	3 824
Dec	1 023 962	25 147	27.9	750 137	29.8	21.6	31 044	19 474	135.1	2.2	242 781	15.6	4.0	3 230
07 *Jan*	1 038 791	11 069	27.5	761 073	30.2	21.8	31 055	19 630	132.0	2.2	246 663	13.5	3.5	3 162
Feb	1 049 561	10 052	23.7	767 344	29.4	20.7	32 189	20 925	61.5	1.5	250 028	5.4	1.5	3 090
Mar	1 069 184	15 230	23.3	783 187	29.0	20.5	32 465	21 277	58.9	1.4	253 531	5.1	1.4	3 008
Apr	1 086 019	21 105	23.3	798 348	27.9	19.9	31 998	21 154	56.7	1.3	255 672	7.8	2.1	3 032
May	1 109 401	22 723	24.5	812 942	28.6	20.4	32 672	21 242	55.9	1.3	263 788	10.7	2.8	2 691
Jun	1 136 124	17 806	23.9	832 477	27.9	20.1	33 507	21 494	30.2	0.9	270 140	11.8	3.0	2 932
Jul	P 1 162 971	30 757	23.1	854 155	26.7	19.3	36 006	23 426	30.3	0.9	272 810	11.9	3.0	2 715
Aug	P 1 167 489	4 537	23.6	856 010	27.1	19.5	35 999	23 408	30.7	0.9	275 480	12.9	3.2	2 649

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.

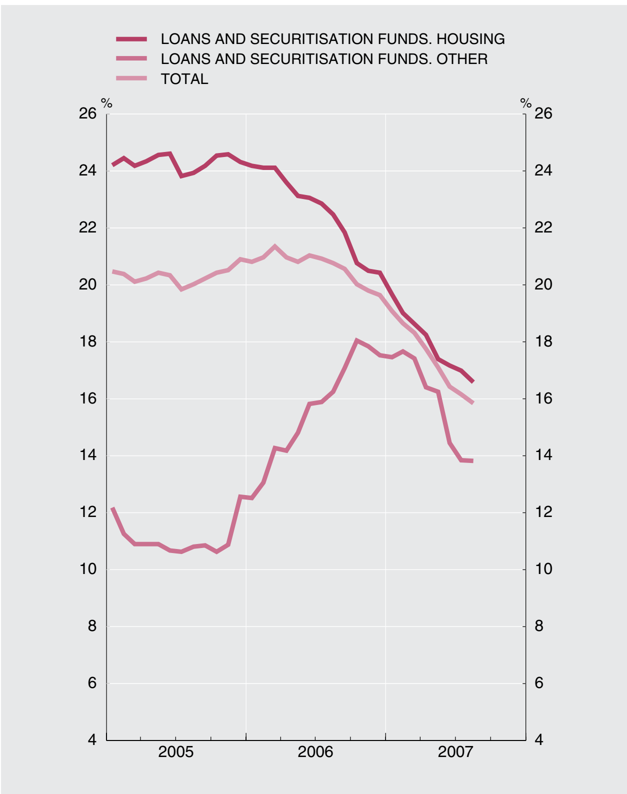
8.7. FINANCING OF HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

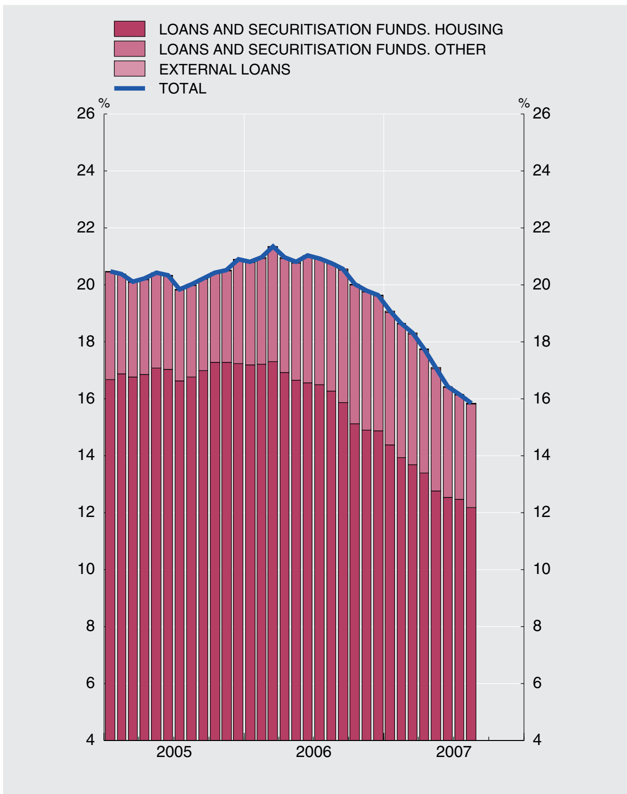
EUR millions and %

	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
04	538 881	90 646	20.2	381 698	23.7	16.3	156 322	12.5	3.9	861	19.3	0.0	47 873	9 802
05	651 071	112 572	20.9	474 499	24.3	17.2	175 571	12.5	3.6	1 002	16.3	0.0	28 527	3 030
06	778 454	127 893	19.6	571 325	20.4	14.9	205 872	17.5	4.7	1 256	25.4	0.0	26 937	3 421
06 *May*	702 020	11 558	20.8	515 316	23.1	16.6	185 569	14.8	4.1	1 135	23.9	0.0	27 234	2 292
Jun	720 946	18 995	21.0	526 310	23.1	16.5	193 473	15.8	4.4	1 163	25.4	0.0	28 062	2 256
Jul	728 301	7 381	20.9	534 172	22.8	16.5	192 955	15.9	4.4	1 174	24.4	0.0	26 888	2 173
Aug	733 376	5 116	20.8	538 912	22.5	16.3	193 274	16.2	4.5	1 190	24.8	0.0	26 625	2 091
Sep	742 532	9 232	20.6	545 322	21.8	15.9	196 009	17.1	4.6	1 202	24.1	0.0	26 192	2 216
Oct	751 781	9 274	20.0	551 352	20.7	15.1	199 231	18.0	4.9	1 199	23.3	0.0	25 903	3 431
Nov	767 682	15 939	19.8	561 518	20.5	14.9	204 953	17.8	4.8	1 211	23.9	0.0	26 587	3 250
Dec	778 454	10 915	19.6	571 325	20.4	14.9	205 872	17.5	4.7	1 256	25.4	0.0	26 937	3 421
07 *Jan*	782 874	4 477	19.1	575 791	19.6	14.4	205 814	17.5	4.7	1 269	19.8	0.0	26 423	3 416
Feb	790 612	7 779	18.7	581 809	19.0	13.9	207 527	17.7	4.7	1 276	19.7	0.0	25 735	3 638
Mar	803 729	13 218	18.3	592 049	18.6	13.7	210 362	17.4	4.6	1 318	22.6	0.0	25 708	3 196
Apr	812 355	8 727	17.8	598 772	18.2	13.4	212 254	16.4	4.3	1 329	19.1	0.0	26 108	3 333
May	821 252	8 908	17.1	604 835	17.4	12.8	215 069	16.2	4.3	1 348	18.7	0.0	25 294	5 101
Jun	838 607	17 491	16.4	616 513	17.2	12.5	220 773	14.4	3.9	1 322	13.6	0.0	27 819	5 143
Jul P	845 154	6 580	16.2	624 803	17.0	12.5	219 013	13.8	3.7	1 338	14.0	0.0	27 572	5 157
Aug P	848 738	3 626	15.8	628 069	16.6	12.2	219 314	13.8	3.6	1 355	13.9	0.0	28 129	5 023

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).

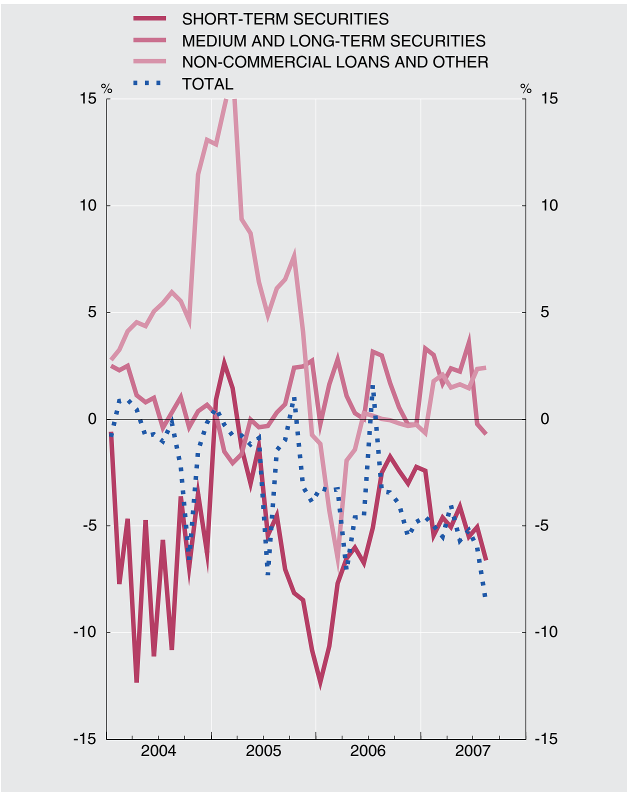
a. The annual percentage changes are calculated as the effective flow of the period / the stock at the beginning of the period.

8.8. NET FINANCING OF SPAIN'S GENERAL GOVERNMENT

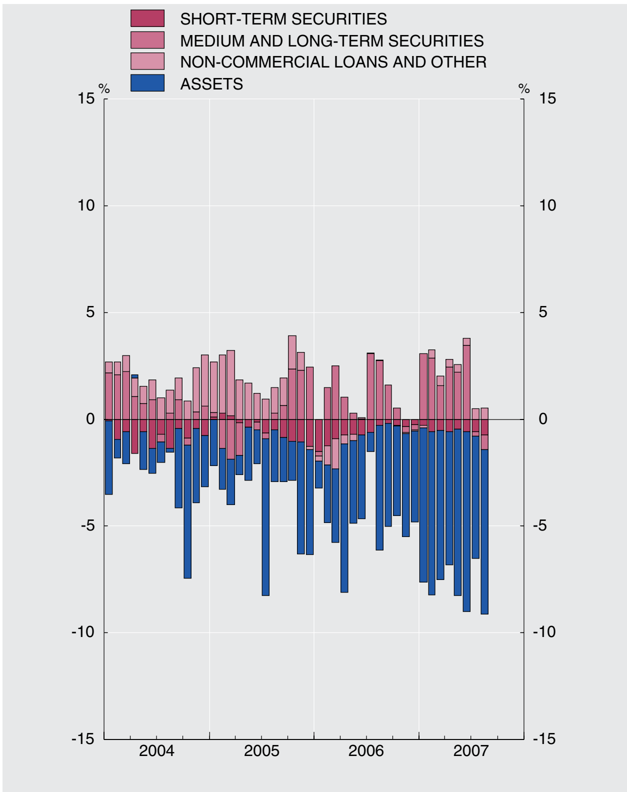
■ Series depicted in chart. *EUR millions and %*

	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				Assets	Liabilities			Assets
	Net stock of liabilities	Monthly change (columns 4-8-9)	12-month % change of col. 1	Total	Securities: Short-term	Securities: Medium and long-term	Non-commercial loans and other (b)	Deposits at the Banco de Espana	Other deposits (c)	Total	Securities: Short-term	Securities: Medium and long-term	Non-commercial loans and other (a)		Securities: Short-term	Securities: Medium and long-term	Non-commercial loans and other (a)	
	1	2	3 ■	4	5	6	7	8	9	10	11 ■	12 ■	13 ■	14	15 ■	16 ■	17 ■	18 ■
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	320 574	-543	-0.2	7 148	-2 491	1 947	7 693	-1 817	9 508	1.9	-6.2	0.7	13.1	12.1	-0.8	0.6	2.4	-2.4
05	P 308 136	-12 438	-3.9	3 337	-4 042	7 866	-487	-695	16 470	0.9	-10.8	2.7	-0.7	22.2	-1.3	2.5	-0.2	-4.9
06	P 293 351	-14 784	-4.8	-1 703	-744	-786	-173	1 780	11 301	-0.4	-2.2	-0.3	-0.3	15.0	-0.2	-0.3	-0.1	-4.2
06 *Mar*	P 309 701	3 037	-3.3	4 640	2 204	2 296	141	172	1 430	0.1	-7.7	2.8	-6.5	14.7	-0.9	2.5	-1.4	-3.4
Apr	P 285 398	-24 303	-7.1	-4 675	-2 665	-2 226	216	10 249	9 378	-0.1	-6.5	1.1	-1.9	25.4	-0.7	1.0	-0.4	-7.0
May	P 296 169	10 771	-4.6	2 207	2 038	480	-311	-3 084	-5 480	-0.6	-6.0	0.3	-1.4	14.1	-0.7	0.3	-0.3	-3.9
Jun	P 303 352	7 183	-4.6	-568	-2 278	1 643	67	-314	-7 437	-0.5	-6.7	0.0	0.3	16.3	-0.7	0.0	0.1	-3.9
Jul	P 300 034	-3 318	1.6	2 466	1 846	703	-82	-5 223	11 007	1.9	-5.1	3.2	0.2	2.9	-0.6	3.1	0.0	-0.9
Aug	P 300 318	284	-3.4	-2 073	-1 368	-596	-109	-121	-2 237	2.0	-2.5	3.0	0.0	24.5	-0.3	2.8	0.0	-5.9
Sep	P 297 994	-2 324	-3.4	3 372	1 974	1 471	-73	-101	5 797	1.1	-1.8	1.7	-0.0	17.8	-0.2	1.6	-0.0	-4.8
Oct	P 283 002	-14 992	-4.0	-5 992	-1 988	-4 174	170	-5	9 005	0.2	-2.4	0.5	-0.2	13.0	-0.3	0.5	-0.0	-4.2
Nov	P 282 050	-952	-5.5	3 914	1 588	1 817	509	-190	5 057	-0.5	-3.0	-0.3	-0.3	14.6	-0.4	-0.3	-0.1	-4.8
Dec	P 293 351	11 302	-4.8	-869	-1 774	639	266	32	-12 203	-0.4	-2.2	-0.3	-0.3	15.0	-0.2	-0.3	-0.1	-4.2
07 *Jan*	P 298 272	4 920	-4.6	5 901	1 638	4 151	112	926	54	2.1	-2.4	3.3	-0.6	28.8	-0.3	3.1	-0.1	-7.2
Feb	P 291 407	-6 865	-5.0	-151	-3 007	2 607	249	71	6 643	2.1	-5.4	3.0	1.8	27.8	-0.6	2.9	0.4	-7.6
Mar	P 292 700	1 294	-5.5	1 090	2 379	-1 631	342	422	-626	1.2	-4.6	1.7	2.1	25.2	-0.5	1.6	0.4	-7.0
Apr	P 273 919	-18 781	-4.0	-2 982	-2 692	-124	-167	13 375	2 424	1.6	-5.0	2.4	1.5	16.9	-0.6	2.4	0.3	-6.2
May	A 279 307	5 389	-5.7	2 087	2 267	35	-215	131	-3 433	1.6	-4.1	2.2	1.6	23.8	-0.5	2.2	0.4	-7.8
Jun	A 287 541	8 234	-5.2	2 954	-2 643	5 644	-47	-4 295	-985	2.5	-5.5	3.6	1.5	28.6	-0.6	3.5	0.3	-8.4
Jul	A 282 011	-5 530	-6.0	-8 073	1 899	-10 458	486	-2 178	-365	-0.2	-5.1	-0.2	2.3	18.1	-0.6	-0.2	0.5	-5.7
Aug	A 274 469	-7 542	-8.6	-3 912	-1 808	-2 043	-61	-158	3 788	-0.7	-6.6	-0.7	2.4	25.0	-0.7	-0.7	0.5	-7.7

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.

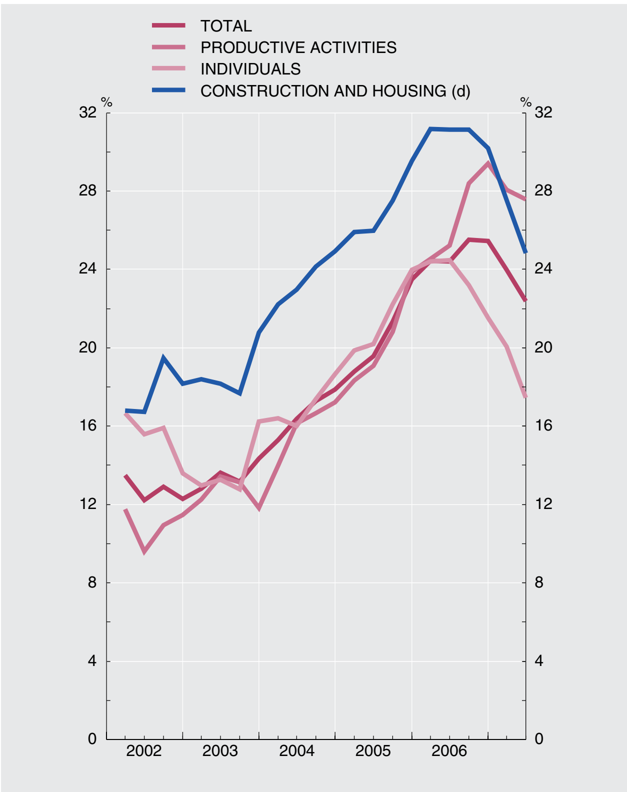
8.9 LENDING BY CREDIT INSTITUTIONS TO OTHER RESIDENT SECTORS. BREAKDOWN BY END-USE.

■ Series depicted in chart.

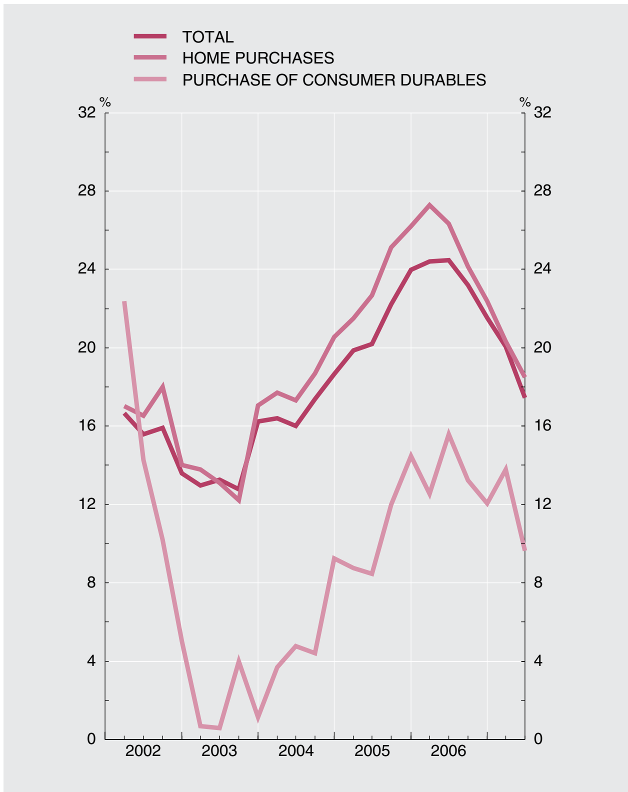
EUR millions and percentages

	Total (a)	Financing of productive activities: Total	Agriculture and fisheries	Industry excluding construction	Construction	Services: Total	Services, of which: Real estate activities	Financing of individuals: Total	Home purchases and improvements: Total	Home purchases and improvements, of which: Purchases	Purchases of consumer durables	Other (b)	Financing of private non-profit institutions	Unclassified	Memorandum item: construction and housing (d)
	1 ■	2 ■	3	4	5	6	7	8 ■	9	10 ■	11 ■	12	13	14	15 ■
04	945 697	482 984	18 104	90 487	78 372	296 020	112 165	441 443	333 826	317 268	38 379	69 238	3 677	17 594	524 363
05	R1 202 628	604 061	20 738	104 695	100 761	377 867	162 087	576 253	445 972	424 238	45 928	84 354	4 666	17 648	708 819
06	1 508 625	781 644	23 014	119 488	134 317	504 825	244 050	700 294	544 389	519 244	51 461	104 445	5 704	20 983	922 756
03 *Q1*	722 204	375 901	15 138	86 559	56 975	217 229	60 178	331 747	244 498	233 729	34 910	52 339	2 285	12 271	361 650
Q2	754 872	389 249	15 712	87 015	59 431	227 091	65 837	349 500	256 010	244 414	35 676	57 814	2 512	13 608	381 278
Q3	770 523	398 206	16 462	87 240	61 902	232 601	70 782	357 146	264 453	252 316	36 468	56 225	2 651	12 520	397 137
Q4	802 212	411 986	16 402	85 829	65 784	243 972	77 980	372 013	275 958	263 192	35 136	60 919	3 002	15 212	419 722
04 *Q1*	832 734	428 517	16 973	85 326	68 171	258 047	85 136	386 179	288 736	275 107	36 201	61 242	3 108	14 930	442 044
Q2	878 477	452 030	17 102	86 636	72 362	275 930	94 970	405 486	301 537	286 744	37 374	66 575	3 183	17 777	468 869
Q3	903 590	464 578	17 655	88 360	75 494	283 069	102 455	419 230	315 021	299 447	38 075	66 134	3 426	16 355	492 970
Q4	945 697	482 984	18 104	90 487	78 372	296 020	112 165	441 443	333 826	317 268	38 379	69 238	3 677	17 594	524 363
05 *Q1*	989 196	507 089	18 188	93 815	83 421	311 665	121 444	462 910	351 757	334 224	39 375	71 778	3 548	15 649	556 622
Q2	R1 085 320	544 048	19 501	99 393	89 806	335 349	135 483	516 384	394 989	375 523	42 531	78 864	4 200	20 687	620 277
Q3	1 131 240	567 022	20 182	101 716	94 411	350 714	144 811	541 346	419 032	398 498	44 644	77 670	4 355	18 518	658 253
Q4	1 202 628	604 061	20 738	104 695	100 761	377 867	162 087	576 253	445 972	424 238	45 928	84 354	4 666	17 648	708 819
06 *Q1*	1 265 755	637 277	21 213	105 687	106 183	404 195	181 491	604 878	471 966	449 246	46 320	86 592	4 788	18 813	759 639
Q2	1 350 191	681 307	21 946	109 856	116 195	433 311	198 998	642 698	498 248	474 404	49 161	95 289	5 109	21 077	813 441
Q3	1 419 973	728 058	22 460	115 266	127 420	462 911	216 642	666 972	519 130	494 739	50 552	97 291	5 359	19 584	863 192
Q4	1 508 625	781 644	23 014	119 488	134 317	504 825	244 050	700 294	544 389	519 244	51 461	104 445	5 704	20 983	922 756
07 *Q1*	1 569 169	816 098	23 436	121 148	137 836	533 678	264 653	726 179	566 341	540 541	52 713	107 125	5 743	21 149	968 830
Q2	1 652 351	869 174	24 294	132 145	144 552	568 184	282 081	754 726	588 694	562 101	53 898	112 135	5 955	22 497	1 015 326

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.

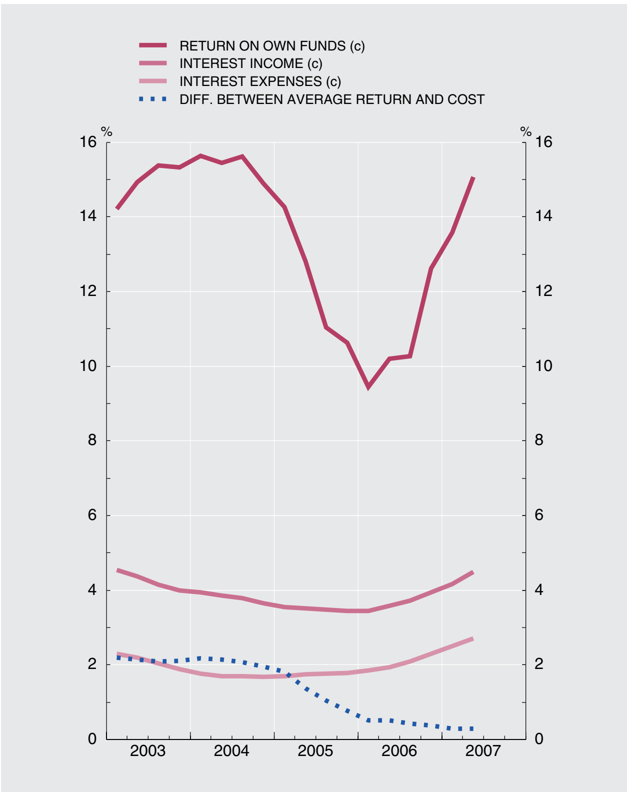
d. Including: construction, real estate activities and home purchases and improvements

8.10. PROFIT AND LOSS ACCOUNT OF BANKS, SAVINGS BANKS AND CREDIT CO-OPERATIVES RESIDENT IN SPAIN

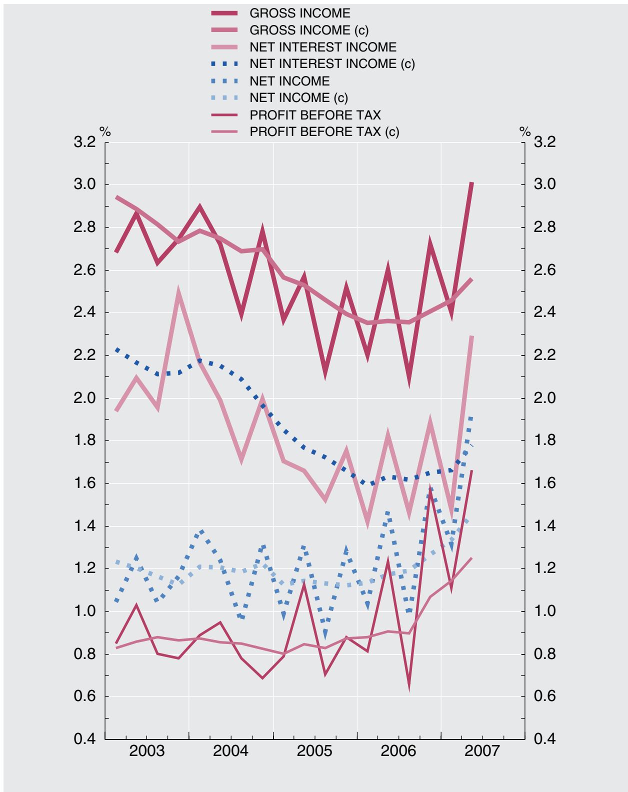
■ Series depicted in chart.

		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 ■
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
06		4.5	2.6	1.9	0.8	2.7	1.1	0.7	1.6	-0.4	1.6	19.4	2.9	2.5	0.4
04 *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
Q3		3.9	2.4	1.5	0.6	2.1	1.1	0.7	1.0	-0.3	0.7	8.0	2.8	2.3	0.4
Q4		4.5	2.6	1.9	0.8	2.7	1.1	0.7	1.6	0.3	1.6	19.4	2.9	2.5	0.4
07 *Q1*		4.3	2.8	1.5	0.9	2.4	1.1	0.7	1.3	-0.2	1.1	12.5	3.1	2.8	0.3
Q2		5.3	3.0	2.3	0.7	3.0	1.1	0.7	1.9	-0.3	1.7	20.4	3.3	3.0	0.3

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.

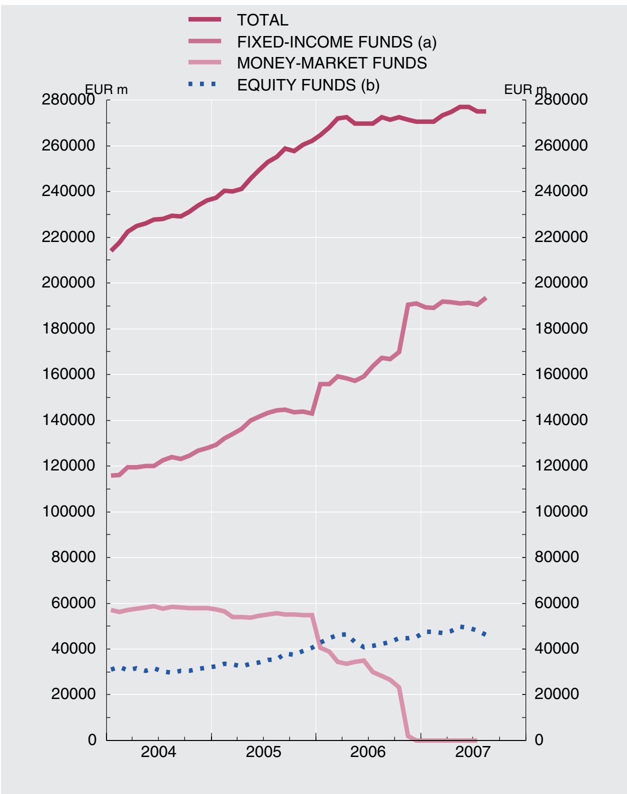
8.11. MUTUAL FUNDS RESIDENT IN SPAIN

■ Series depicted in chart.

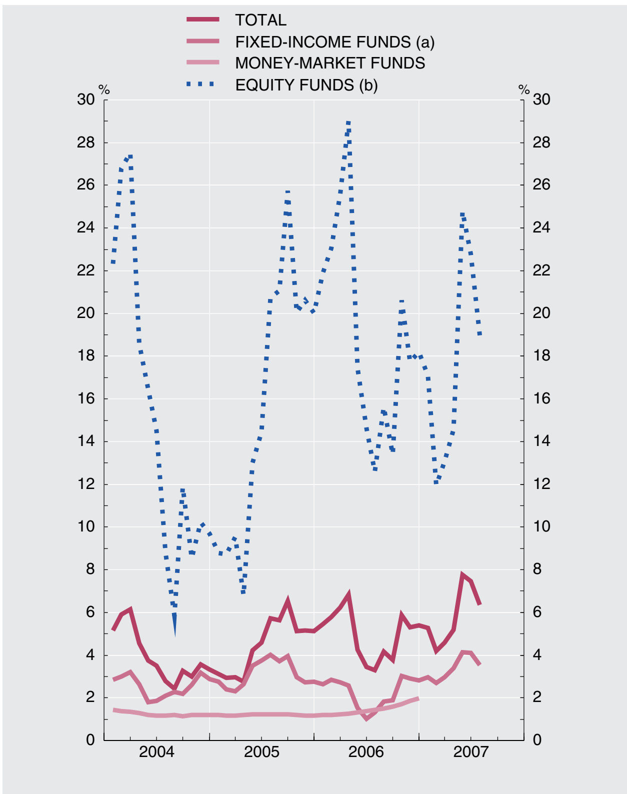
EUR millions

	Total				Money-market funds				Fixed-income funds (a)				Equity funds (b)				Others funds (c)
	Net asset value	Of which			Net asset value	Of which			Net asset value	Of which			Net asset value	Of which			Net asset value
		Monthly change	Net funds invested	Return over last 12 months		Monthly change	Net funds invested	Return over last 12 months		Monthly change	Net funds invested	Return over last 12 months		Monthly change	Net funds invested	Return over last 12 months	
	1 ■	2	3	4 ■	5 ■	6	7	8 ■	9 ■	10	11	12 ■	13 ■	14	15	16 ■	17
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
06	270 407	8 206	-10 861	5.4	106	-54 645	-55 113	2.0	191 002	47 954	39 212	2.8	45 365	4 693	-2 189	18.2	33 934
06 *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	272 323	2 676	-1 173	4.2	28 196	-1 814	-1 863	1.5	167 363	3 792	972	1.8	42 273	772	-118	15.6	34 491
Sep	271 361	-962	-3 298	3.8	26 628	-1 568	-1 616	1.6	166 752	-611	-169	1.9	43 016	743	-520	13.4	34 966
Oct	272 448	1 087	-1 801	5.9	23 336	-3 291	-3 337	1.7	169 680	2 928	2 016	3.0	44 690	1 673	124	20.6	34 742
Nov	271 467	-981	-1 292	5.3	2 059	-21 277	-21 281	1.9	190 536	20 856	20 667	2.9	44 885	195	66	17.7	33 988
Dec	270 407	-1 060	-3 100	5.4	106	-1 953	-1 953	2.0	191 002	466	314	2.8	45 365	480	-723	18.2	33 934
07 *Jan*	270 607	200	-1 500	5.3	-	-106	-106	...	189 293	-1 708	-2 277	3.0	47 473	2 108	1 088	17.1	33 841
Feb	270 597	-11	730	4.2	-	-	-	...	189 012	-281	-354	2.7	47 433	-40	721	12.0	34 151
Mar	273 422	2 825	898	4.6	-	-	-	...	191 896	2 883	2 302	3.0	47 088	-345	-1 194	13.1	34 438
Apr	274 562	1 140	-591	5.2	-	-	-	...	191 508	-387	-582	3.4	47 907	819	31	14.6	35 147
May	276 925	2 362	-575	7.8	-	-	-	...	191 131	-378	-819	4.1	49 730	1 824	-23	24.8	36 063
Jun	277 006	81	727	7.5	-	-	-	...	191 436	305	682	4.1	49 234	-496	-60	22.8	36 335
Jul P	275 034	-1 971	-1 101	6.3	-	-	-	...	190 493	-943	-950	3.5	48 196	-1 038	-190	19.0	36 346

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.

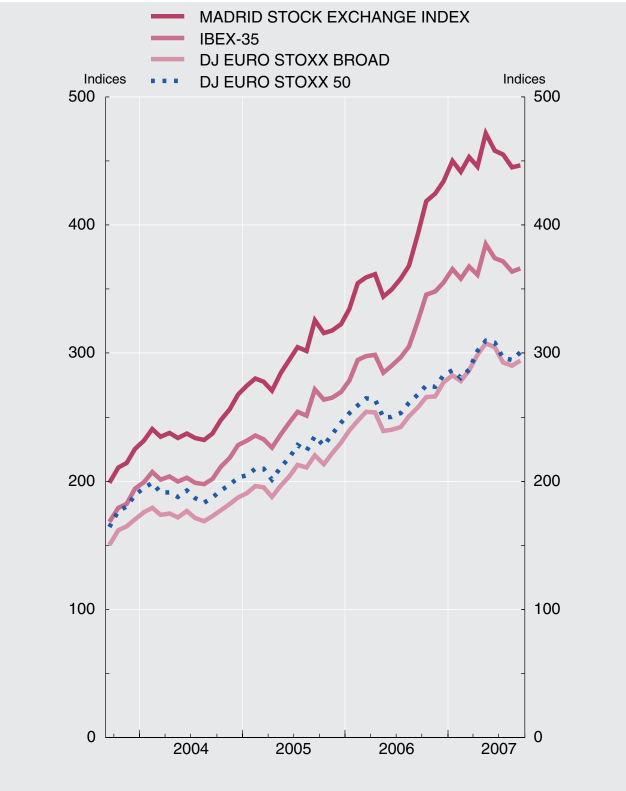
8.12. SHARE PRICE INDICES AND TURNOVER ON SECURITIES MARKETS. SPAIN AND EURO AREA

■ Series depicted in chart.

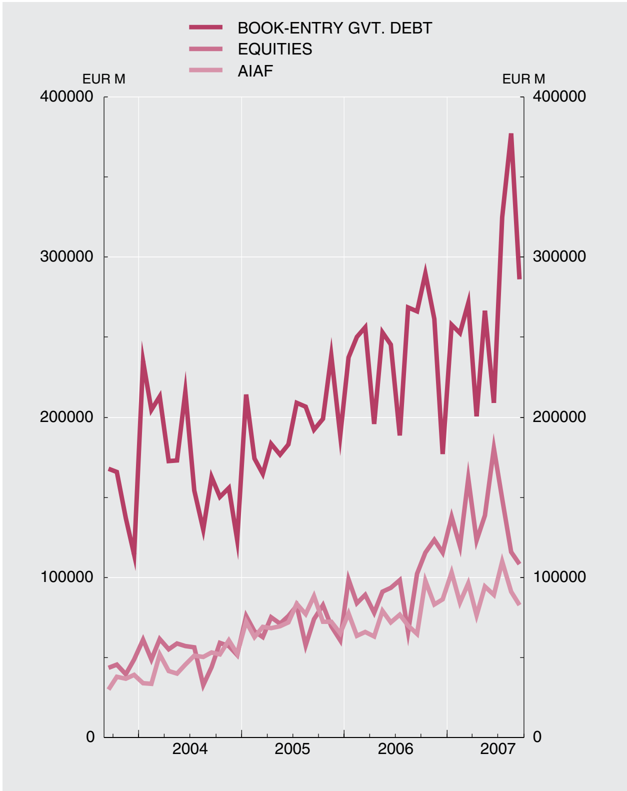
Indices, EUR millions and thousands of contracts

	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
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	1 344.36	12 346.51	361.00	3 830.10	1 155 682	93 449	2 888 728	900 202	-	12 977	-	6 569
07 A	1 619.34	14 660.26	418.19	4 316.16	1 234 719	66 852	2 446 123	827 138	-	9 618	-	6 715
06 *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	1 409.08	12 934.70	367.92	3 899.41	102 479	6 814	266 185	64 676	...	898	...	595
Oct	1 500.12	13 753.00	379.26	4 004.80	115 556	8 785	289 772	97 968	...	1 359	...	609
Nov	1 521.28	13 849.30	379.98	3 987.23	123 561	6 551	261 362	83 252	...	1 092	...	632
Dec	1 554.93	14 146.50	395.63	4 119.94	115 451	5 616	176 997	86 306	...	1 255	...	561
07 *Jan*	1 612.11	14 553.20	403.74	4 178.54	137 777	6 527	257 796	102 927	...	810	...	647
Feb	1 581.73	14 248.40	397.25	4 087.12	119 325	6 155	252 674	84 385	...	985	...	639
Mar	1 622.49	14 641.70	408.97	4 181.03	161 924	9 882	271 139	96 198	...	1 470	...	833
Apr	1 595.92	14 374.60	426.32	4 392.34	123 156	6 930	200 727	76 317	...	888	...	733
May	1 690.28	15 329.40	439.24	4 512.65	138 715	8 206	266 433	94 244	...	854	...	731
Jun	1 640.40	14 892.00	434.76	4 489.77	180 794	7 209	209 163	89 256	...	1 441	...	842
Jul	1 630.91	14 802.40	418.05	4 315.69	148 942	8 404	324 836	110 001	...	750	...	772
Aug	1 595.04	14 479.80	414.30	4 294.56	115 739	7 388	377 247	91 052	...	1 086	...	777
Sep P	1 600.90	14 576.50	419.92	4 381.71	108 347	6 150	286 110	82 760	...	1 334	...	740

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)

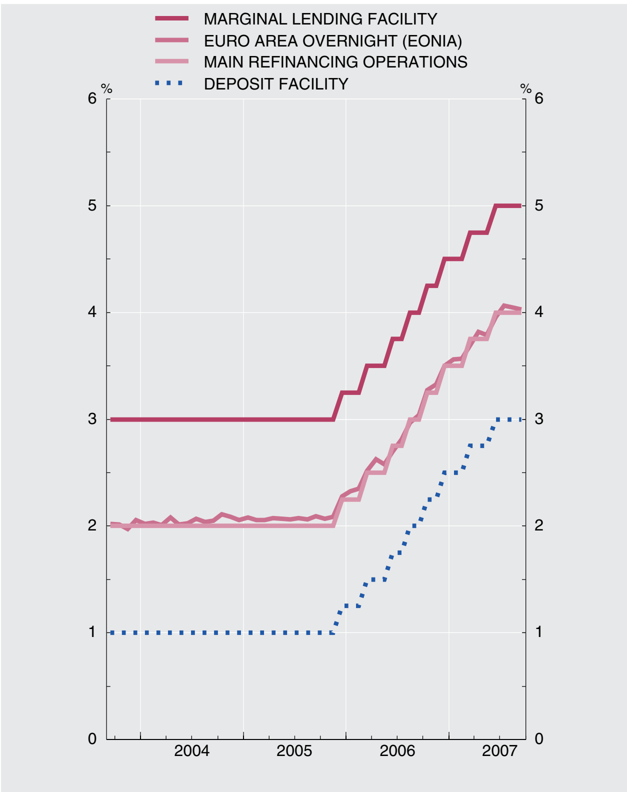
9.1. INTEREST RATES. EUROSYSTEM AND MONEY MARKET. EURO AREA AND SPAIN

■ Series depicted in chart.

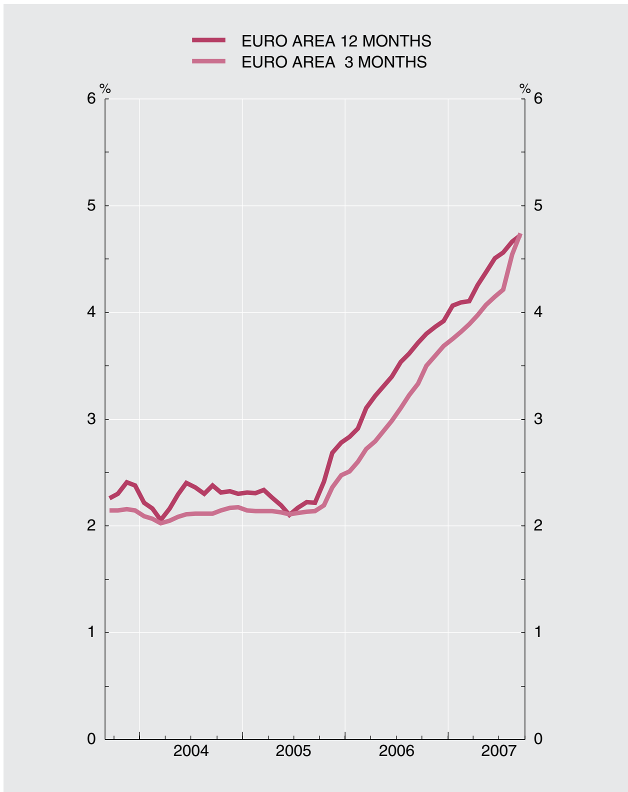
Averages of daily data. Percentages per annum

	Eurosystem monetary policy operations				Money market												
					Euro area: deposits (Euribor) (a)					Spain							
			Standing facilities							Non-transferable deposits				Govermment-securities repos			
	Main refinancing operations: weekly tenders	Longer term refinancing operations: monthly tenders	Marginal lending	Deposit	Over-night (EONIA)	1-month	3-month	6-month	1-year	Over-night	1-month	3-month	1-year	Over-night	1-month	3-month	1-year
	1 ■	2	3 ■	4 ■	5 ■	6	7 ■	8	9 ■	10	11	12	13	14	15	16	17
05	2.25	2.45	3.25	1.25	2.088	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	3.50	3.66	4.50	2.50	2.839	2.94	3.08	3.24	3.44	2.83	2.93	3.08	3.44	2.75	2.82	2.93	3.28
07 A	-	4.50	5.00	3.00	3.838	3.98	4.13	4.24	4.37	3.83	3.97	4.12	4.37	3.75	3.81	3.88	4.16
06 *Jun*	2.75	3.00	3.75	1.75	2.698	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	2.814	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	2.968	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	3.041	3.16	3.34	3.53	3.72	3.03	3.14	3.33	3.70	2.96	3.03	3.18	3.55
Oct	3.25	3.48	4.25	2.25	3.276	3.35	3.50	3.65	3.80	3.26	3.34	3.51	3.79	3.18	3.23	3.34	3.66
Nov	3.25	3.58	4.25	2.25	3.328	3.42	3.60	3.73	3.86	3.32	3.41	3.59	3.85	3.25	3.31	3.43	3.69
Dec	3.50	3.66	4.50	2.50	3.501	3.64	3.68	3.79	3.92	3.48	3.63	3.69	3.92	3.34	3.49	3.52	3.80
07 *Jan*	3.50	-	4.50	2.50	3.563	3.62	3.75	3.89	4.06	3.55	3.60	3.75	4.05	3.51	3.50	3.61	3.95
Feb	3.50	3.72	4.50	2.50	3.570	3.65	3.82	3.94	4.09	3.55	3.62	3.81	4.09	3.50	3.54	3.67	3.93
Mar	3.75	3.87	4.75	2.75	3.691	3.84	3.89	4.00	4.11	3.70	3.83	3.89	4.12	3.64	3.73	3.75	-
Apr	3.75	3.96	4.75	2.75	3.819	3.86	3.98	4.10	4.25	3.80	3.85	3.97	4.25	3.71	3.75	3.84	-
May	3.75	4.06	4.75	2.75	3.790	3.92	4.07	4.20	4.37	3.79	3.90	4.07	4.39	3.73	3.81	3.94	-
Jun	4.00	4.11	5.00	3.00	3.956	4.10	4.15	4.28	4.51	3.95	4.08	4.14	4.48	3.88	3.99	4.01	-
Jul	4.00	4.20	5.00	3.00	4.063	4.11	4.22	4.36	4.56	4.05	4.10	4.19	4.56	3.96	3.99	4.05	4.36
Aug	4.00	4.56	5.00	3.00	4.047	4.31	4.54	4.59	4.67	4.03	4.31	4.54	4.64	3.86	3.97	4.06	4.37
Sep	4.00	4.50	5.00	3.00	4.030	4.43	4.74	4.75	4.73	3.99	4.38	4.72	4.72	3.94	4.00	4.00	-

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).

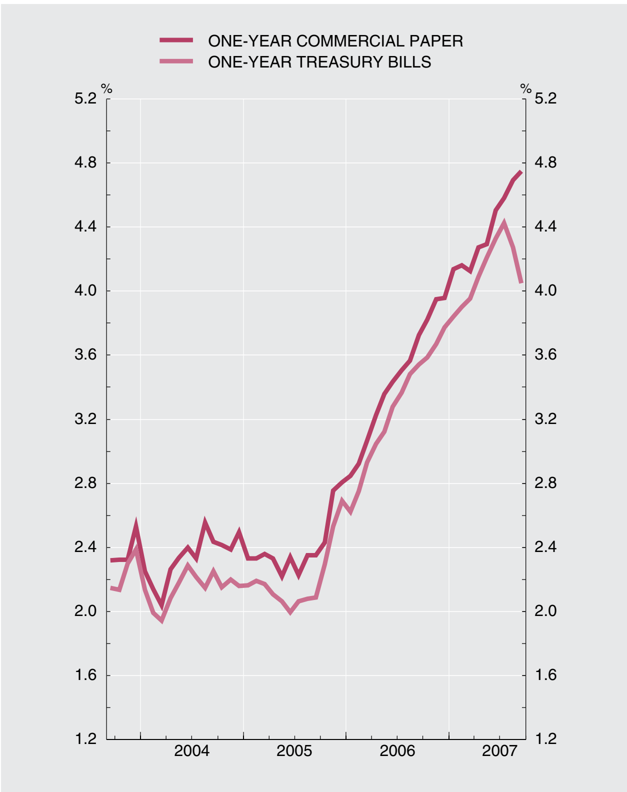
a. To December 1998, synthetic euro area rates have been calculated on the basis of national rates weighted by GDP

9.2. INTEREST RATES: SPANISH SHORT-TERM AND LONG-TERM SECURITIES MARKETS

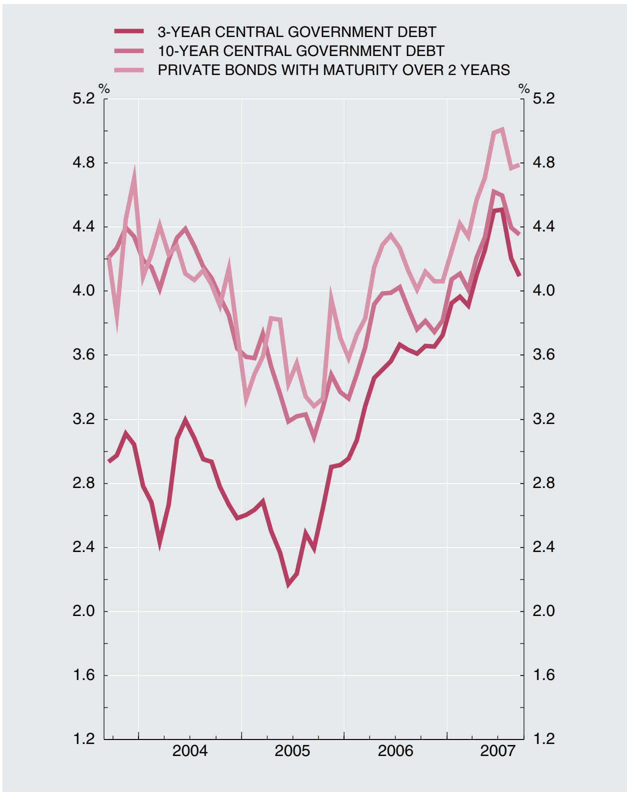
■ Series depicted in chart. *Percentages per annum*

	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 ■
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	3.27	3.26	3.45	3.44	3.36	3.57	3.76	-	4.04	3.48	3.79	4.05
07 A	4.12	4.09	4.39	4.40	3.95	4.16	4.24	-	4.49	4.16	4.30	4.65
06 *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
Oct	3.59	3.59	3.82	3.81	-	-	-	-	-	3.66	3.81	4.12
Nov	3.67	3.67	3.95	3.89	-	3.66	-	-	-	3.65	3.75	4.06
Dec	3.78	3.75	3.96	3.96	3.65	-	-	-	-	3.73	3.82	4.06
07 *Jan*	3.84	3.81	4.14	4.08	-	4.01	4.11	-	-	3.93	4.07	4.25
Feb	3.90	3.88	4.16	4.13	3.95	-	-	-	4.25	3.97	4.11	4.42
Mar	3.95	3.89	4.12	4.12	-	3.95	3.96	-	-	3.91	4.01	4.34
Apr	4.09	4.08	4.27	4.25	-	-	-	-	-	4.10	4.21	4.57
May	4.21	4.22	4.29	4.37	-	-	-	-	-	4.26	4.34	4.71
Jun	4.33	4.32	4.51	4.51	-	4.49	-	-	-	4.50	4.62	4.99
Jul	4.42	4.36	4.58	4.54	-	-	4.65	-	-	4.51	4.60	5.01
Aug	4.27	4.18	4.69	4.75	-	-	-	-	-	4.20	4.40	4.77
Sep	4.05	4.03	4.75	4.82	-	4.20	-	-	4.70	4.09	4.35	4.79

PRIMARY MARKET



SECONDARY MARKET



Sources: Main issuers (column 3); AIAF (columns 4 and 12).

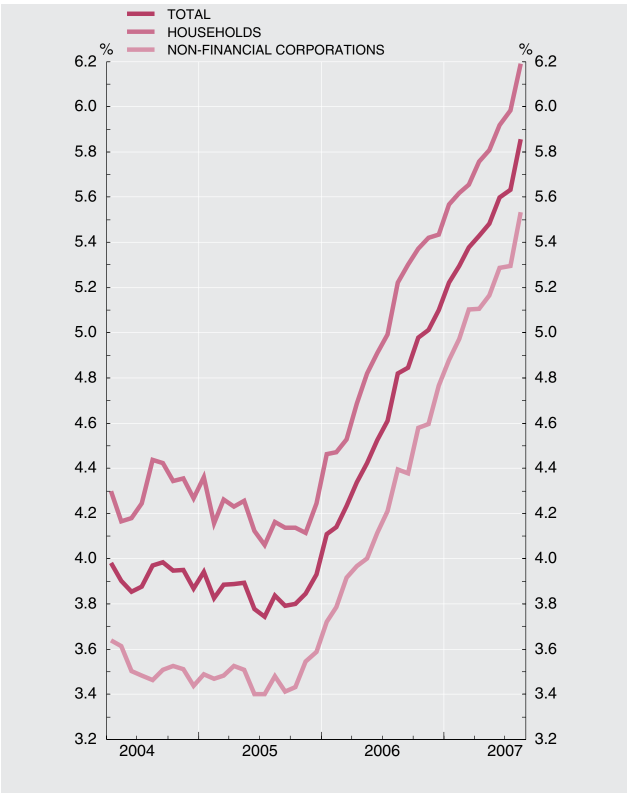
9.3. INTEREST RATES ON NEW BUSINESS. CREDIT INSTITUTIONS. (CBE 4/2002)

■ Series depicted in chart.

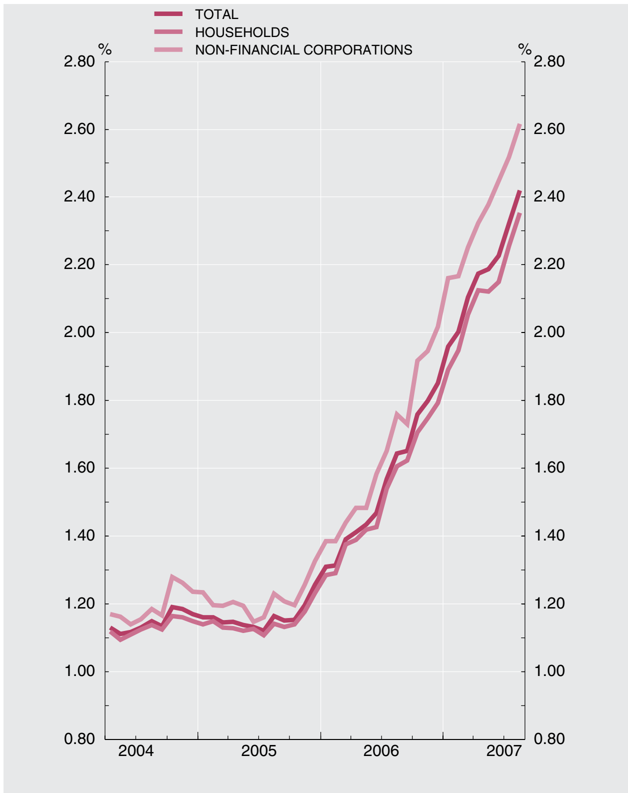
Percentages

	Loans (APRC) (a)							Deposits (NDER) (a)								
	Synthetic rate (c)	Households and NPISH			Non-financial corporations			Synthetic rate (c)	Households and NPISH				Non-financial corporations			
		Synthetic rate	House purchase	Consumption and other	Synthetic rate	Up to EUR 1 million	Over EUR 1 million (b)		Synthetic rate	Overnight and redeemable at notice	Time	Repos	Synthetic rate	Overnight	Time	Repos
	1 ■	2 ■	3	4	5 ■	6	7	8 ■	9 ■	10	11	12	13 ■	14	15	16
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	5.10	5.43	4.74	7.32	4.77	5.20	4.56	1.85	1.79	0.52	3.20	3.28	2.02	1.27	3.37	3.48
07 A	5.86	6.19	5.43	8.32	5.53	5.92	5.22	2.42	2.35	0.67	3.91	3.76	2.62	1.65	4.08	3.99
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	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
Sep	4.85	5.30	4.52	7.41	4.38	4.91	4.03	1.65	1.62	0.49	2.93	2.87	1.73	1.07	2.91	2.98
Oct	4.98	5.37	4.63	7.37	4.58	5.07	4.22	1.76	1.71	0.51	3.04	3.07	1.92	1.19	3.18	3.19
Nov	5.01	5.42	4.71	7.31	4.60	5.15	4.28	1.80	1.75	0.51	3.10	3.15	1.95	1.22	3.22	3.27
Dec	5.10	5.43	4.74	7.32	4.77	5.20	4.56	1.85	1.79	0.52	3.20	3.28	2.02	1.27	3.37	3.48
07 *Jan*	5.22	5.57	4.85	7.53	4.88	5.38	4.58	1.96	1.89	0.57	3.25	3.39	2.16	1.41	3.46	3.54
Feb	5.29	5.62	4.92	7.52	4.97	5.40	4.69	2.00	1.95	0.58	3.32	3.41	2.17	1.43	3.43	3.53
Mar	5.38	5.66	4.98	7.51	5.10	5.47	4.87	2.10	2.05	0.60	3.51	3.60	2.25	1.47	3.56	3.70
Apr	5.43	5.76	5.05	7.71	5.11	5.53	4.81	2.18	2.13	0.60	3.60	3.62	2.32	1.51	3.66	3.78
May	5.48	5.81	5.11	7.74	5.16	5.60	4.89	2.19	2.12	0.61	3.59	3.68	2.38	1.56	3.73	3.78
Jun	5.60	5.92	5.20	7.88	5.29	5.69	5.05	2.23	2.15	0.60	3.70	3.81	2.45	1.48	3.99	3.96
Jul	5.63	5.98	5.32	7.85	5.30	5.76	5.03	2.32	2.26	0.63	3.82	3.80	2.52	1.56	4.02	4.04
Aug P	5.86	6.19	5.43	8.32	5.53	5.92	5.22	2.42	2.35	0.67	3.91	3.76	2.62	1.65	4.08	3.99

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.

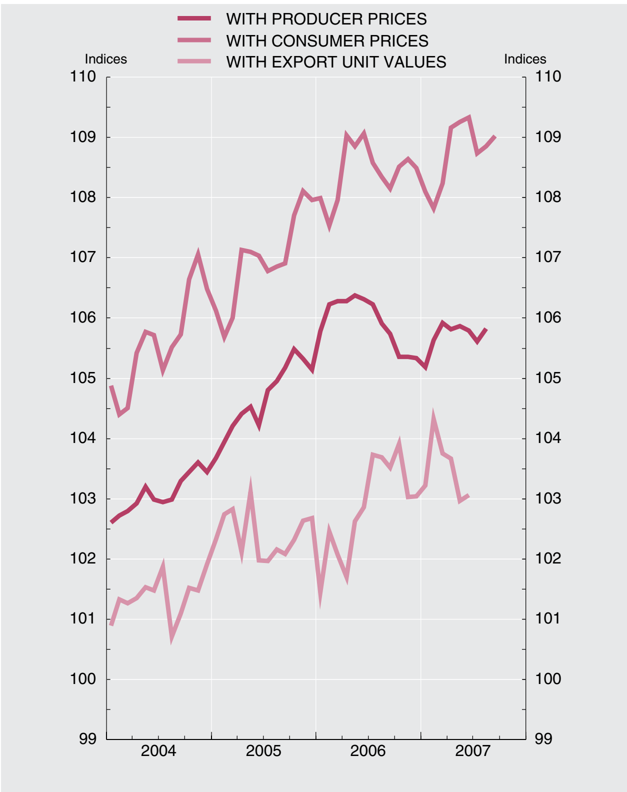
9.4 INDICES OF SPANISH COMPETITIVENES VIS-à-VIS THE EU-27 AND THE EURO AREA

■ Series depicted in chart.

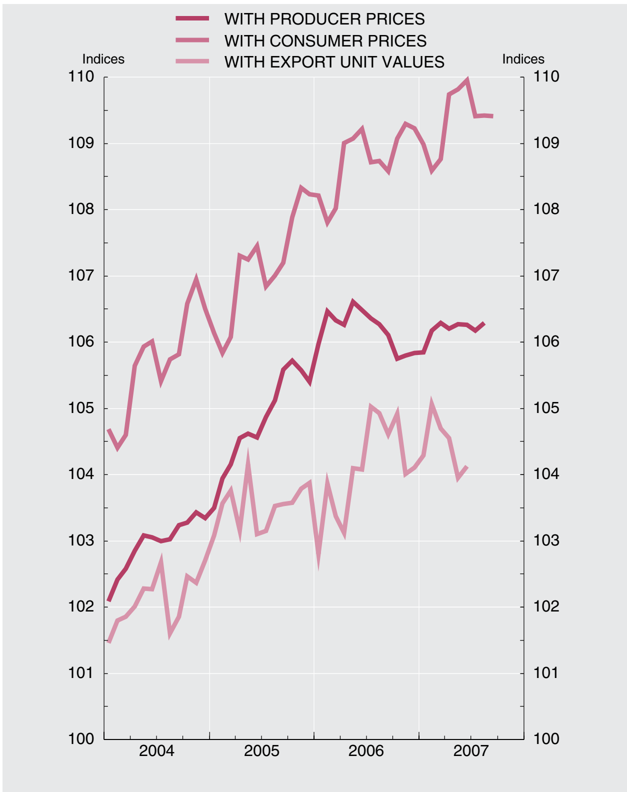
Base 1999 QI = 100

	Vis-à-vis the EU-27									Vis-à-vis the euro area				
	Total (a)				Nominal component (b)	Price component (c)				Based on producer prices	Based on consumer prices	Based on total unit labour costs	Based on manufacturing unit labour costs (d)	Based on export unit values
	Based on producer prices	Based on consumer prices	Based on total unit labour costs	Based on export unit values		Based on producer prices	Based on consumer prices	Based on total unit labour costs	Based on export unit values					
	1 ■	2 ■	3	4 ■	5	6	7	8	9	10 ■	11 ■	12	13 ■	14 ■
04	103.1	105.6	104.2	101.4	100.1	102.9	105.5	104.1	101.2	102.9	105.7	105.0	106.9	102.1
05	104.7	107.0	105.3	102.4	100.1	104.6	106.9	105.2	102.3	104.8	107.1	106.5	110.1	103.5
06	105.9	108.4	106.5	102.8	100.0	105.9	108.5	106.6	102.9	106.2	108.8	107.9	112.1	104.1
05 *Q3*	105.0	106.8	105.8	102.1	100.1	104.9	106.8	105.7	102.0	105.2	107.0	107.0	110.4	103.4
Q4	105.3	107.9	105.5	102.5	100.0	105.3	107.9	105.5	102.5	105.6	108.1	106.7	110.7	103.7
06 *Q1*	106.1	107.8	106.2	102.0	100.1	106.0	107.8	106.1	101.9	106.2	108.0	107.4	113.3	103.3
Q2	106.3	109.0	106.4	102.4	100.1	106.2	108.9	106.3	102.3	106.5	109.1	107.6	112.2	103.8
Q3	106.0	108.4	106.3	103.6	100.0	106.0	108.4	106.3	103.7	106.2	108.7	107.7	110.9	104.9
Q4	105.4	108.5	107.2	103.3	99.8	105.6	108.8	107.5	103.6	105.8	109.2	109.0	111.8	104.4
07 *Q1*	105.6	108.1	106.6	103.7	99.7	105.9	108.4	106.9	104.0	106.1	108.8	108.4	110.5	104.7
Q2	105.8	109.3	106.9	103.2	99.8	106.0	109.4	107.1	103.4	106.2	109.8	108.7	109.4	104.2
06 *Dec*	105.3	108.5	...	103.0	99.7	105.6	108.8	...	103.3	105.8	109.2	...	...	104.1
07 *Jan*	105.2	108.1	...	103.2	99.6	105.6	108.6	...	103.7	105.8	109.0	...	...	104.3
Feb	105.6	107.8	...	104.3	99.7	106.0	108.2	...	104.7	106.2	108.6	...	...	105.1
Mar	105.9	108.2	...	103.8	99.9	106.0	108.4	...	103.9	106.3	108.8	...	...	104.7
Apr	105.8	109.2	...	103.7	99.8	106.0	109.3	...	103.8	106.2	109.7	...	...	104.6
May	105.9	109.3	...	103.0	99.9	106.0	109.4	...	103.1	106.3	109.8	...	...	104.0
Jun	105.8	109.3	...	103.1	99.8	106.0	109.5	...	103.3	106.3	110.0	...	...	104.1
Jul	105.6	108.7	...	...	99.7	105.9	109.0	...	...	106.2	109.4	...	...	...
Aug	105.8	108.9	...	...	99.8	106.0	109.0	...	...	106.3	109.4	...	...	...
Sep	...	109.0	...	...	100.0	...	109.0	...	...	...	109.4	...	...	...

INDICES OF SPANISH COMPETITIVENESS VIS À VIS THE EU-27



INDICES OF SPANISH COMPETITIVENESS VIS À VIS THE EURO AREA



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 (until 1999) and 1999-2001 (since 1999) 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.

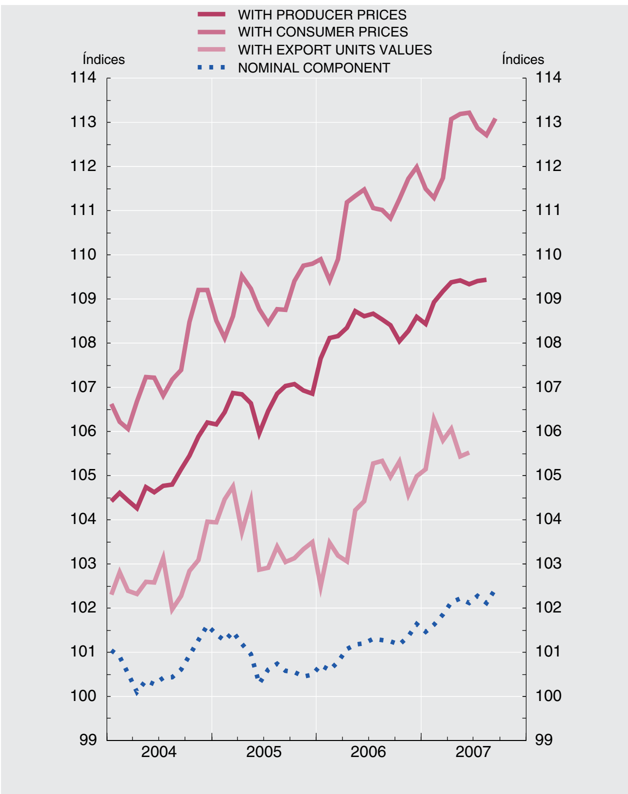
9.5 INDICES OF SPANISH COMPETITIVENESS VIS-à-VIS THE DEVELOPED COUNTRIES AND INDUSTRIALISED COUNTRIES

■ Series depicted in chart.

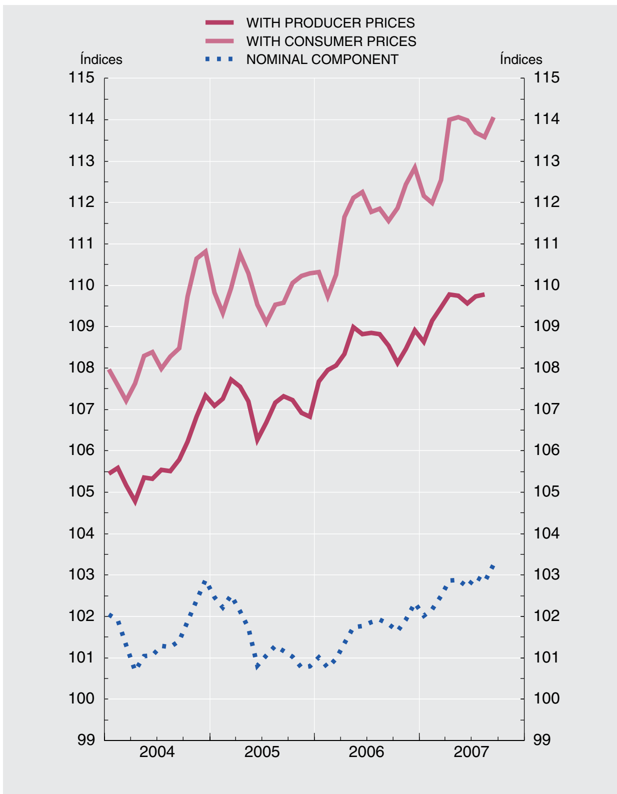
Base 1999 QI = 100

	Vis-à-vis developed countries									Vis-à-vis industrialised countries				
	Total (a)				Nominal compon-ent (b)	Prices component (c)				Total (a)		Nominal compon-ent (b)	Prices component(c)	
	Based on producer prices	Based on consumer prices	Based on manufac - turing unit labour costs (d)	Based on export unit values		Based on producer prices	Based on consumer prices	Based on manufac - turing unit labour costs (d)	Based on export unit values	Based on producer prices	Based on consumer prices		Based on producer prices	Based on consumer prices
	1 ■	2 ■	3	4 ■	5	6	7	8	9	10	11	12	13	14
04	104.9	107.4	109.3	102.7	100.7	104.2	106.6	108.5	102.0	105.7	108.6	101.6	104.1	106.9
05	106.7	109.0	112.1	103.6	100.8	105.8	108.1	111.1	102.8	107.1	109.9	101.5	105.5	108.3
06	108.3	110.9	114.1	104.3	101.1	107.1	109.7	112.8	103.1	108.5	111.6	101.6	106.8	109.8
05 *Q3*	106.8	108.7	112.1	103.1	100.6	106.1	108.0	111.3	102.5	107.1	109.4	101.2	105.8	108.1
Q4	107.0	109.7	112.1	103.3	100.5	106.4	109.1	111.5	102.8	107.0	110.2	100.9	106.1	109.2
06 *Q1*	108.0	109.8	115.0	103.0	100.7	107.2	109.0	114.1	102.3	107.9	110.1	100.9	106.9	109.1
Q2	108.6	111.3	114.3	103.9	101.2	107.3	110.1	113.0	102.7	108.7	112.0	101.6	107.0	110.2
Q3	108.5	111.0	113.1	105.2	101.3	107.2	109.6	111.6	103.9	108.7	111.7	101.9	106.8	109.7
Q4	108.3	111.7	114.0	105.0	101.4	106.8	110.1	112.4	103.5	108.5	112.4	102.0	106.4	110.2
07 *Q1*	108.8	111.5	112.9	105.7	101.6	107.1	109.7	111.1	104.0	109.1	112.2	102.2	106.7	109.8
Q2	109.4	113.2	112.3	105.7	102.2	107.1	110.8	109.9	103.4	109.7	114.0	102.8	106.7	110.9
06 *Dec*	108.6	112.0	...	105.0	101.6	106.8	110.2	...	103.3	108.9	112.8	102.3	106.4	110.3
07 *Jan*	108.4	111.5	...	105.1	101.5	106.9	109.9	...	103.6	108.6	112.2	102.0	106.5	109.9
Feb	108.9	111.3	...	106.3	101.6	107.2	109.5	...	104.6	109.1	112.0	102.2	106.8	109.6
Mar	109.2	111.7	...	105.8	101.9	107.2	109.7	...	103.9	109.5	112.5	102.5	106.8	109.8
Apr	109.4	113.1	...	106.1	102.1	107.1	110.7	...	103.8	109.8	114.0	102.9	106.7	110.8
May	109.4	113.2	...	105.4	102.2	107.1	110.7	...	103.2	109.7	114.1	102.9	106.7	110.9
Jun	109.3	113.2	...	105.5	102.1	107.1	110.9	...	103.3	109.6	114.0	102.7	106.7	111.0
Jul	109.4	112.9	...	...	102.3	107.0	110.4	...	...	109.7	113.7	103.0	106.6	110.4
Aug	109.4	112.7	...	...	102.1	107.2	110.4	...	...	109.8	113.6	102.8	106.7	110.4
Sep	...	113.1	...	...	102.4	...	110.4	...	...	...	114.1	103.3	...	110.5

INDICES OF SPANISH COMPETITIVENESS VIS-À-VIS THE DEVELOPED COUNTRIES



INDICES OF SPANISH COMPETITIVENESS VIS-À-VIS THE INDUSTRIALISED 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 (until 1999) and 1999-2001 (since 1999) 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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