

ECONOMIC BULLETIN

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BANCO DE **ESPAÑA**
Eurosisistema



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© Banco de España, Madrid, 2008
ISSN: 1130 - 4987 (print)
ISSN: 1695 - 9086 (online)
Depósito legal: M. 31904 - 1990
Printed in Spain by Artes Gráficas Coyve, S. A.

ABBREVIATIONS

AIAF	Association of Securities Dealers	GVA	Gross value added
BCBS	Basel Committee on Banking Supervision	HICP	Harmonised index of consumer prices
BE	Banco de España	IADB	Inter-American Development Bank
BIS	Bank for International Settlements	ICT	Information and communications technology
CBSO	Central Balance Sheet Data Office	IGAE	National Audit Office
CCR	Central Credit Register	IMF	International Monetary Fund
CEMLA	Center for Latin American Monetary Studies	INE	National Statistics Institute
CEPR	Centre for Economic Policy Research	INEM	National Public Employment Service
CNE	Spanish National Accounts	INVERCO	Association of Collective Investment Institutions and Pension Funds
CNMV	National Securities Market Commission	LIFFE	London International Financial Futures Exchange
CPI	Consumer price index	MEFF	Financial Futures and Options Market
DGS	Directorate General of Insurance and Pension Funds	MEFF RF	Fixed-income derivatives market
EAGGF	European Agricultural Guidance and Guarantee Fund	MEFF RV	Equity derivatives market
ECB	European Central Bank	MFIs	Monetary financial institutions
ECCO	ECB External Communications Committee	MiFID	Markets in Financial Instruments Directive
ECOFIN	Council of the European Communities (Economic and Financial Affairs)	MMFs	Money market funds
EDP	Excessive Deficit Procedure	MROs	Main refinancing operations
EMU	Economic and Monetary Union	MTBE	Banco de España quarterly macroeconomic model
EONIA	Euro overnight index average	NAIRU	Non-accelerating-inflation rate of unemployment
EPA	Official Spanish Labour Force Survey	NCBs	National central banks
ERDF	European Regional Development Fund	NPISHs	Non-profit institutions serving households
ESA 79	European System of Integrated Economic Accounts	OECD	Organisation for Economic Co-operation and Development
ESA 95	European System of National and Regional Accounts	OPEC	Organisation of Petroleum Exporting Countries
ESCB	European System of Central Banks	PFs	Pension Funds
EU	European Union	PPP	Purchasing power parity
EU-15	Countries making up the European Union as at 31/04/04	QNA	Quarterly National Accounts
EU-25	Countries making up the European Union as from 1/05/04	RoW	Rest of the World
EU-27	Countries making up the European Union as from 1/01/07	SCLV	Securities Clearing and Settlement Service
EUROSTAT	Statistical Office of the European Communities	SDRs	Special drawing rights
FASE	Financial Accounts of the Spanish Economy	SICAV	Open-end Investment Companies
FDI	Foreign direct investment	SMEs	Small and medium-sized enterprises
FIAMM	Money market funds	TARGET	Trans-European Automated Real-time Gross settlement Express Transfer system
FIM	Securities funds	TFP	Total factor productivity
FISIM	Financial Intermediation Services Indirectly Measured	ULCs	Unit labour costs
GDI	Gross disposable income	VAT	Value added tax
GDP	Gross domestic product	WTO	World Trade Organisation
GFCF	Gross fixed capital formation	XBRL	Extensible Business Reporting Language
GNP	Gross national product		

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	EUR (euro)
LV	Latvia	LVL (Latvian lats)
LT	Lithuania	LTL (Lithuanian litas)
LU	Luxembourg	EUR (euro)
HU	Hungary	HUF (Hungarian forint)
MT	Malta	EUR (euro)
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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SITUATION OF THE SPANISH ECONOMY AND FINANCIAL SECTOR
OPENING REMARKS BY THE GOVERNOR OF THE BANCO DE ESPAÑA,
MIGUEL FERNÁNDEZ ORDÓÑEZ, AT THE XV FINANCIAL SECTOR MEETING

Situation of the Spanish economy and financial sector

Opening remarks by the Governor of the Banco de España, Miguel Fernández Ordóñez, at the XV Financial Sector Meeting

I shall be focusing today on the Spanish economy which, naturally enough, has been affected by the changes in the international environment prompted by the further slowdown in the US economy, the rising course of oil prices and the prolongation of the bout of financial turbulence.

To this end, I shall begin with a brief reference to the situation in the United States and in Europe, focusing thereafter on the macroeconomic outlook for Spain in an attempt to define its degree of exposure to the international financial turbulence. Finally, I shall offer some economic policy considerations.

It is in the United States that the deterioration in macroeconomic conditions has been most marked. The effects of the sharp adjustment in the US real estate sector have been amplified by the consequences of the instability in international financial markets, severely affecting business and household confidence. The outlook of most analysts for 2008 points to a strong deceleration in the first two quarters of the year, and even to a recession at some point along the line, although any more medium-term projection is shrouded in considerable uncertainty.

In the euro area, some of the risks to continued economic dynamism progressively materialised during 2007. These were, namely: the appreciation of the euro; higher oil, commodity and food prices; worsening confidence and tighter financing conditions, prompted by the financial strains; and, of course, the effects of the above-mentioned weakening in the US economy. In Europe, this made for a slowdown in the pace of activity in the second half of the year, although euro area growth remained more robust than in the United States. The resilience shown by the euro area has led analysts to project growth for the coming quarters that will be slacker but not far off potential, albeit with a similar measure of uncertainty to that expressed in the case of the US economy.

Turning to prices in the euro area, the rate of inflation stood at 3.5% in March 2008. This worrying figure reflects the strong short-term upward pressures stemming from energy and food price rises in recent months. Foreseeably, although inflation may hold at a rate of over 2% for a number of months more, it should begin to move back to this level in the second half of 2008. That said, considerable upside risks remain, linked essentially to the possibility of second-round effects emerging in wage- and price-setting.

The Spanish economy ended the year 2007 with a GDP growth rate (of around 3.5%) that we might qualify as robust. But it began to show signs of undergoing a change in cycle, following an upturn that had lasted for more than ten years. Into 2008, the information available confirms this perception of the domestic macroeconomic situation.

In 2007, GDP growth averaged 3.8%, the result of some easing in domestic demand and an improvement in the contribution of net external demand to output growth. Against this background, the slowing trajectory on which the Spanish economy embarked during 2007 was consistent with the tailing off of some of the impulses behind the buoyancy of spending in previous years, and with the maturing of the business cycle. Undoubtedly, the raising of interest rates by the ECB - from end-2005 to June 2007 - and the increasingly subdued rises in house prices began to temper consumption and residential investment decisions as early as 2006. This gradual loss of momentum in domestic demand continued in 2007, but was not reflected on a similar scale by GDP, owing to the offsetting effect of net external demand.

Adding to this domestic adjustment dynamic was, from summer 2007, the effect of international financial market instability. This translated into a deterioration in agents' expectations, and made itself felt in some spending components - consumption and, above all, residential investment - as early as late 2007, but more clearly in the opening months of this year.

However, the weakening in consumption is based on comparison with the relatively high end-2007 figures, with growth close to 3%, held up by the dynamism of disposable income. And I believe it is particularly worth noting that investment in equipment ended the year at a rate of increase of close to 9%, highlighting the robustness of business activity in the closing months of 2007 against a backdrop of sound corporate earnings and a favourable demand outlook.

The demand for housing, which had moved onto a mildly slowing path in mid-2006 in response to higher borrowing costs and lower real estate appreciation expectations, appears to be showing greater sensitivity to the deterioration in agents' confidence, according to the latest available information. Recent figures reveal a loss of momentum in activity and employment in the construction and related sectors, as they do more generally, but on a lesser scale, in the rest of the economy. In any event, when considering the ongoing adjustment in the residential sector, which was largely inevitable following a prolonged phase of growth in supply, we should not overlook the considerable forces underpinning the demand for housing in the medium term in Spain, which should help temper the scale and intensity of the adjustment.

The performance of trade in goods and services with the rest of the world has been relatively favourable in recent quarters, and has helped net external demand to make a positive contribution to GDP growth and, therefore, to alleviate the loss of momentum in domestic demand. I would highlight the resilience of exports in the past year, despite the significant appreciation of the euro and the somewhat diminished dynamism of export markets. Indeed, an incipient change in the direction of our exports towards more buoyant markets is becoming perceptible.

Nevertheless, the nation's net borrowing continued to increase, albeit at a slacker pace than in previous years, reaching 9.5% of GDP in 2007, mainly due to the marked and expected deterioration in the income balance. The tendency towards a gradual easing in investment by firms and, above all, by households should help move the current account deficit onto a declining course.

The pace of employment generation adapted to the gradual slowing of activity in the second half of 2007, ending the year at a growth rate of 2.5%. This trajectory has continued, somewhat more sharply, in the opening months of 2008. It has particularly affected employment in the construction industry and also, though to a lesser extent, in manufacturing activities, some of which are closely related to the construction branch. In contrast, employment in services is proving far more resilient.

Despite this loss of dynamism in the labour market, labour costs began to rise in 2007, when compensation per employee grew at a rate of 3.6%, and have continued to do so in early 2008, with growth in wage settlements to February of 3.5%. It is highly likely, once the effect of indexation clauses (for the deviation by inflation from its official target in 2007) is taken into account, that labour costs will rise by more than 4% in 2008 for almost 70% of private-sector workers subject to a collective bargaining agreement.

This development is rather unfortunate given the change in cycle facing the Spanish economy, as it may ultimately have an adverse effect on firms' hiring decisions, accentuating the employ-

ment adjustment in a setting of macroeconomic uncertainty. But it is also inappropriate from the standpoint of its impact on inflation, at a time when this variable, as you know, is deteriorating sharply. In recent months, the growth rate of the consumer price index has exceeded 4.5%.

Undeniably, the rising course of inflation, driven by the substantial increases in oil and agricultural commodity prices on international markets, is a phenomenon common to most economies. But in Spain these pressures are compounding a situation in which upward biases in cost and price formation persist, accentuating the risk of the deterioration in inflation spreading to the rest of the economy.

With a view to the immediate future, the macroeconomic projections recently published by the Banco de España suggest national demand will continue to lose steam, in both its consumption and capital investment components. This is expected, however, to be partly offset by the improved contribution of the net external balance. In this setting, GDP growth is projected to stand at around 2.4% in 2008. As to the inflation outlook, the private consumption deflator will foreseeably increase to an average rate of 3.6%, albeit on a slowing path during the year.

On numerous occasions the Banco de España has indicated that the Spanish economy has undergone far-reaching changes in recent years. These have increased its growth potential and provided it with elements of flexibility that leave it better placed to face any shocks that may arise. Acting along these lines have been Spanish euro area membership, notable population dynamism and the investment drive made in recent years, which have equipped the Spanish economy with sound foundations to maintain sustained growth in the medium term. Undoubtedly, though, the external turbulence that arose during 2007 may detract from the effectiveness of this flexibility.

One possible source of risks is lower growth of the world economy, either because certain economies - particularly the United States - may contract more than expected, or because the loss of dynamism may spread more intensely to other areas. This would hinder the buffer role that external demand should play in the context of slowing domestic demand. Another series of potential risks are those that would arise from any prolongation of the financing difficulties in international markets generated by the turmoil. Let me go more deeply into this second area, as I believe it is of particular relevance for this Meeting.

Much has been written and said in recent months on the origins and propagation of the turbulence. I shall therefore focus here on the consequences of this episode for the Spanish financial system, a matter on which there has also been no shortage of comment, though not perhaps always well-founded.

As you know, Spanish credit institutions have based a substantial portion of their business in the recent upturn on the granting of loans for housing development and purchases. And a large number of these loans have ultimately been repackaged as negotiable financial instruments by means of securitisation.

These two phenomena are, as you all know, at the root of the problems experienced by certain credit institutions in other regions. But before drawing any insufficiently founded conclusions from this, we must bear in mind the differences between Spanish institutions and those beyond our borders that have been more severely impacted by the effects of the turbulence. As I shall explain, these differences are substantial and place Spanish financial institutions in a sound position to withstand these effects.

The first and certainly one of the most significant differences lies in the fact that Spanish banks have kept the risks of the loans they have securitised on their balance sheets. The “originate-to-distribute” model followed elsewhere has not been developed at all in Spain and, consequently, credit institutions’ incentives to value loan risks in a cautious and rigorous manner have not been weakened. Under these conditions, it is perfectly understandable why products like the US subprime mortgages, which triggered the current situation, have not emerged.

Secondly, Spanish banks have used securitisation not as a mechanism for transferring risks off their balance sheets, but as a means of raising resources on the wholesale financing markets in order to meet the demand for loans from households and businesses. That gives rise directly to a second significant difference in favour of the Spanish financial system, since when the main objective is to raise funds and not transfer risks, it is not necessary to resort to the issuance of overly complex financial instruments.

Indeed, the securities issued by Spanish banks are characterised by their simplicity, by their relatively long maturities (matching, therefore, those of the assets they are financing) and by their needing only moderate credit enhancements to attain a high rating. This is clearly in contrast with other systems, in which complex structured products and rather ad hoc vehicles such as conduits and SIVs have proliferated to channel the financing of low-grade loans.

Likewise, in Spanish bank portfolios the weight of these structured products, which have burgeoned in the countries most affected, and of the securities issued by these special financing vehicles is negligible. In Spain, the traditional retail banking model has continued to prevail. And this prevalence also explains the minimal direct exposure of our financial institutions to other factors of risk associated with recent developments in the international financial markets. Such is the case, for instance, with leveraged buy-outs (LBOs) and the so-called monolines, which specialise, as you know, in insuring the payment of numerous bonds, including those linked to the securitisation of US subprime mortgages.

In these circumstances it is easy to understand why the profits reported by Spanish banks in 2007 have scarcely been affected by the financial turbulence and have continued to increase at a rate of around 19%, firmly underpinned by their improved efficiency ratios. Their profitability, both in terms of assets and in relation to capital, also grew compared with 2006. Indeed, the ROE stood at almost 20%.

Profitability is obviously the first line of defence for Spanish banks against any adverse shock. But their resilience is also based on two other pillars: a significant volume of provisions, accumulated by the system during the period of strong credit growth thanks to the prudential mechanisms set in place by the Banco de España in the past; and a comfortable solvency position. To quantify these two aspects, loan loss provisions widely exceed doubtful assets, while the system’s solvency ratio, measured in accordance with the Basel regulatory standards, is 11.4%, 3.4 percentage points higher than required.

These factors mean that Spanish credit institutions face the current situation from a position of soundness which, in the international context, is fairly unique. Soundness however is not a synonym for immunity and it would be imprudent, and not befitting a supervisor, to fail to consider thoroughly the potential risks.

In this respect, I should first like to refer to the recent developments in the doubtful assets ratio for loans granted to households for house purchase. For the last few months, this ratio has

been on a rising trend. And as it will no doubt continue to grow in the future, I feel we should view it as a worrying factor, but only a moderately worrying one, for the following reasons. Primarily, because we must not forget that this ratio had been at exceptionally low levels as a result of the high rates of growth of lending itself (the denominator of the ratio), so that increases would have been expected even in the absence of the present tensions. Secondly, because the current levels are still relatively low and well below those of other markets. However, in addition, there are some specific features of our financial practices that tend to limit the scope of this source of risk. I am basically referring to the fact that in Spain, unlike in the United States, households tend to default on their mortgage payments only in really extreme conditions.

The causes for concern may be greater in the case of loans for property development. True, the coincidence of the maturing of the property cycle and the triggering of international financial tensions has been particularly untimely for the Spanish economy. But, the stress tests we have performed at the Banco de España to calibrate the potential scale of this risk for banks show, broadly speaking, that the policy followed in recent years of accumulating provisions and capital has given rise to a buffer that would enable shocks of an order of magnitude comparable to those experienced at the height of the crisis in the 90s to be absorbed.

I now come to what I consider to be the main source of uncertainty at the present moment. This is none other than future developments on the international wholesale financing markets, where the possibilities of raising funds have been at extraordinarily restricted levels that are not in keeping with a developed international financial system.

Spanish banks have so far largely managed to evade the consequences of this sudden financial market squeeze. Firstly, because their liabilities were issued at relatively long maturities, so that the need to refinance the loans granted is arising much more smoothly than in other systems in which the relative weight of short-term securities is greater.

The low level of dependence on funds raised in the interbank deposit markets has been another mitigating factor. I should point out here that once the subsidiaries and branches of foreign banks have been excluded, whose liquidity management is strongly governed by the geographical diversification strategies decided by their parents, the rest of the Spanish credit system does not borrow in these markets but instead maintains a net credit position in them.

And I should not fail to mention either that the recent dynamism of Spanish households' deposits and the progressive return of credit to a more sustainable growth rate has also helped cushion Spanish banks' funding requirements.

In these conditions, the Spanish credit system has found alternatives to recourse to the markets for medium-term financing to cover its funding requirements. More specifically, issuance of shorter-dated securities, such as commercial paper, has been stepped up and more intensive use has been made of the leeway provided by the Eurosystem's monetary policy operational framework to cover liquidity requirements. In relation to the latter, I should like to emphasise that this possibility has been available to Spanish banks, as it has to all other banks of the area, since the very outset of monetary union, and it therefore comes as no surprise that it is used to a greater extent at times like the present. That said, the use currently being made of this facility remains moderate, as shown by the fact that the liquidity raised by Spanish banks as a proportion of total Eurosystem operations is barely commensurate with the weight of Spanish GDP in the euro area, or that this facility accounts, according to end-2007 data, for only 1.3% of the total bank balance sheet.

Clearly, recourse to these alternative facilities is to some extent temporary; it is taking place in a situation of heightened uncertainty and it is not reasonable to think that it is going to be perpetuated. But it is also clear that if this episode continues much longer, its effects on the Spanish economy may be significant, as is to be expected in the case of an economy in which external financing is one of the fundamental elements underpinning growth.

When the ability of the international financial system to perform its role of allocating resources efficiently is seriously curtailed, as at present, the financial soundness of borrowers is not sufficient to attract the financing they need. Thus, if the strains currently affecting the main wholesale markets for medium and long-term financing are prolonged excessively, we cannot ultimately rule out greater constraints on the raising of external financing by the economy.

The poor functioning of these wholesale markets has a global dimension and there is relatively little that the Spanish authorities can do to help mitigate it. However, the Banco de España can and will proceed to ensure that Spanish banks continue managing their risks prudently and have appropriate risk provisioning policies that guarantee their financial soundness. This is undoubtedly the best way of ensuring that, once uncertainties have been dispelled and normal market functioning restored, financial institutions can continue to efficiently perform their role of channelling financial flows between our country and the rest of the world. In addition, the Banco de España will continue encouraging banks and savings banks to start issuing medium-term bonds again and to place them on the international markets. The positive experience of Spanish banks that have already done this during the last fortnight, and the improvement in bank risk recorded in certain markets, make these issues a unique window of opportunity for the financial system's use of international euro markets to return to normal. Also, and as part of the Eurosystem, the Banco de España will continue to help facilitate the adequate provision of liquidity, to ensure the proper functioning of money markets.

But, apart from the functions assigned to the Banco de España in relation to financial stability, in our capacity as a central bank and bank supervisor, it is also our duty to contribute our opinion, in the performance of our task of overseeing macroeconomic stability, on the design of the response that should be framed in a situation such as that described. This response must include both the role of the economic policies of the various tiers of government and the responsibilities that must be assumed by the various economic and social agents.

We should all accept that in a situation like the present one in which the economy is facing a slowdown, in an adverse international setting and surrounded by risk factors, it is more important than ever that economic policies be firmly geared in two directions: first, towards safeguarding macroeconomic stability; and further, to promoting the adoption of structural measures and reforms in product and factor markets, to enhance the degree of competition in the environment in which agents take their decisions, the mobility of factors of production and the flexibility of price and wage-setting mechanisms. I believe that both strategies generate substantial synergies if they are pursued simultaneously. And in Spain we have the experience of the key role they have played in the real convergence of the Spanish economy over the last decade.

And this is so because it is essential that the response of supply and demand to the changes required to rebalance the various sources of spending and the various sectors of activity should be flexible, so as to ensure that the slowdown is mild and leads promptly to a new path of high growth, in line with the economy's potential, that is more balanced and sustainable.

This is the stance that should, in my opinion, inform the actions of central government and other government bodies, which in Spain's highly decentralised system of regional govern-

ment have very significant responsibilities, as well as the behaviour of economic and social agents, whose attitude may determine the degree of flexibility of the productive system and of the institutional framework and the viability of the necessary reforms.

We should be aware that there is very little room for expansionary demand policies here and that inappropriate use of such policies may even be counter-productive. Monetary policy ceased to be an autonomous economic policy tool a decade ago. Its primary objective is to maintain price stability in the euro area over the medium term. From the point of view of domestic requirements, the monetary and financial conditions in which Spanish households and businesses have been operating have been becoming progressively tighter and are currently more in line with the need to stem inflationary pressures in the Spanish economy.

For its part, the fiscal position is in a favourable starting position since public finances were again in surplus in 2007 (2.2% of GDP) and the debt ratio stood at 36.2% of GDP, levels unprecedented in the recent history of the Spanish economy. These results reflect the strong commitment of previous governments to fiscal discipline, but also substantial growth of the Spanish economy in recent years and the buoyancy of the property market. That has resulted in strong growth in tax revenues, exceeding that seen in previous upturns. Accordingly, the fiscal projections that are consistent with the macroeconomic scenario I have set out today point to the fiscal surplus almost disappearing in 2009.

With this in mind, when designing the appropriate fiscal policy strategy for the downturn in the Spanish economy, it makes complete sense to give free rein to the automatic stabilisers, whose movement tends to counter cyclical fluctuations. This is one of the great advantages arising from the fiscal consolidation drive that took place during the expansion. The automatic nature of these instruments makes them the most suitable ones for stabilisation, because they respond rapidly to changes in the cycle, they help agents to form correct expectations regarding the authorities' actions and they boost confidence. However, discretionary increases in public spending and tax reductions beyond the specific scope of the automatic stabilisers should be avoided, since they may compromise the maintenance of medium and long-term budgetary stability and eliminate the fiscal policy leeway to respond to sharper slowdowns.

Maintaining a stance of budgetary stability during the downturn is, in any case, compatible with measures that may alter the composition of revenues and spending, without giving rise to a permanent deterioration in the budgetary situation, especially if such measures contribute to enhancing the quality of public finances and the efficiency of the economy. But, for this to be possible, it is essential to strive to contain expenditure, by means of countermeasures in those areas that offer the most scope for cost reductions, at all levels of general government.

It would seem, then, that the promotion of structural measures and reforms, geared towards improving the functioning of markets, making wage and price-setting mechanisms more flexible and facilitating the reallocation of factors of production across sectors, is the main instrument available to economic policymakers and economic and social agents to enable each, in their respective areas of responsibility, to contribute to easing the downturn and promoting prompt recovery.

All matters relating to the functioning of the labour market, good industrial relations, collective bargaining and outstanding reforms take on great importance in the current situation. This is because the dynamism of the Spanish population as a supportive factor for limiting the intensity and scope of the slowdown largely depends on labour market flexibility. This is especially so at the current juncture, with rising wages and a deteriorating inflationary situation. Hence,

the search for formulas permitting a resumption of a trajectory of wage moderation has become a priority, such moderation – with the support of social agents – having yielded such good results in terms of employment generation in the recent past. Among other measures, I have in mind changes to the current wage indexation arrangements, which tend to prolong the impact of inflation surges. Changes are also needed in the collective bargaining framework and in labour hiring, in order to facilitate the adjustment of wages to the new cyclical situation and to smooth the adjustment in employment.

Obviously, however, these measures need to be complemented by resolute reforms to the competitive environment in which firms and agents take their decisions through liberalisation and deregulation policies that help reduce the constant growth in profit margins in less competitive sectors and to boost efficiency and productivity. From the viewpoint of the long-term needs of the Spanish economy, all this should be accompanied by improvements in education and in training in order to adapt workers' skills to the new requirements and to boost their inter-sectoral mobility.

Allow me one final reflection not so much on what should be done as on what should not. It is true that the global slowdown is leading many governments to embark on different forms of protectionism, responding to the calls of those economic agents who are demanding help against foreign competitors. It is a mistake to succumb to such calls. Spain should not follow this bad example, since any measures in favour of specific agents solely on the basis of their nationality would ultimately harm other Spanish companies and all Spanish citizens. On the contrary, we should continue to adhere to increasing openness to competition and to the foreign investment that has contributed so much to our well-being in recent decades, focusing our efforts on promoting a climate conducive to business activity and on removing all obstacles and rigidities that hamper enterprise.

To conclude, I wish to affirm my confidence that the Spanish economy has sufficient factors of resilience to successfully face the inevitable slowdown, even in an unfavourable external environment. Such resilience has been built up through the efforts of everyone (State, central government and other government bodies, and social agents), and has demonstrated the benefits of policies geared towards stability and long-term growth, particularly when the economy faces significant challenges such as those at present.

Thank you very much.

15.4.2008.

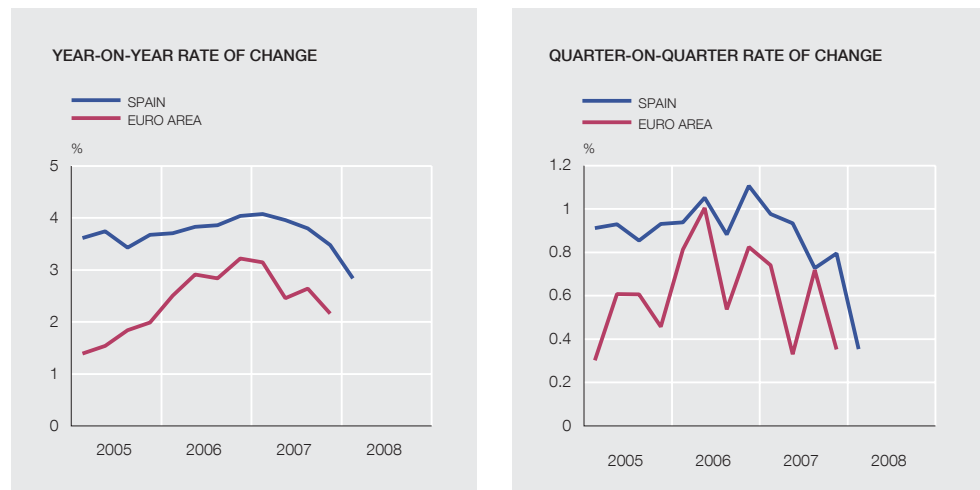
1 Overview

On QNA estimates, Spanish GDP stood at 3.5% year-on-year in 2007 Q4, with the gradually slowing profile it had shown throughout the year becoming more accentuated. As in previous quarters, the slowdown in spending was due to the lesser dynamism of national demand, which was partly offset by a less negative contribution by the external sector. However, the closing months of 2007 revealed the first signs that the bout of financial stability dating back to the summer could be intensifying the adjustment that the Spanish economy had already embarked upon. And this has been confirmed in the opening months of 2008.

Indeed, drawing on the as yet incomplete conjunctural data available, estimates point to a more pronounced deceleration in activity in 2008 Q1 and to a sharper adjustment in the real estate sector, in a setting in which the prolongation of the financial turbulence has contributed to heightening uncertainty over the economic picture. According to these estimates, the year-on-year growth rate of GDP in 2008 Q1 is expected to have risen to 2.8% (0.4% in quarter-on-quarter terms). This is as a result of a significant cut in the rate of increase of the various national demand components – which are estimated on the whole to have increased at a rate of 3% (3.6% in the previous quarter) – and of a 0.1 pp improvement (to –0.3 pp) in the contribution of net external demand. On the supply side, activity and employment remained on a slowing course, which was also more marked than in the second half of the year. That reflected above all the greater intensity of the adjustment in the construction sector and in related activities. EPA (Labour Force Survey) data for 2008 Q1 show the dynamism of employment to have eased from 2.4% in 2007 Q4 to 1.7% in the current quarter. The unemployment rate rose to 9.6%, against the background of the higher growth in the labour force. Turning to prices, inflation rose once again in the opening months of 2008, driven by fresh increases in oil and food prices. As a result, the March CPI posted a year-on-year growth rate of 4.5%, while the inflation differential with the euro area held stable at 1 pp, the level prevailing in late 2007.

As to the international economic outlook, 2008 Q1 was marked by the intensification of the financial turbulence, continuing strong price rises in energy and, to a lesser extent, in other commodities, and the sharp deterioration in the US economic situation. Despite the resilience other regions have continued to show, the growth outlook for the world economy has been revised downwards again and remains shrouded in considerable uncertainty owing to doubts over the ultimate scope of the above-mentioned developments.

On the international financial markets, the strains on money markets continued throughout the quarter. In this setting, the difficulties beleaguering certain financial institutions exacerbated the prevailing climate of lack of confidence, prolonging liquidity problems. Strains became sharper in the opening weeks of March, when the financial difficulties of the fifth biggest US investment bank became known. In these circumstances, the main central banks conducted exceptional liquidity-providing operations, accompanied in some cases by changes in implementation procedures and even cuts to intervention rates. The Federal Reserve cut its federal funds target rate on three occasions during the quarter, taking it to 2.25% in March, a reduction of 300 bp since August 2007. At the same time, the US monetary authorities laid down new measures for the provision of liquidity, broadening the range of counterparties and accepted collateral, and they took an active role in bailing out the aforementioned investment bank. Elsewhere, the Bank of England cut its official rate on two occasions, the last of which (in April) lowered it to 5%, and more recently it has introduced exceptional facilities for increasing liquidity on bank balance sheets.



SOURCES: ECB, INE and Banco de España.

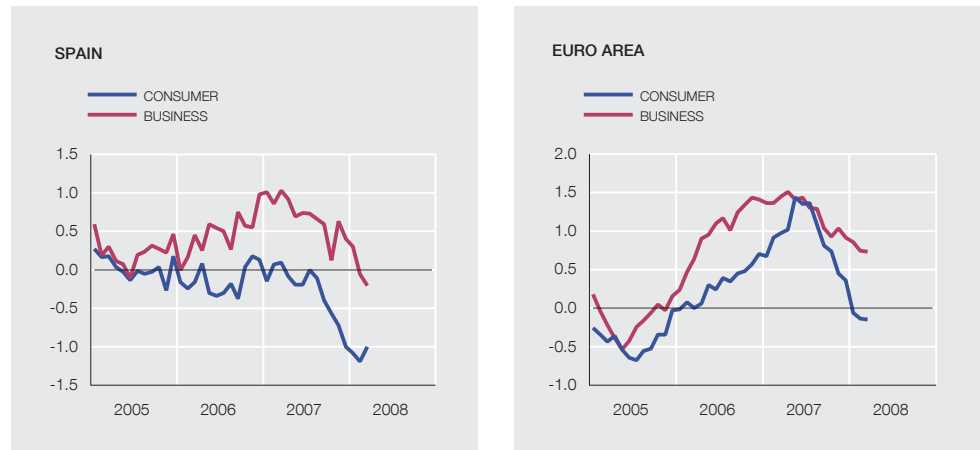
a. Seasonally adjusted series.

The upward revision of credit risk premia continued throughout the quarter and there were declines in stock market prices, which were sharper than in the initial stages of the financial turbulence. Overall, this made for a complicated financial environment in which the weakness of the dollar increased, reaching new lows against the euro (exceeding \$1.60 per euro at the end of April), and signs of a credit squeeze began to be discernible in the US economy. Although some improvement can be seen in certain markets, sufficiently clear signs of an ebbing of the international financial strains of recent months are still not visible.

Oil prices remained on a prolonged rising course throughout Q1, standing in the last week of April at a level close to their all-time high (\$110 per barrel of Brent) owing to the continuing pressures exerted by the emerging countries, the weakness of the dollar and OPEC's refusal to increase output at its last meeting. This was accompanied by rises in the prices of other commodities, in particular foodstuffs, which prompted a further deterioration in inflation globally and influenced economic policy measures in a good number of countries.

Activity in the world economy throughout the quarter was highly influenced by the marked deterioration in the US economy, where the year-end figures showed its slowing trajectory to be steepening. The information available for the opening months of 2008 points to further weakening, since the adjustment in the real estate sector has deepened, consumption continues to slow and employment has fallen. The economic outlook has likewise worsened in Japan and in the United Kingdom, while in the emerging economies activity generally remained notably buoyant, although there was an across-the-board rise in inflation that prompted the tightening of the monetary policy stance in most of these countries.

The euro area showed some momentum in 2008 Q1, with GDP growth expected to stand at a similar level to the end-2007 figure, or even somewhat higher. Both the dynamism of the emerging economies, which is driving exports and industrial activity, and the strength of the labour market, which is underpinning domestic spending, are expected to have alleviated the effect of other contractionary forces, such as the appreciation of the euro, price increases and the tightening of financial conditions. So far, then, the impact of the financial turbulence on activity in the euro area is proving limited, although here, too, projected growth has been re-



SOURCE: European Commission.

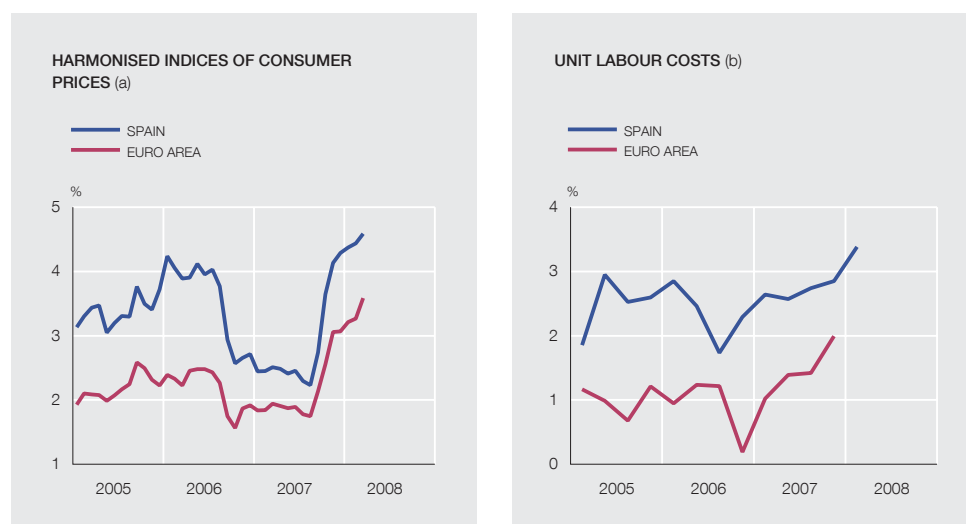
a. Normalised confidence indicators (difference between the indicator and its mean value, divided by its standard deviation).

vised downwards and considerable uncertainty persists over the effect of the slowdown in the US economy on activity in the area.

Higher oil and food prices on international markets and certain seasonal effects bore on inflation in the euro area, which continued to quicken in the opening months of the year. As a result, the HICP posted a 12-month growth rate of 3.6% in March, and core inflation rose to 2.7% (against rates of 3.1% and 2.3% at end-2007, respectively). The outlook for the second half of the year is somewhat more favourable, though conditional upon there being no further increases in oil and commodities prices. That said, the inflation rate will hold at a high level, most likely above the medium-term price stability target (2%).

Amid the strong upward pressures on prices in the short term and the risks to medium-term price stability, the ECB Governing Council kept its official interest rates unchanged throughout the quarter at 4% for the main refinancing operations, and at 3% and 5% for the deposit and marginal lending facilities, respectively, indicating that the decisions taken would contribute to achieving its medium-term price stability goal. The ECB acknowledged the high level of uncertainty over the effects and duration of the financial turbulence, and over its impact on activity in the euro area. But it stressed its commitment to pre-empting second-round effects on wages and prices and to keeping inflation expectations anchored in the long run.

In the opening months of 2008, developments in the Spanish economy have thus unfolded in a weaker external environment in which the deterioration in the international financial climate has passed through to domestic financial markets, where there have been fresh rises in money market rates, further increases in credit spreads and declines in the main stock market indices, although a slight improvement has been discernible since mid-March. The prolongation of this episode is contributing to spreading uncertainty over the economic picture, with clear effects on confidence and spending decisions; however, its impact on the cost and availability of private-sector financing is still relatively limited. The gradual slowdown in house prices continued in the opening months of 2008, posting a year-on-year growth rate of 3.8% in Q1 (4.8% in 2007 Q4). There are growing signs in the recent period that the deceleration in the real estate sector might prove sharper than had been forecast some months back. Nonetheless, the course residential prices have taken appears to denote the presence of certain factors that may shore up property values in this sluggish phase of the residential cycle.



SOURCES: Eurostat, ECB and INE.

a. Year-on-year rate of change.

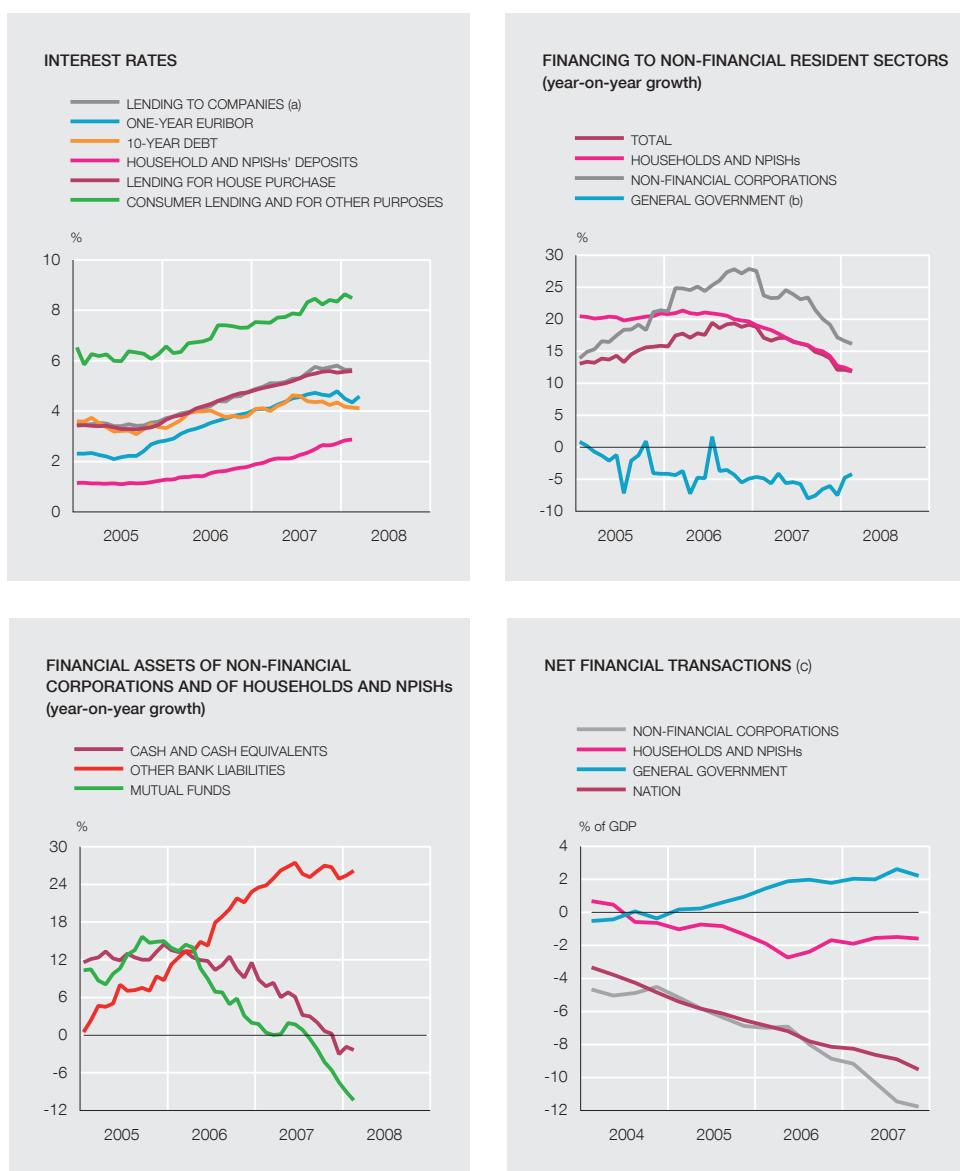
b. Per unit of output. Year-on-year rate of change calculated on the basis of seasonally adjusted series.

Amid the heightening uncertainty and agents' deteriorating confidence, household spending slowed in the opening months of 2008. This affected both household consumption, the rate of change of which is expected to stand at around 2.2%, and, above all, residential investment, which scarcely increased during the quarter. Several factors lie behind the weakening in consumption. First, disposable income may have been impacted, to some extent, by the loss of momentum in employment, although this was countered by the rise in wages and certain public-sector measures, following the entry into force of those approved in the last Budget (essentially the partial elimination of fiscal drag under personal income tax and the tax credit in support of the birth rate). Next, wealth moderated further as a result of the fall in stock market values and of the slowdown in house prices. And finally, there was a significant deterioration in consumer confidence, given the uncertain economic climate and the marked worsening in the inflationary situation, which may have adversely affected household spending plans.

This climate is also influencing the demand for housing, deepening the slowdown in the real estate sector which had begun some quarters back. Following the strong previous expansion, the slowdown has been in response, among other factors, to the rise in borrowing costs and diminished real estate appreciation expectations. The fall-off in the demand for housing may be increasing the current excess supply and accelerating the adjustment in the sector, through the scaling down of new housing construction projects.

Household demand for financing continued to reflect the lesser momentum of spending, along with the moderate rise in borrowing costs. Accordingly, the growth of credit to households continued to slow gradually, with its year-on-year rate standing at 12% in February. The easing off of the increase in household debt was seen both in credit for house purchases and in consumer credit (with respective growth rates of 12% and 10%).

As has been the case in recent quarters, the behaviour of business investment was more expansionary, albeit moving on a slowing trajectory which, in the case of investment in capital goods, led it to post a rate close to 6%, compared with around 9% at end-2007. No significant changes were perceptible here either in financial determinants, compared with the previous



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 NEDR (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.

quarter, as corporate earnings held on a similar path to the closing months of 2007 and the cost of borrowed funds scarcely underwent any change in early 2008; however, banks are estimated to have applied more restrictive conditions in their lending (in keeping with their expectations at the start of the year), thereby contributing to further tightening the business financing conditions observed over the past year. As well as to this effect, the slowdown in business investment plans should be attributed to the deterioration in business confidence and to the downward revision of demand growth expectations. Business investment in other construction projects might also have been prone to this climate of uncertainty. Against this backdrop, the pace of corporate debt continued to fall, reaching a year-on-year rate of 16% in February. That is expected to have prompted a fresh increase in the sector's debt ratio, albeit at a lesser pace than that of the previous quarters, and in the debt service burden.

In the opening months of 2007 there was a 0.1 pp improvement – to –0.3 pp – in the contribution of net external demand to GDP growth. This was the consequence of some quickening in the growth of goods and services exports, despite the appreciation of the euro, and of the stabilising of imports at a somewhat lower level than in the second half of 2007, in response to the slowdown in final demand. Drawing on Customs information, the EU countries were the main export markets, with bigger increases in intermediate and consumer products. As to imports, purchases of intermediate goods were notably robust. Finally, the available indicators of tourism showed a continuing and moderately favourable performance in the opening months of the year.

On the supply side, the growth rates of activity and employment continued to decline in 2008 Q1, chiefly reflecting the adjustment in the construction sector and in related activities. In the construction branch, the biggest slowdown in activity was in the residential segment. That made for a rapid adjustment in the sector's employment-generating capacity, and the employment figures were moderately negative over the quarter as a whole. In industry, the slacker growth seen in the second half of 2007 continued, largely influenced by the close connection between certain manufacturing activities and construction activities. Set against these developments was the resilience of the market services branch, with increases in value added of over 3% and increases in employment close to this level; however, a mild slowdown was also observable in activity in this sector. Overall, the pace of employment generation in the market branches progressively adapted to the slowing profile of activity, whereby apparent productivity held at similar figures to those in the second half of 2007, as was the case for the whole economy, where apparent productivity gains remained at around 1%.

The collective bargaining results available for 2008 confirm the rise in labour costs which began to be discernible over the course of last year. Wage settlements, which are standing at 3.4% to March, exceeded average wage growth in 2007 by somewhat more than 0.4 pp, possibly reflecting some deterioration in the inflation outlook in the face of the price rises in the final months of last year. But, moreover, it is estimated that the impact of the activation of the indexation clauses (for the deviation by inflation in 2007 from its official target) will also be sharper, potentially adding 1.1 pp to wage increases (0.3 pp in 2007). It is therefore highly likely that labour costs will continue to quicken during the current year, as will unit labour costs, for which an increase of somewhat over 0.5 pp is estimated in 2008 Q1, reaching a rate of change of 2.9% for the overall market branches.

Prices also continued on the upward trajectory they had initiated in the second half of 2007 against a background of substantial rises in energy and food commodities prices, tightening labour costs and barely any easing in margins. Inflation rose in 2008 Q1, with an increase of 4.4% in the CPI, compared with 4.0% the previous quarter, while the CPI excluding unprocessed food and energy held steady at the level of the previous quarter (3.3%). This latter figure means, in any event, that the prices of processed food and, to a lesser extent, of services are highly dynamic. In this setting, the favourable behaviour of non-energy industrial goods, whose prices have held virtually stable, posting lower growth than those in the euro area (with a year-on-year rate of 0.2% for the quarter as a whole), represents some measure of relief.

The doubts over the course of oil and food prices mean that the performance of inflation globally in the coming quarters is shrouded in considerable uncertainty. In the case of the Spanish economy, the wage rises seen in recent months and the wage indexation mechanisms in place accentuate the risk that price pressures, which are still relatively confined to specific product groups, may ultimately generate second-round effects and spread to the rest of the economy.

On 18 April the government approved an economic stimulus plan consisting of a set of fiscal, financial and unemployment assistance measures with which to help households and firms adapt to the change in the business cycle, to lower the costs tied to changing mortgages, to boost the financing of government-subsidised housing and to bolster activity in the construction industry through stricter compliance with public-works lead times. Some of these measures entail a cost in public revenue terms, the permanent portion of which is difficult to estimate accurately at present. Moreover, the effect they seek to exert on sustaining activity is not free from some uncertainty. This may be the case of the tax reduction to be applied from 2008 to wage-earners, pensioners and the self-employed (to be implemented through a deduction in personal income tax of €400 per annum), for which the government estimates a cost of almost 0.5 pp of GDP. Indeed, the scope of this measure when it comes to boosting household consumption may be lessened by the fact that, in the current circumstances, the portion of the increase in disposable income that is diverted towards saving may be greater than usual.

The general government surplus in 2007 is a favourable starting point to bear up against the cyclical slowdown by means of giving free rein to the budget's automatic stabilisers (unemployment spending and tax revenue, essentially). These should provide valuable support during the slowdown. However, it should be borne in mind that the impact of less dynamic activity on public finances may be high, as shown by the sluggishness of tax revenue in recent months. Accordingly, fiscal policy must be handled with extreme caution, in particular restricting the application of additional measures that might generate a permanent deterioration in the budget balance. Maintaining the counter-cyclical room for manoeuvre that the healthy position of public finances provides is an asset of prime importance for tackling the challenges facing the economy in the downturn and the international financial turbulence. The emphasis of economic policy conduct should be placed, above all, on promptly regaining a path of moderation in price, wage and income formation, and in laying the foundations for a sustainable recovery in activity. In this connection, the main role will fall to those eminently structural measures that smooth the adjustment of the economy and the prompt return to a dynamic path based on a more balanced growth pattern.

2 The external environment of the euro area

In 2008 Q1 there was renewed tension in the international financial environment, which peaked in mid-March when the financing difficulties of a large US investment bank came to light, against a backdrop of credit spreads at historical highs and strains on money markets. This led the Federal Reserve to take decisive action on three fronts: it supported the acquisition of the ailing bank by JP Morgan so as to preserve the stability of the financial system; it established new measures to ease the supply of liquidity (see Box 1) by extending the term of financing transactions, enabling more institutions to have access to these funds and widening the range of assets which can be used as collateral; and finally, at its meeting in March it cut the federal funds target rate by 75 bp to 2.25%, making for a reduction of 300 bp since the beginning of the turbulence and of 200 bp since the start of 2008. The market reaction was favourable, and credit spreads fell and stock markets rallied; however, the dollar's weakness was accentuated and it reached new lows against the euro. In any event, the negative news in financial circles about banks' high losses, the rise in the mortgage default rate, institutional investors' exposure and the steep downward revision of global and US growth projections, in particular, fuelled ongoing uncertainty about the scale of the turbulence.

Emerging markets continued to show some resilience in the face of the financial turbulence over the last quarter and stock markets recovered from the losses recorded at the beginning of the year, with the notable exception of China. Exchange rate movements in the emerging economies were mixed, although most appreciated against the dollar. It was precisely in this context of a weak dollar that the price of Brent oil soared to a record high of approximately \$114 per barrel. Prices of other commodities also rose substantially and were highly volatile, partly due to uncertainty about their fundamentals.

In the US, the final estimate for GDP in 2007 Q4 confirmed annualised quarterly growth of 0.6%, which was notably down on Q3 (4.9%). Thus, GDP growth for the whole of 2007 stood at 2.2%, 0.7 pp less than in 2006. The higher frequency indicators have shown signs of a notable slowdown in recent months. On the demand side, consumer confidence indices fell sharply and consumer spending indicators were somewhat slack during the quarter. Housing market indicators reflected the depth of the adjustment in the residential sector: housing starts and construction permits fell to levels not seen since the early nineties and confidence in the construction industry remained very close to its all-time low. There were signs of weakness in activity since, during the first quarter, the manufacturing and services ISM index contracted and industrial production dropped slightly. After notably withstanding the slowdown until end-2007, the labour market weakened rapidly. For the first time since 2003, there was net job destruction, amounting to 77,000 jobs per month in the first quarter, and the unemployment rate climbed to 5.1%. As for prices, inflation rose in Q1 and stood at 4.1% year-on-year, in comparison with 4% in 2007 Q4, due to higher energy and food prices. Likewise, the core rate rose to 2.4% from 2.3% in the previous quarter.

In Japan, GDP grew 3.5% year-on-year in 2007 Q4, up 1.2% on the previous quarter. For 2007 as a whole, GDP grew 2.1%, 0.3 pp less than in 2006. The latest indicators point to a loss of buoyancy in industrial activity in recent months, judging by the worsening of the business confidence indices in the Tankan survey for Q1 and the drop in industrial production in January and February. On the demand side, consumer spending continued to progress favourably, in contrast with the negative performance of consumer confidence. The pace of job creation slowed on the labour market, resulting in a further decline in the

Further to the financial turbulence which began in summer 2007, and in order to mitigate its adverse effects on economic activity and financial stability, the US economic authorities have reacted swiftly and increasingly more decisively on four main fronts: the traditional fronts (monetary and fiscal policy) and others more directly aimed at countering the impact of the turbulence on the financial system (the provision of liquidity to banks and financial policy).

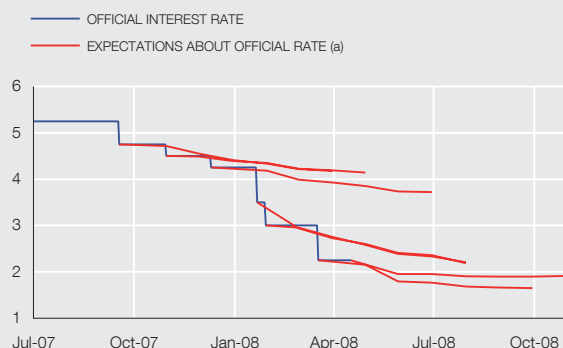
As regards monetary policy, the Federal Reserve (Fed) substantially cut official interest rates, especially in the period between January and March (by 100 bp between August and end-2007, and by 200 bp in 2008 Q1). However, the traditional channels for passing through these cuts to activity seem to be partially blocked by the persisting financial uncertainty, in particular that operating through the property market. In fact, these cuts have not managed significantly to reduce long-term borrowing costs either on the mortgage market or in the corporate sector. As can be seen in panel 1, each reduction in official interest rates in the US seems to have fuelled expectations of further cuts, although such expectations fell at the end of April.

In the fiscal policy area, the need for a stimulus was raised shortly after the turbulence began, although this was not approved by Congress until January this year. The tax package, costing approximately 1.2% of GDP, is designed to increase household disposable income

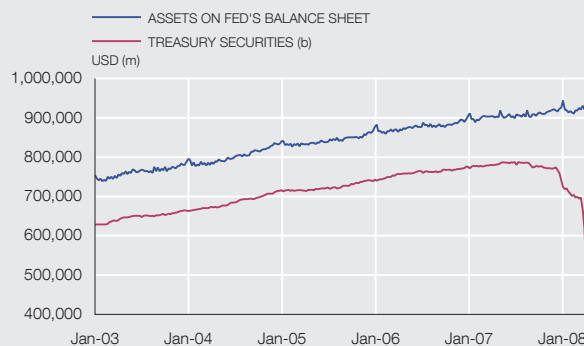
so as to lend some support to consumption, and would begin to have an effect on demand from the end of Q2 and, in particular, in 2008 Q3. However, there is uncertainty over whether the positive temporary effect on the growth of activity in those quarters will have been practically countered in full during 2009.

In response to continuing problems on the interbank market and to ongoing financial instability, the Fed made important changes to the provision of liquidity to markets (partly due to the relatively rigid existing framework for operations - in contrast to that of the Eurosystem). It set in place new procedures for lending funds through the Term Auction Facility (TAF) in December and the Primary Dealer Credit Facility (PDCF) in March. Also, from March it supplemented its Treasury securities lending programme through the creation of the Term Securities Lending Facility (TSLF). The TAF offers funds to commercial banks through an anonymous auction aimed at eliminating the stigma usually attached to the use of the central bank's discount facilities. The PDCF extends access to Federal Reserve funds via the discount window to the financial institutions with which the Fed conducts open market operations (20 primary dealers in total) and, for the first time, it includes the main investment banks not directly supervised by the Fed, which marks a significant change in thinking. Lastly, TSLF permits these 20 institutions to have access to loans of Treasury securities by pledging mortgage securities as collateral. All

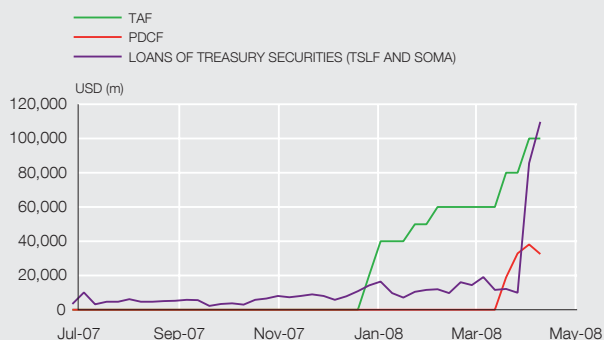
1 UNITED STATES: OFFICIAL INTEREST RATE AND EXPECTATIONS



2 FEDERAL RESERVE ASSETS AND TREASURY SECURITIES HELD



3 NEW FEDERAL RESERVE LIQUIDITY FACILITIES



4 CDS 5-YEAR SPREADS FOR THE MAIN BANKS IN THE US



SOURCES: Datastream and Federal Reserve.

- a. Expected interest rate following each cut in official rate and on latest available date.
b. Excluding Treasury securities on loan to financial institutions.

these new facilities offer financing for approximately one month, with a relatively low penalty. In addition to these new lines to provide liquidity, the Fed has also relaxed the conditions on the existing lines by reducing the spread between the discount rate and the official rate (from 100 bp to 25 bp), by lengthening the maximum term of these loans (from 30 to 90 days) and by extending the range of financial assets which can be used as collateral. Similarly, the Fed expanded the swap agreements with the European Central Bank and the Swiss National Bank, which enabled them to satisfy the demand by commercial banks for dollars in their respective spheres of influence.

Significantly, this extraordinary provision of liquidity has not altered the total size of the Fed's balance sheet since it has entailed, in parallel, a reduction of its holdings of Treasury securities so as not to compromise the official interest rate target (see panels 2 and 3).

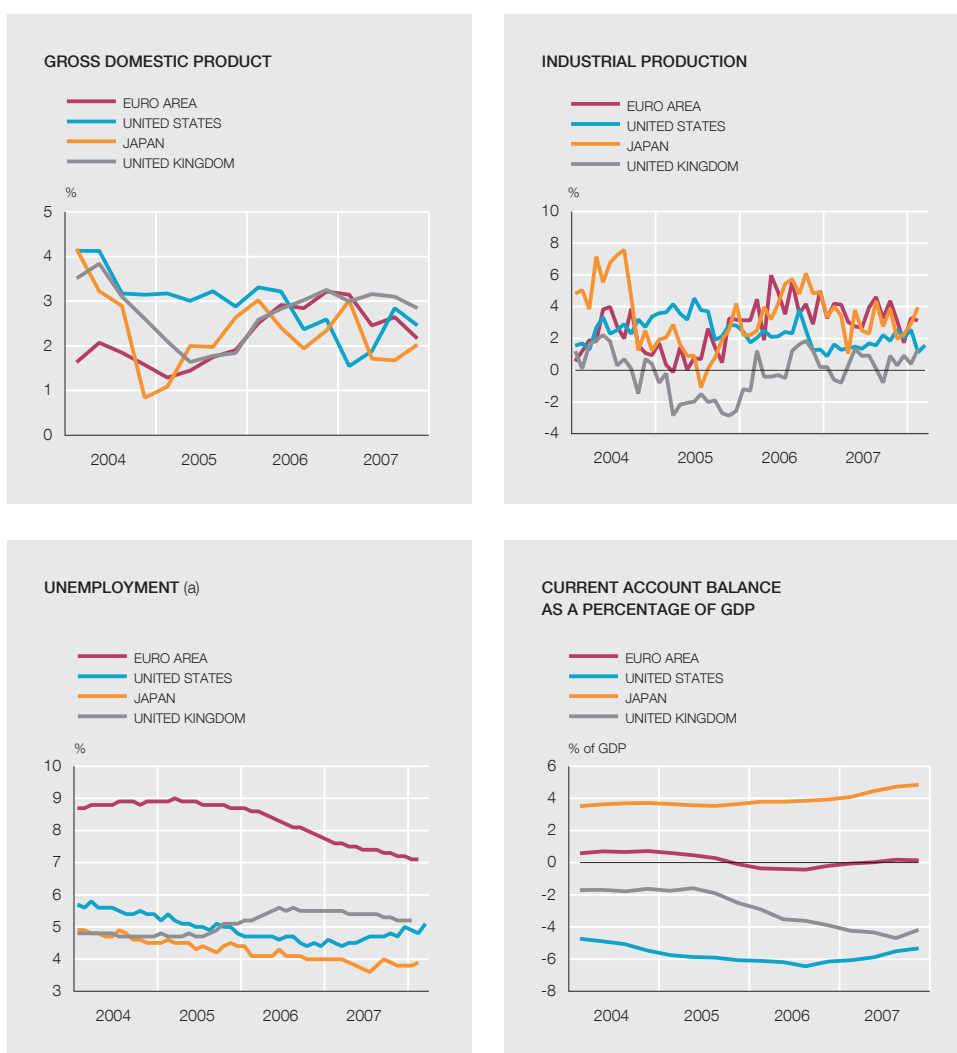
In the financial policy area, the Fed itself and other US authorities have promoted measures to support the property market and the financial markets in general through agreements with and commitments to the private sector. In the first case the effects to date have been very limited (due to the voluntary nature of the mortgage renegotiation plans under the Paulson Plan), or there is uncertainty about how effective they will be (as in the moratorium envisaged in the Life-line Project). Regarding support for the functioning of the financial markets, following some more limited measures, JP Morgan's bail-out of Bear Stearns in March marked a sea-change since it was an operation brought about and backed financially by the Fed. This ac-

tion, which coincided with the PDCF, has sent out a clear message of support to the markets, helping dissipate tension and uncertainty about the sustainability of certain banks in the US, whose credit risks reached highs in mid-March, shortly before the Bear Stearns bail-out (see panel 4). However, despite the implementation of these measures and the provision of liquidity, money market tensions continued to run high in relation to the situation prior to summer 2007.

In short, in an initial phase (until December 2008) the authorities reacted essentially by using traditional instruments: moderate interest rate cuts, implementation of a tax package and the provision of liquidity. The second phase between January and March was dominated by monetary policy and interest rate cuts were stepped up. Lastly, the third phase, which began mid-March, was noteworthy due to the rescue of a bank with the backing of the Federal Reserve and the provision of liquidity to investment banks. And here, two key aspects should be highlighted: the preference for measures specifically targeting problem areas as opposed to general ones, and the patent readiness of the economic authorities to become directly involved, and not just as mediators, in resolving institutions' financial problems. At the same time, monetary policy (further decreases in official interest rates) seems to have been sidelined to some extent, which was also reflected in market expectations. Of note in this significant qualitative change is the central role assigned to the Federal Reserve (with the support of the Treasury Department) in leading and implementing economic policy responses, although the use of fiscal resources to alleviate the difficulties of the property sector in the next few quarters too cannot be ruled out.

ratio of vacancies to job-seekers and a slight rise in unemployment. Nevertheless, there are signs of an improvement in wages, which posted increases of more than 1% year-on-year in January and February. The construction sector began to recover in December following the adverse impact of the implementation of new building regulations in mid-2007. On the external front, the current account balance fell in February due to the worsening of the trade surplus. This, in turn, is linked to rising energy costs and it offset the slight rise in the income balance surplus. Inflation continued to grow over the quarter in step with rising oil and food prices, and both the overall and core rate stood at 1% in February. In this setting, at its April meeting the Bank of Japan once again held official interest rates unchanged at 0.50%.

In the United Kingdom, GDP for 2007 Q4 increased by 0.6% (2.8% in year-on-year terms), resulting in an increase for the year as a whole of 3% in comparison with 2.9% for 2006. However, the higher frequency indicators in 2008 Q1 seemed to indicate a slowdown. The services and manufacturing PMI shrank notably in March and the conditions for household access to credit continued to tighten, especially for mortgages. House prices continued to slow and increased by 1.1% year-on-year in March, the lowest rate since 1996. Although inflation increased slightly over the quarter to 2.5% year-on-year in March, the Bank of England revised inflation risks downwards and at its meeting on 10 April cut the official interest rate by 25 bp to 5%.

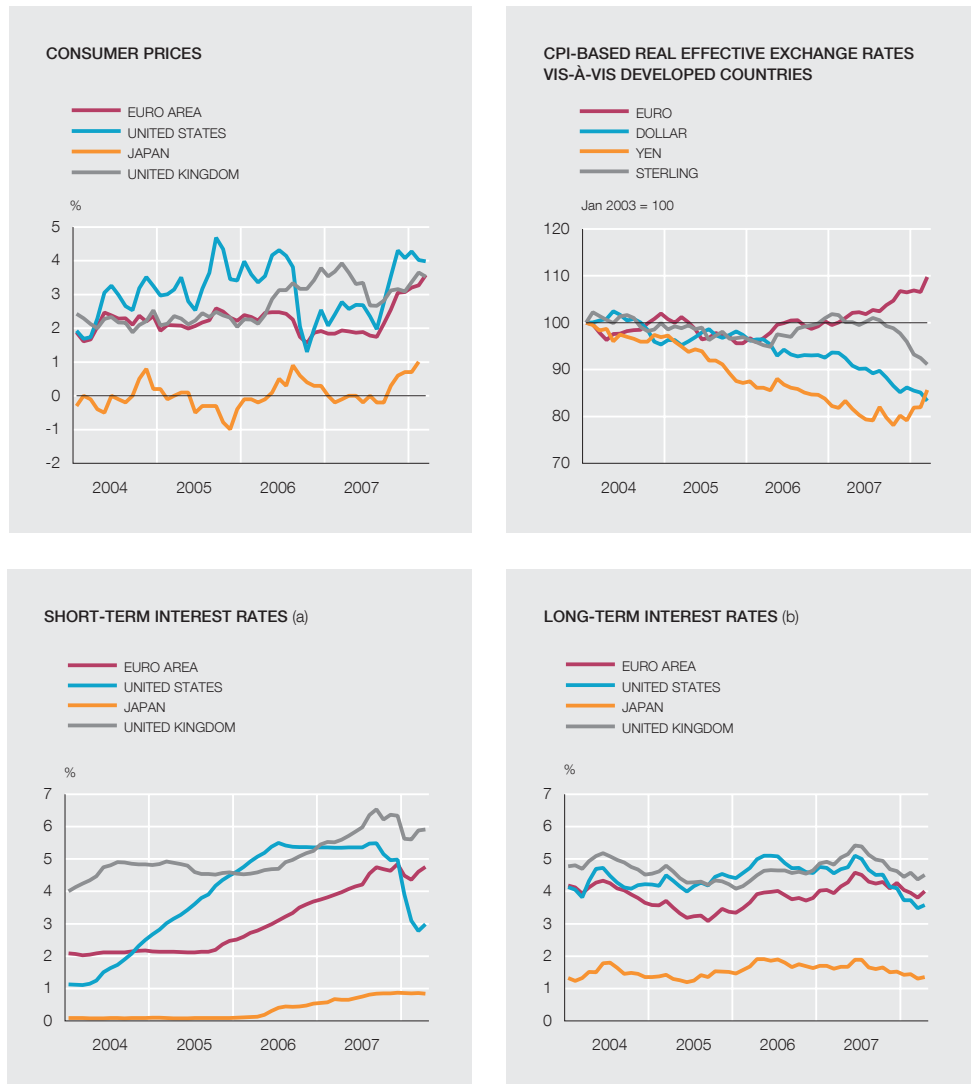


SOURCES: Banco de España, national statistics and Eurostat.

a. Percentage of labour force.

In the new EU Member States, GDP grew 6.3% in Q4, 0.3 pp up on the previous quarter and, consequently, the region's GDP increased 6.2% for the year as a whole, slowing by 0.4 pp with respect to 2006. Industrial production and retail sales indicators for Q1 show the continuing growth of activity. Inflation increased again in March (except in Hungary, Poland and Estonia) to a rate of over 10% year-on-year in the Baltic countries and in Bulgaria. Inflationary pressures led certain countries to tighten their monetary policy stance. In the fiscal realm, the major economies narrowed their public deficit in 2007 (only Hungary's exceeded 3% of GDP), due to the favourable performance of revenue against a backdrop of notable economic growth. The currencies participating in the Exchange Rate Mechanism (ERM II) did not record any sizeable fluctuations. In the institutional arena, the Slovak authorities made a formal request to join the euro area in January 2009.

In China, GDP growth for the whole of 2006 and 2007 was revised upwards to 11.6% and 11.9%, respectively, and growth in 2008 Q1 stood at 10.6% year-on-year. In the first three months of 2008, industrial production eased somewhat, affected by the bad weather. However, in that period the strength of investment in fixed assets in urban areas, retail sales and



SOURCE: Banco de España.

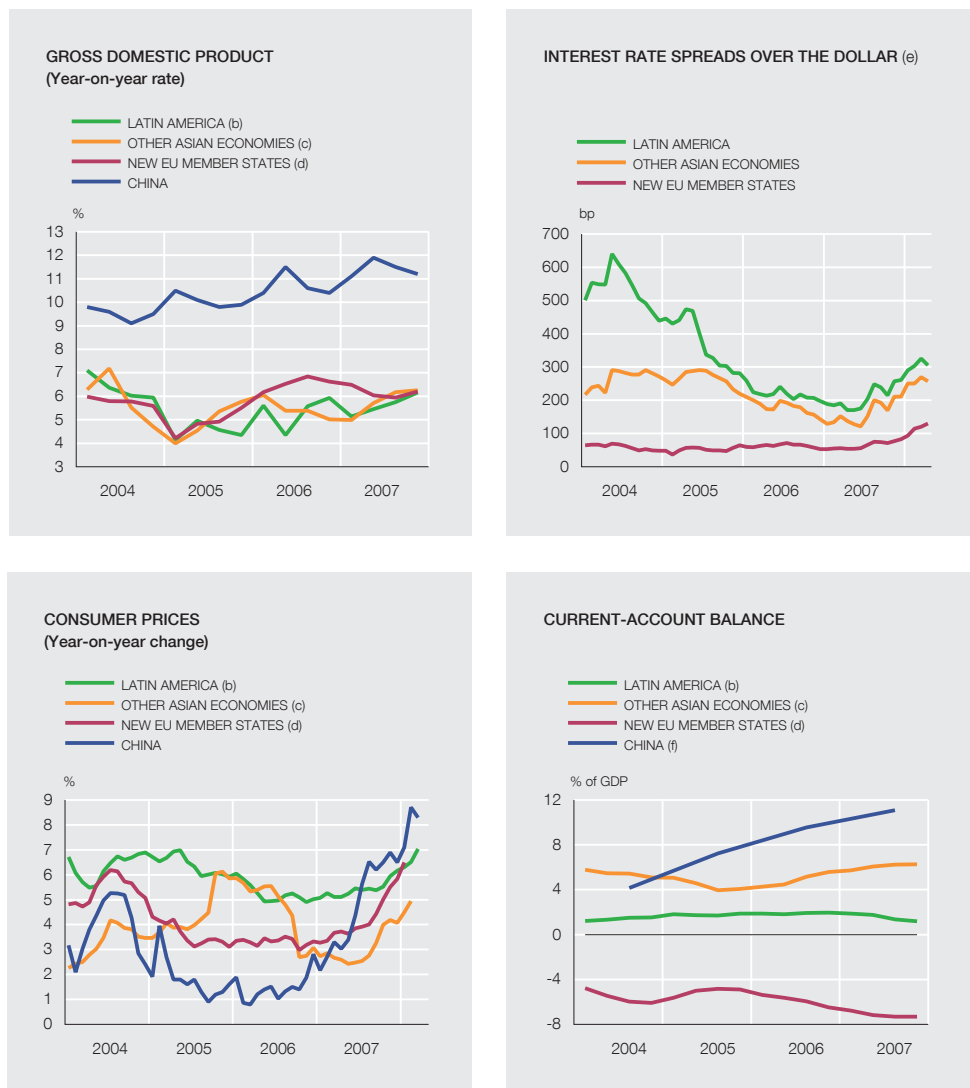
- a. Three-month interbank market interest rates.
b. Ten-year government debt yields.

imports was reaffirmed. Exports continued to show some weakness, in line with 2007 Q4. Thus, in 2008 Q1, the trade surplus fell by 10.5% in year-on-year terms. Although the renminbi appreciated at a higher rate in recent months, foreign reserves continued to rise at a high rate, up to USD 1.68 million. During the quarter, the authorities raised the bank reserve requirement on three occasions from 14.5% to 16%, and the growth of the money supply and credit eased, despite which inflation reached a historical high in the quarter. Elsewhere in Asia, there was also a widespread increase in inflation, while industrial production moved on a quickening trend with respect to 2007 Q4, with the notable exception of India.

In 2007 Q4, GDP growth in Latin America as a whole accelerated moderately to 6.2% in year-on-year terms, up 0.4 pp on the previous quarter. In this period the positive contribution of domestic demand increased, amply offsetting the slight deterioration in external demand. The countries posting the highest growth rates were Argentina, Brazil, Colombia and Peru, while growth held steady in other countries. For the whole of 2007, the region's GDP expanded by 5.7%, up from 5.4% the previous year, with the acceleration discernible in all countries apart from Mexico and Venezuela. In line with the global trend, inflation increased over the

**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 World Bank 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.

quarter from 5.8% in December to 6.4% in March, a rise on a similar scale to that recorded by the core inflation rate. Turning to monetary policy, interest rates moved higher in Colombia and Peru, but the 50 bp rise in Brazil, the first in three years, was especially prominent. Also, exchange rates against the dollar tended to appreciate in this period. That may have contributed to the deterioration over the quarter of trade balances, which felt the effects of higher imports, in particular in Brazil. Against this backdrop, the authorities tried out restrictive monetary measures other than interest rate rises, so as not to contribute to a greater appreciation of their currencies. Likewise, the central banks of Peru, Argentina and Brazil bought dollars to avoid the appreciation of their currencies, and the central banks of Chile and Colombia announced that they would begin to intervene on currency markets.

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

The available information on 2008 Q1 points to a euro area GDP growth rate similar to or somewhat higher than in 2007 Q4. Underpinning this resilience of euro area activity was the strength of the emerging economies on the external side and the vigour of the labour market on the domestic side. This behaviour was particularly notable because it took place against a background of increasing financial turbulence, rising commodity prices and appreciation of the euro exchange rate. Nonetheless, in the more medium term, the economic outlook continues to be surrounded by extraordinary uncertainty brought about by the prolongation of the global financial instability and by the slowdown of the US economy and its impact on the rest of the world. Foreseeably, the confluence of these factors will bring growth at below potential in the coming quarters. In fact, in recent months private institutions and international organisations have revised downwards their growth forecasts for the euro area in 2008 to rates of around 1.5%.

In 2008 Q1, the surge in oil and food prices on international markets resulted in a notable jump in HICP growth, which amounted to 3.6% in March. At the same time, the upward trend of core inflation steepened to a rate of 2.7%. For the rest of 2008, inflation is expected to remain above the price stability objective, although it will progressively moderate towards the end of the year as the prices of the energy and food components slow. In annual average terms, the inflation forecasts of public and private agencies stand at nearly 3%, after having been revised successively upward in recent months. More in the medium term, risks concerning the achievement of the price stability target persist, mainly due to the possible appearance of second-round effects on prices and wages, against a background of relatively tight labour market conditions, and to possible additional increases in commodity prices and in indirect taxes and administered prices (see Box 2). Against this, the expected lower dynamism of the euro area mitigates, at least in part, such upside risks.

Against this backdrop, in its latest meetings the Governing Council of the ECB decided to hold official interest rates unchanged at 4%, although it stressed the existence of strong upward pressures on inflation in the short term. Further, the ECB emphasised that its primary objective is price stability in the medium run and that the decisions taken contribute to achieving this goal. At the same time, it underlined its strong commitment to prevent the emergence of second-round effects on prices and to keep long-term inflation expectations anchored (see Box 3). The ECB acknowledged the high level of uncertainty about the effects and duration of the financial turbulence. Regarding fiscal policy, the aggregation of the data from the latest notifications submitted by the Member States of the euro area to the European Commission in spring indicates that the area's overall budget deficit in 2007 decreased by 0.7 percentage points with respect to the previous year, to 0.6% of GDP. This improvement was shared by a large number of countries, including Italy and Portugal, currently subject to an excessive deficit procedure. However, the new information suggests that the euro area's budget deficit in 2008 will deteriorate to approximately 1% of GDP, mainly due to the worse growth outlook and to tax rebates in some countries.

3.1 Economic developments

According to the second National Accounts estimate, euro area GDP expanded by 0.4% in 2007 Q4, 0.3 pp less than in the preceding quarter (see Chart 8). This slowdown was due to the lesser momentum of domestic demand and to the lower contribution from inventories,

	2006		2007				2008	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1 (a)	Q2 (b)
GDP								
Year-on-year growth	2.9	3.2	3.2	2.5	2.7	2.2		
Quarter-on-quarter growth	0.5	0.8	0.7	0.3	0.7	0.4		
IPI (c)	4.2	4.0	3.9	2.9	4.0	3.1	3.2	
Economic sentiment	107.6	109.3	109.4	111.0	108.7	104.3	100.5	
Industrial confidence	3.3	5.7	5.3	6.3	4.3	2.3	0.3	
Manufacturing PMI	56.9	56.7	55.5	55.3	54.2	52.3	52.4	
Services confidence	19.0	19.7	20.7	22.0	20.0	15.0	10.7	
Services PMI	57.3	57.1	57.6	57.5	56.9	54.4	51.5	
Unemployment rate	8.1	7.9	7.6	7.5	7.3	7.2	7.1	
Consumer confidence	-8.7	-7.0	-5.7	-2.7	-4.0	-7.7	-12.0	
HICP (year-on-year growth) (d)	1.7	1.9	1.9	1.9	2.1	3.1	3.6	
PPI (year-on-year growth) (d)	4.6	4.1	2.8	2.3	2.7	4.4	5.4	
Oil price in USD (d)	61.2	62.8	62.3	71.8	78.2	91.2	104.3	105.8
Loans to the private sector (year-on-year growth) (d)	11.4	10.8	10.6	10.8	11.0	11.2	10.9	
Euro area ten-year bond yield	4.0	3.9	4.1	4.4	4.5	4.3	4.1	4.2
US-euro area ten-year bond spread	1.00	0.82	0.67	0.47	0.32	-0.03	-0.46	-0.64
Dollar/euro exchange rate (d)	1.266	1.317	1.332	1.351	1.418	1.472	1.581	1.587
Appreciation/ depreciation of the EER-22 (d)	3.3	4.5	0.9	1.5	3.7	6.3	3.6	4.0
Dow Jones EURO STOXX broad index (d)	11.9	20.3	3.4	9.9	6.1	4.9	-16.4	-14.3

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 17 April 2008.

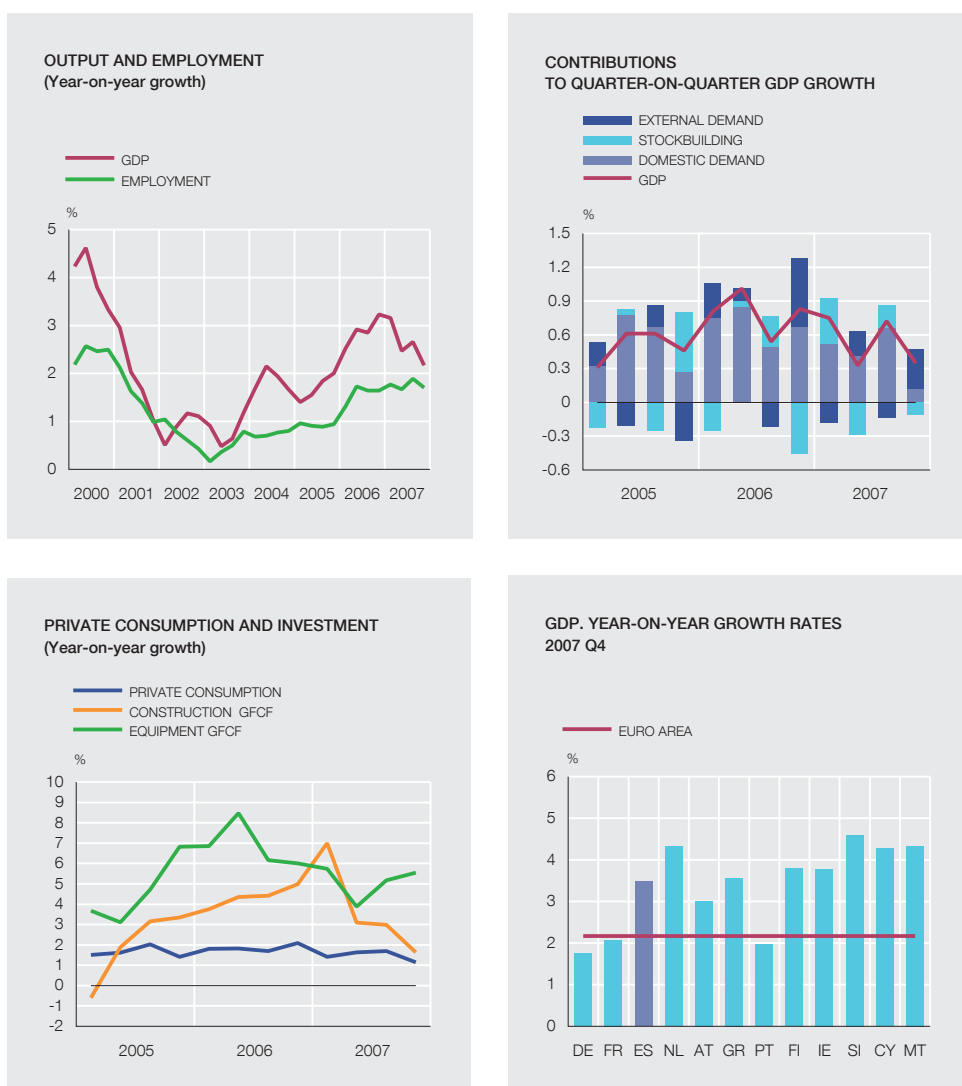
c. Year-on-year growth rates of working days adjusted data.

d. End-period data. Figures for exchange rates and the stock market are percentage changes over the year.

since the contribution of net exports to output growth widened. The deceleration of domestic demand came about from the falls in private and public consumption and from the stagnation of construction investment, which were only partly counterbalanced by the more vigorous capital goods investment. The fall-off in imports in 2007 Q4 offset the lower pace of export growth, and, as a result, the contribution of the net external balance to output growth widened by 0.4 pp to 0.3 pp. In year-on-year terms, output slowed from 2.7% in the period July-September to 2.2% in 2007 Q4. In 2007 as a whole, GDP was up by 2.6% (0.3 pp less than in 2006), driven by domestic demand and, to a lesser extent, by net exports. The breakdown by branch of activity in 2007 Q4 showed a significant quarter-on-quarter slowdown in industry and in market services, and to a lesser degree, in construction, while the value added of agriculture recovered.

The loss of dynamism of economic activity in 2007 Q4 was a feature shared by most countries. Thus, in Germany and France output decelerated by 0.4 pp to 0.3% and 0.4%, respectively, although the sectoral composition differed in the two countries. In particular, consumption and construction investment declined in Germany, while capital goods investment remained vigorous, and the contribution of net external demand stayed positive. French GDP growth was driven by consumption, construction investment and net exports, while inventories contributed negatively to the rise of output.

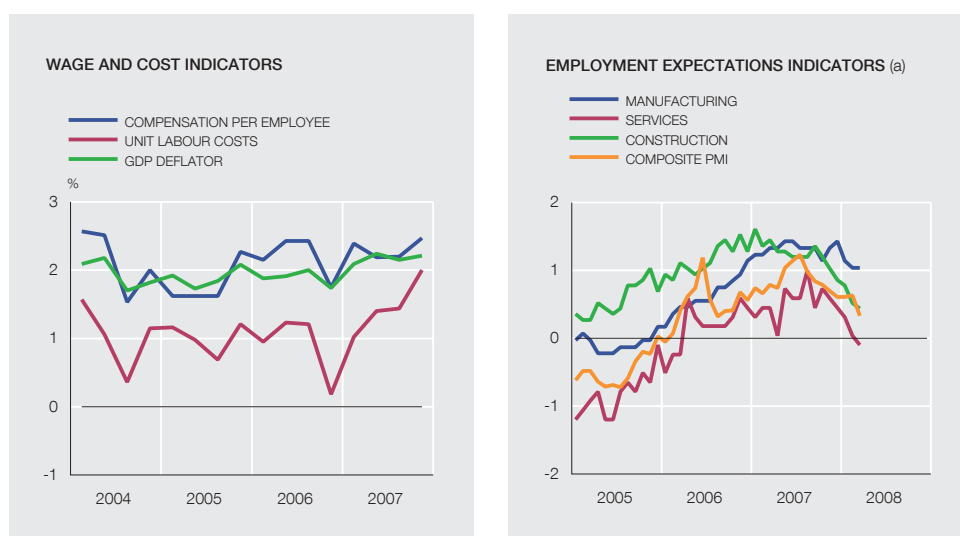
In the last quarter of 2007, employment continued to expand, although at a slightly lower pace than in the previous quarter. Thus, its quarter-on-quarter growth rate stood at 0.2% and the resulting year-on-year rise of 1.7% was 0.2 pp lower than that of Q3



SOURCES: Eurostat and national statistics.

(see Chart 9). Taking into account that the slowdown in output with respect to the previous year was sharper, labour productivity increased by 0.5%. The rise in compensation per employee implied a pick-up in unit labour costs, which showed an increase of 2%. This was in any event less than the rise in the GDP deflator, so unit margins again widened in the last part of the year, although at a notably slower pace than in the previous quarter.

The most recent economic information indicates that in the first part of the year the euro area's real activity may have grown at a pace similar to or somewhat faster than in 2007 Q4. From the standpoint of supply, the production of the industrial and construction branches showed notable dynamism in the first two months of the year (see Chart 10). Although the confidence of the manufacturing sector deteriorated in Q1 according to the European Commission surveys, it stands above its historical average. Also, the purchasing managers' surveys point to greater optimism in this sector in 2008 Q1. By contrast, confidence in the service sector decreased in Q1 according to both surveys, although its level is still consistent with expansion of the activity in the sector. The sentiment indicators relating to employment expectations held at high levels, although in the service sector they kept on their



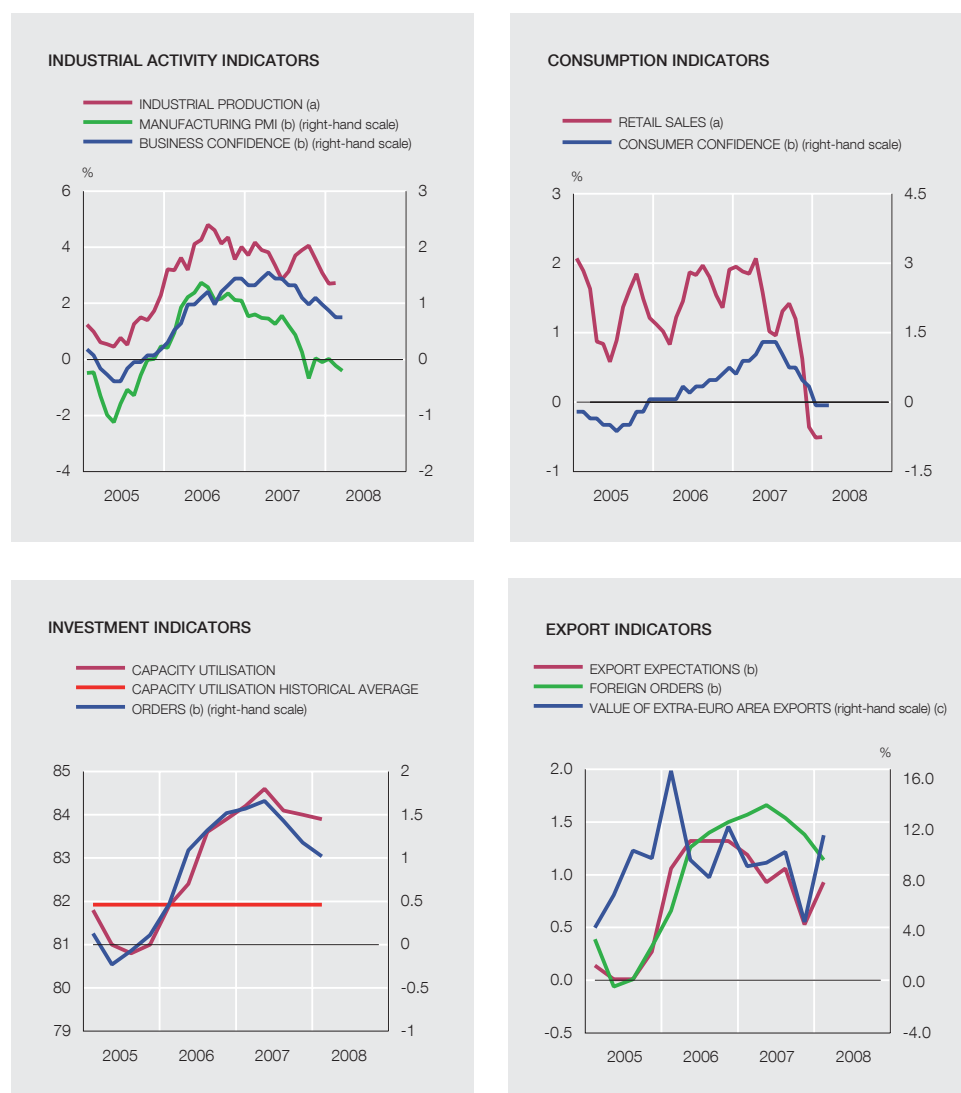
SOURCES: Eurostat and ECB.

a. Expectations based on European Commission sentiment indicators and Reuters PMI survey. Normalised data.

downward path. The unemployment rate decreased further to 7.1% in the first two months of 2008.

On the demand side, the spending-related indicators augured only moderate private consumption growth in 2008 Q1. To start with, the deterioration in retail sales to February was slight and milder than in the previous quarter. Car registrations showed high volatility and, on average, fell in the period January-March. Retail sector and consumer confidence again decreased in the first three months of the year and, in all likelihood, the tightening of credit standards and the extraordinary uncertainty associated with the financial turmoil further reduced consumers' propensity to buy durable consumer goods. With regard to investment in capital goods, the indicators signal good prospects for this GDP component, given the high levels of capacity utilisation according to the Commission's quarterly survey and the assessment of order books, despite its downward trend. However, the data published in January in the Commission's half-yearly investment survey show a deceleration in the capital expenditure expected for 2008 as a whole. Finally, the indicators of external demand signal an expansion of sales to the rest of the world in the first quarter of the year. Indeed, although on average export order books fell in 2008 Q1, export expectations improved in that period and the nominal export data from the trade balance rose in January and February.

In short, the most recent information does not point to an additional deterioration in euro area activity in 2008 Q1, against a background in which, for the time being, the impact of the financial turbulence on the real economy seems to be limited. Thus, GDP will foreseeably continue to grow at similar rates to those in the last part of 2007, in line with the most recent forecasts of international organisations, supported by external demand and gross fixed capital formation. Thereafter, the performance will be closely determined by how strongly real activity is affected by the prolonged situation of financial market instability which, were it to last, could significantly stunt euro area growth, and by the extent of the deterioration in the international environment. In any event, the



SOURCES: Eurostat and European Commission.

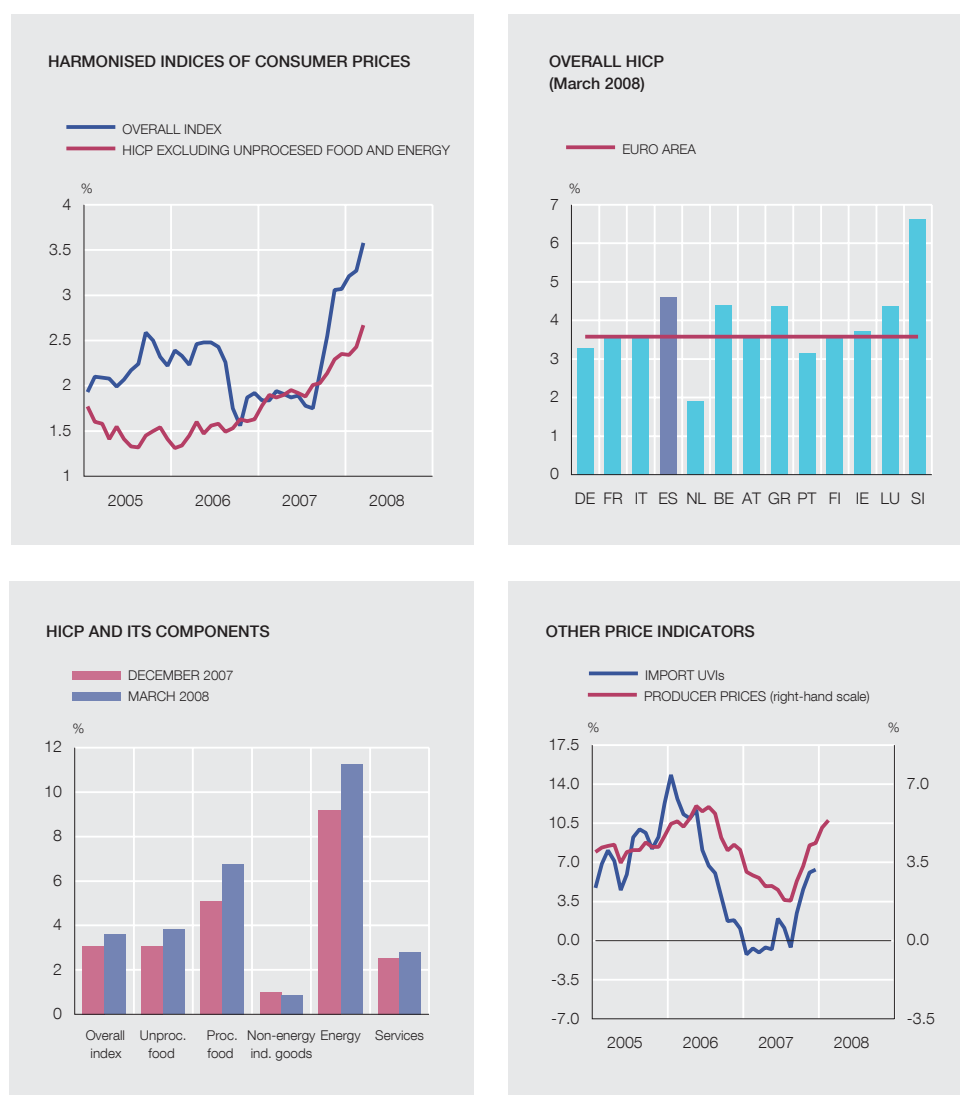
a. Non-centred year-on-year percentage changes, based on the quarterly moving average of the seasonally adjusted series.

b. Normalised data.

c. Year-on-year rates of the original series. Quarterly average.

most recent forecasts already suggest that GDP will decelerate in 2008 to a rate below potential.

During 2008 Q1, HICP inflation picked up by 0.5 pp to a rate of change of 3.6% in March (see Chart 11). The performance of the overall index continued to be strongly shaped by the behaviour of the energy and food components. In particular, the soaring oil prices, which reached US\$ 107 per barrel of Brent oil by mid-March, drove the energy price growth rate upwards from 9.2% in December to 11.2% in March. Meanwhile, the increase in food commodity prices on international markets has spread to the processed food component, which since December has accelerated by 1.7 pp to 6.8% in March. The price growth of these two components, together with the notable rise in service prices in March, resulted in an increase in core inflation of 0.4 pp to 2.7% between December and March. Also, the producer price index (PPI) continued its upward trend and reached a year-on-year rate of 5.3% in February. The energy price surge led the rise in the PPI in the first two months of 2008 and, to a lesser extent, the



SOURCES: Eurostat and ECB.

behaviour of durable and non-durable consumer goods and intermediate goods prices also drove the overall index.

Inflation is expected to decrease in the coming months as energy and food commodity prices decelerate. However, if these prices behave as the futures markets anticipate, their contribution to the inflation rate will continue to be high and inflation will remain above the price stability target until end-2008. More in the medium term, the continued easing of inflation will depend crucially on the absence of second-round effects on prices and wages. Against the current background of relatively tight labour market conditions, there is, however, a risk that these effects will be triggered (see Box 2). Conversely, the lesser world economic dynamism, particularly in the euro area, could help to mitigate the negative factors mentioned above.

According to the information published by the ECB, the current account deficit reached €19.2 billion in January 2008, well above the also-negative balance of €3.7 billion in the same month of the previous year. This deterioration was due to the higher deficits on current transfers and

Since the closing months of 2007, the ECB Governing Council has been warning of clear upside risks to price stability, mainly relating to the possibility of second-round effects on wage and price setting stemming from past oil price increases and, more recently, also from food price rises.

Second-round effects occur when a rise in inflation due to a temporary shock leads to higher wage demands by workers or directly to higher wage settlements due to automatic mechanisms that index wages to a certain price indicator¹. If these wage increases end up passing through to prices, the impact of the original shock on inflation

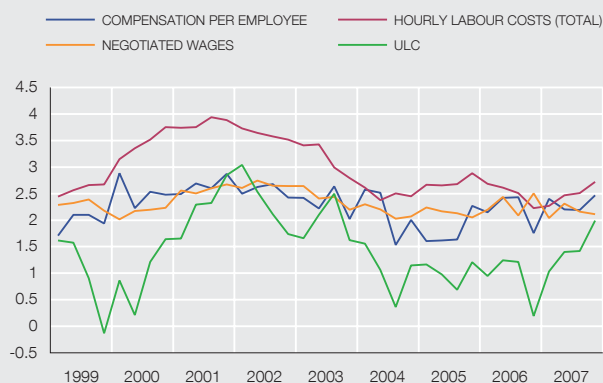
will be greater and longer lasting (than that which would result from its first-round effects²). Second-round effects can also be generated as a result of firms' price-setting mechanisms, particularly if they attempt to preserve their profit margins, or even to take advantage of inflationary periods (and probably of an insufficient level of competition) to increase those margins. This Box focuses, however, on the wage channel.

The recent behaviour of labour cost indicators shows that, overall, the euro area is still in a situation of wage moderation (see Chart 1). Wage costs have accelerated since 2005 in line with the improved

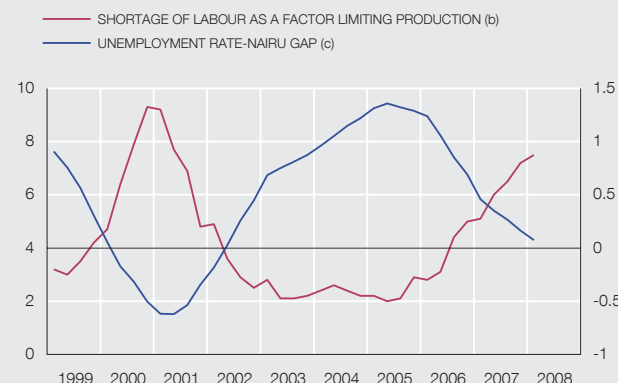
1. It is important to clarify that an increase in the wage growth rate, if it occurs, should not necessarily be attributed to second-round effects, since it may be due to greater buoyancy of activity, particularly of the labour market, or to other exogenous factors, such as labour supply or productivity.

2. First-round effects of a price shock are defined as the sum of the direct effect of that shock on specific items of the price index and the indirect effect that takes place when the shock bears on intermediate goods and is transmitted to the final good or service through the production chain.

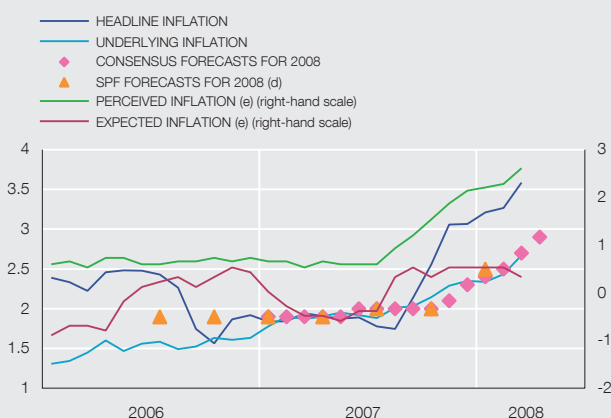
1 LABOUR COSTS (a)



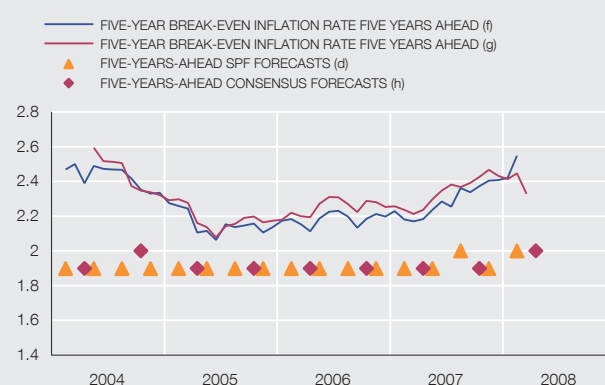
2 LABOUR MARKET SLACK



3 SHORT-TERM INFLATION EXPECTATIONS



4 INDICATORS OF LONG-TERM INFLATION EXPECTATIONS



SOURCES: ECB, European Commission, Consensus Forecasts, Eurostat and OECD.

a. Year-on-year growth rates.

b. Percentage of firms reporting a shortage of labour as a constraint to production, in response to a question posed quarterly in the EC Industrial Survey.

c. OECD NAIRU estimate.

d. The SPF (Survey of Professional Forecasters) is a quarterly survey prepared by the ECB which collects the forecasts of a broad range of analysts from financial and non-financial institutions for inflation, the GDP growth rate and unemployment rates in the euro area.

e. Price trends in the last (next) twelve months, based on the EC Consumer Survey. Normalised data.

f. Implicit in inflation-indexed bonds (seasonally adjusted).

g. Implicit in inflation-linked swaps.

h. The long-term Consensus forecasts are published only in April and October.

performance of employment, but have done so moderately, and their current growth is below the historical average and below the level indicated by their fundamental determinants. This is so even though the automatic indexation of wages to current or past inflation affects a portion of euro area employees. As regards the significant acceleration of unit labour costs in 2007, this was mainly due to lower productivity gains, in a context of slowdown in euro area economic growth.

As far as the outlook is concerned, labour costs in the short and medium term will be affected by labour market developments and the amount of slack in it. Both the unemployment gap (measured by the difference between the observed unemployment rate and the non-accelerating inflation rate of unemployment or NAIRU) and the indicator of factors limiting production (taken from the EC industrial survey) show that the slack in the labour market has diminished significantly since the end of 2005 (see Chart 2). For instance, the percentage of employers declaring that shortages of labour are constraining their production has increased continuously and notably since 2005 Q3 and its most recent value (7.5%) is well above the historical average of 3.7%.

These indicators suggest that labour costs may grow in the short and medium term due to the tightening of labour market conditions. In fact, the wage negotiations of recent months evidence workers' greater determination to win larger wage increases after a prolonged period of real wage containment. However, the economic growth outlook for the coming year, revised appreciably downward as a result of

the financial market turmoil and the sharp downturn in the US economy, would mitigate this risk, since large wage increases are harder to achieve in an economic slowdown.

Another significant factor in the possible emergence of second-round effects on wages is the impact of price behaviour on inflation expectations. As seen in Chart 3, inflation (particularly headline inflation, but also underlying inflation) has risen a good deal since September 2007. This notably raised the short-term inflation forecasts of private analysts and public organisations, as well as the perceived and expected inflation reported by consumers. Also, even though long-term expectations based on surveys do not seem to have been significantly affected, those derived from financial indicators do show a clear upward trend, although it is difficult, particularly in the current financial turbulence, to distinguish what part of this increase is due to an actual rise in inflation expectations and what part is due to a rise in risk premiums (see Chart 4). These developments confirm that there are reasons for being on the alert, since if the inflation expectations depart from the ECB's inflation target, there may be higher wage demands that would trigger second-round effects.

In short, although wage moderation still prevails in the euro area, the amount of slack in the labour market has shrunk significantly and the recent rise in inflation has notably raised short-term inflation expectations. Thus the risk of second-round effects has heightened and this scenario is only relieved by the prospect of slower growth in activity in 2008.

goods (the latter because imports increased more than exports) and to the decline in the incomes balance, which turned negative after the positive value a year earlier. For its part, the surplus on the services balance increased slightly. Meanwhile, January saw a significant net outflow of capital in the form of direct investment (€32.2 billion) exceeding that seen in the same month of 2007, while net inflows of portfolio investments increased to €54.3 billion. The surplus of the resulting basic balance, which aggregates these two sub-balances and the current account balance, decreased significantly to €2.9 billion from €25.2 billion in January of the previous year (see Chart 14).

According to the aggregation of the latest data notified by the euro area Member States to the European Commission in spring, the budget deficit of the euro area as a whole in 2007 decreased by 0.7 pp with respect to the previous year to 0.6% of GDP (see Table 2). The lower deficit seems to be due to the decrease in expenses and to the disappearance of the impact of the temporary factors that had raised the deficit in 2006, particularly in Italy, while the notable dynamism of activity in euro area boosted tax takings. The deficit therefore behaved more favourably than expected by the European Commission in autumn and than the aggregation of the stability programmes submitted between the end of 2007 and the beginning of 2008, which envisaged a negative balance of 0.8% of output. According to the most recent notifications, the debt ratio decreased to 66.3% in 2007 from 68.4% a year earlier.

**GENERAL GOVERNMENT BUDGET BALANCES AND PUBLIC DEBT
OF EURO AREA COUNTRIES (a)**

TABLE 2

% of GDP							
	BUDGET BALANCES (a)						
	2006	2007 (b)	2007 (c)	2007 (d)	2008 (c)	2008 (d)	2009 (c)
Belgium	0.3	-0.3	0.3	-0.2	0.5	0.0	0.7
Germany	-1.6	0.1	0.0	0.0	-0.5	-0.5	0.0
Greece	-2.6	-2.9	-2.7	-2.8	-1.6	-1.6	-0.8
Spain	1.8	1.8	1.8	2.2	1.2	1.2	1.2
France	-2.4	-2.6	-2.4	-2.7	-2.3		-1.7
Ireland	3.0	0.9	0.5	0.3	-0.9	-0.9	-1.1
Italy	-3.4	-2.3	-2.4	-1.9	-2.2	-2.4	-1.5
Luxembourg	1.3	1.2	1.0	3.0	0.8	1.3	1.0
Netherlands	0.5	-0.4	-0.2	0.4	0.5	1.1	0.6
Austria	-1.5	-0.8	-0.7	-0.5	-0.6	-0.6	-0.2
Portugal	-3.9	-3.0	-3.0	-2.6	-2.4	-2.4	-1.5
Slovenia	-1.2	-0.7	-0.6	-0.1	-0.9	-0.9	-0.6
Finland	4.1	4.6	4.5	5.3	3.7	4.6	3.6
Malta	-2.6	-1.8	-1.6	-1.8	-1.2	-1.2	-0.1
Cyprus	-1.2	-1.0	1.5	3.3	0.5	1.1	0.5
PRO MEMORIA: Euro area (including Malta and Cyprus)							
Primary balance	1.5	2.1	2.2		2.1		
Total balance	-1.3	-0.8	-0.8	-0.6	-0.9	-1.0	-0.4
Public debt	68.4	66.5	66.6	66.3	64.8	65.0	62.8

SOURCES: European Commission and national stability programmes.

a. Deficit (-) / surplus (+). The deficits that exceed 3% of GDP have been shaded.

b. European Commission forecasts (autumn 2007).

c. Stability programme objectives submitted between the end of 2007 and the beginning of 2008. As Belgium has not yet submitted its objective, the stability programme forecasts for end-2006 have been used.

d. EDP notification (spring 2008)

As anticipated in the stability programmes submitted at end-2007, in that year no Member State exceeded the 3% deficit limit set in the Stability and Growth Pact. In addition, the improvement in budget figures was shared by a large number of countries, including the two Member States subject to excessive deficit procedures (Portugal and Italy), where the correction was significant (by 1.3 pp and 1.5 pp to 2.6% and 1.9%, respectively). In the second case, this improvement was due to the disappearance of some temporary measures taken in 2006 and to increased direct tax takings. Nevertheless, some countries, such as France, where taxes were cut following the May 2007 elections, saw heightened budgetary imbalances, and others, such as Ireland, aggravated their fiscal surplus by conducting procyclical fiscal policies against the recommendations made in the European fiscal framework.

Although for the time being the Commission has not published the structural balance based on the new information from the notifications, the estimates published in its autumn report suggest that the fiscal policy stance in 2007 was contractionary. The latest information from the notifications suggests that the euro area's budget deficit will increase in 2008 to approximately 1% of GDP, mainly due to the deterioration in the growth outlook and to certain tax cuts in some countries, including most notably those relating to corporate income tax in Germany and to social security contributions in Germany and France. However, a higher deficit cannot

One of the channels through which monetary policy can influence prices is by its effect on long-term inflation expectations. If economic agents believe in the commitment of central banks to maintain price stability, the wage and price setting mechanisms will contribute to the achievement of inflation targets. For this reason, the Governing Council of the European Central Bank regularly emphasises the importance of long-term inflation expectations remaining firmly anchored and of the need to monitor them very closely.

In the euro area there are two main sources of indicators of long-term inflation expectations: opinion surveys, such as, for example, the ECB's survey of professional forecasters, and the indicators of break-even inflation calculated from financial instruments, particularly inflation-linked bonds and inflation swaps. The main advantage of the latter is their higher frequency, which enables a knowledge to be had at all times of the market's opinion and of its response to the economic situation and to economic policy actions.

The break-even inflation rate (BEIR) estimated from inflation-linked bonds in the euro area is calculated as the difference between the yield on a nominal bond and that on a bond indexed to the HICP (excluding tobacco) with the same characteristics in regard to issuer and maturity. This measure approximates the hypothetical inflation rate at which the expected yield of the two types of bonds is equal. The main advantage of BEIRs, in addition to their high frequency due to continuous trading on the bond and derivatives mar-

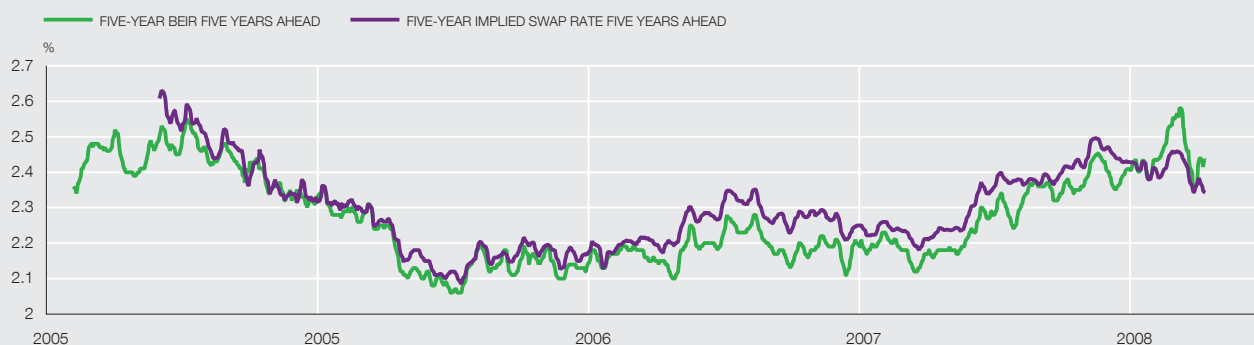
kets, is the availability of a considerable number of maturity periods which allows measures of break-even inflation to be calculated for different time horizons and, moreover, the term structure of real interest and inflation rates to be estimated.¹ These curves enable, for example, 10-year BEIRs (an indicator of the average break-even inflation required in the markets for the next 10 years) to be decomposed into 5-year BEIRs and implied BEIRs five-to-ten years ahead, which provide more accurate information on the overall expected inflation rate (and associated risk premium) in the medium to long term.

Inflation swaps are contracts for the exchange of two capital flows, one of which depends on the inflation observed over the life of the swap. Break-even inflation is the rate that, ex ante, would equate the nominal rates exchanged. Inflation-indexed swaps offer a wide range of maturities, so, as in the case of BEIRs, a curve of break-even inflation versus contractual maturities can be obtained and the most significant values selected.

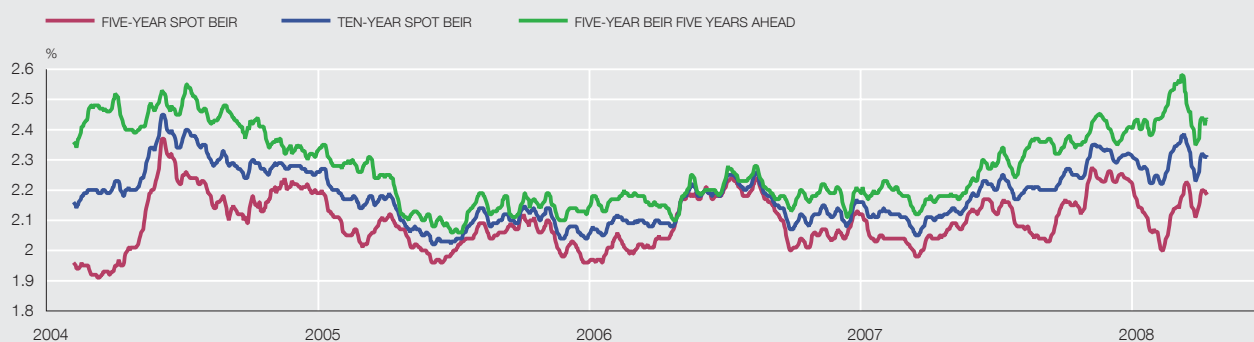
However, both indicators of break-even inflation are imperfect measures of the market's inflation expectations, for a variety of reasons. The main one is that investors are averse to risk and require an ad-

1. See J. Ejsing, J.A. García and T. Werner (2007), Estimating real and inflation term structures using euro area inflation-linked bond data, ECB Working Paper series No. 830, December.

1 MEASURES OF BREAK-EVEN INFLATION:



2 BREAK-EVEN INFLATION RATES:



SOURCES: ECB and Reuters.

ditional remuneration or risk premium when contract terms get longer, because of the uncertainty as to how economic variables will behave in the future. In the case of inflation swaps, furthermore, a premium may be offered to offset counterparty risk and an organised market may be lacking, which makes it difficult to obtain data of relatively uniform quality over time. The lower liquidity of inflation-linked bonds with respect to conventional ones implies the presence of a premium on the yield of the former, which will reduce the BEIR and introduce downward bias in the resulting inflation expectations. Further, inflation-linked bonds are subject to technical or institutional factors which may sometimes reduce temporarily the information content of BEIRs on inflation expectations.

Charts 1 and 2 present some alternative measures of break-even inflation for the euro area. As can be seen, these have followed an upward path since 2007 Q2. This increase might reflect rising inflation

expectations. However, given the general reassessment of risks in financial markets in that period, it is also likely to reflect a rise in the associated risk premium. The upward trend intensified notably in early 2008, particularly in BEIRs. The strong demand for short- and medium-term (high grade) sovereign bonds in those months seemed to trigger substantial fluctuations in 5-year BEIRs, which were mechanically translated into sudden movements in long-term implied BEIRs.

These recent events underline the complexity of interpreting movements in indicators of break-even inflation, given that they can be subject to distortions that are difficult to identify and even harder to quantify. For this reason, it is important to analyse these break-even inflation measures together with indicators of inflation expectations drawn from surveys, particularly in the present setting of significant financial market turbulence.

be ruled out, especially in a context of high uncertainty surrounding the economic prospects of the euro area.

3.2 monetary and financial developments

In the first few months of the year, the euro area financial markets became increasingly affected by the financial turbulence initiated last summer in the US subprime mortgage sector. In particular, as well as the liquidity problems in interbank markets, instability worsened in other segments and credit conditions tightened.

The ECB Governing Council decided to hold official interest rates unchanged at 4% for the minimum bid rate on main refinancing operations and at 3% and 5% for marginal deposit and lending facilities, respectively (see Chart 12). However, the ECB confirmed the strong inflationary pressures in the short term, against a background of vigorous money and credit growth and of sound economic fundamentals, while at the same time acknowledging the high level of uncertainty as to the effects and duration of the financial turmoil. In any event, the ECB emphasised that its primary objective is maintaining price stability in the medium term and that the decisions taken contribute to achieving that objective. Lastly the ECB underlined its commitment to preventing second-round effects and the materialisation of upside risks to price stability over the medium term.

The tensions in the interbank markets tended to ease in the first two months of the year. From March, however, they re-emerged, linked both to liquidity problems and to the rise in counterparty risk premiums. Hence the yield spread between unsecured interbank transactions (EURIBOR) and secured ones (EUREPO) widened again and by mid-April stood at around 90 bp on one-year maturity operations. Against this background, the ECB continued to inject liquidity on an extraordinary basis through main refinancing operations, in which volumes above those considered to be neutral were assigned, and, above all, through supplementary longer-term operations. Also, the ECB continued acting in co-ordination with other central banks and in March broadened the agreement with the Federal Reserve to supply dollar-denominated funds.

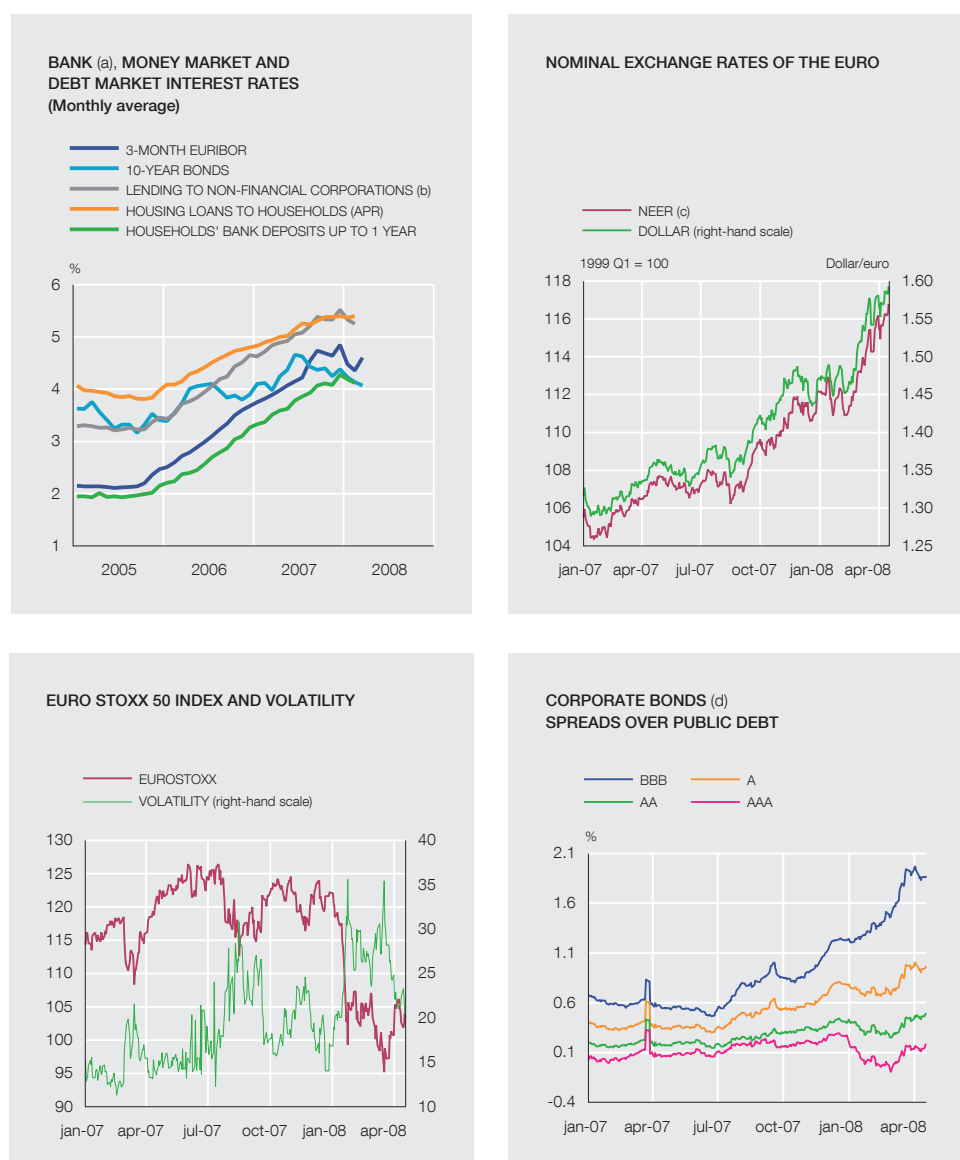


SOURCES: ECB and Banco de España.

a. Estimated using Euribor data.

In the first quarter of the year, 10-year government debt showed a gradually declining yield (albeit with volatile behaviour) as its role as a safe haven became increasingly important. In April, however, the return rose again to 4.2%. In the United States, the monetary policy relaxation and the worsening macroeconomic outlook acted to further reduce long-term interest rates, which in April stood some 60 bp below those in Europe, as compared with a difference of 30 bp in December (see Chart 13). The quest for credit quality and liquidity also led to a widening of spreads between German sovereign bonds and their equivalents in other euro area countries, particularly between end-February and mid-March. Yield spreads on the private bond markets have continued to increase in 2008 to date, most markedly in the bonds of lowest credit quality.

The financial turbulence affected stock market indices more clearly at the beginning of 2008, as economic agents perceived a greater impact on economic activity, particularly in the United States. Thus, following the notable losses in January, share prices continued to fall with a high degree of volatility until about mid-March. Since then, the Federal Reserve's support of JP

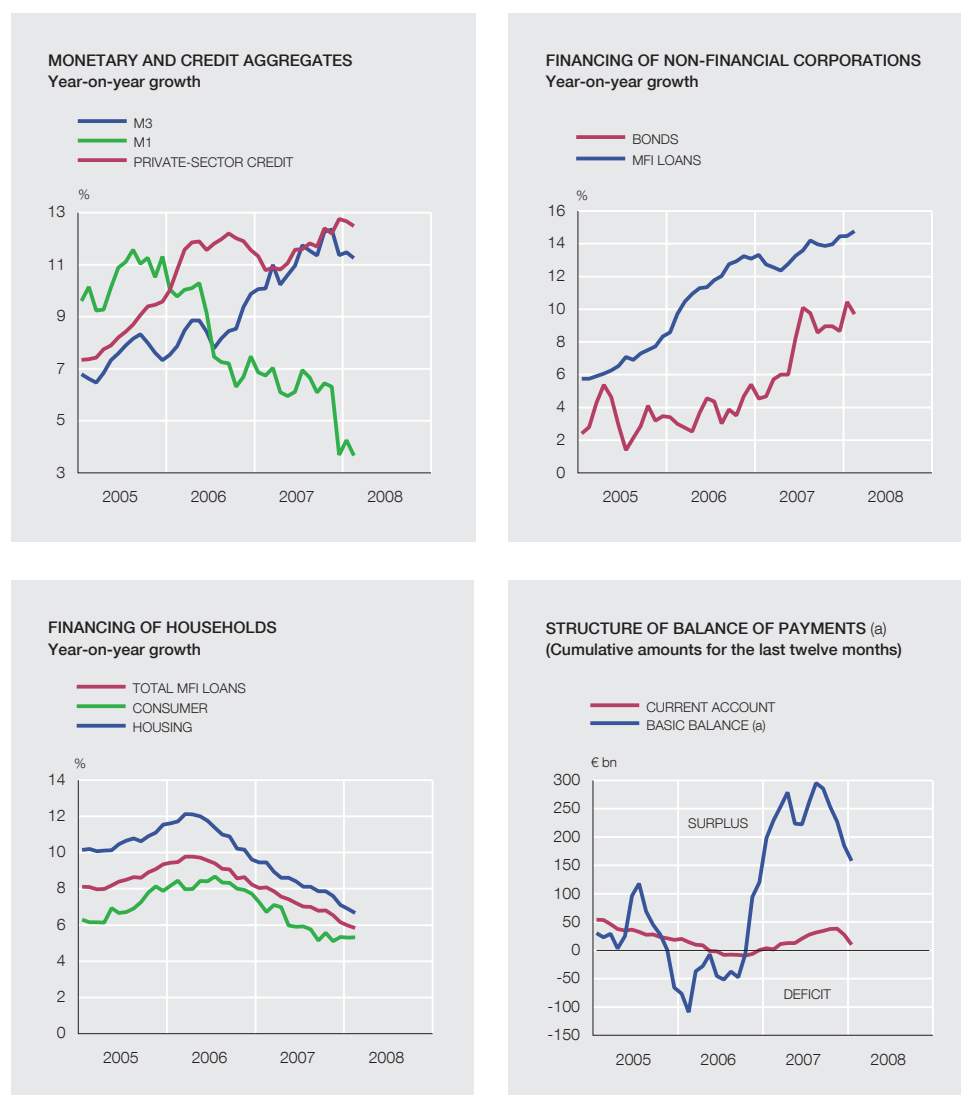


SOURCES: ECB and Banco de España.

- a. Statistics on interest rates on new business compiled by the ECB.
 b. Floating interest rates and up to 1 year initial rate fixation.
 c. Nominal effective exchange rate index. Narrow group of currencies defined by the ECB.
 d. Euro-denominated bonds issued by non-financial corporations.

Morgan's acquisition of Bear Stearns and the US official interest rate cuts spurred indices not only in that country, but also in the euro area, where from mid-March to the date this Bulletin went to press, the cumulative gain of the EURO STOXX broad index amounted to approximately 9%. This improvement did not, however, offset the negative performance of the first weeks of January, and the cumulative losses since the beginning of the year exceed 12% in 2008.

In the year to date, the prolongation of the financial instability, the deterioration of the US economic situation and the expectations of widening interest rate spreads between this country and the euro area helped the euro to continue its upward trend, which was particularly sharp from end-February. Hence the nominal effective exchange rate appreciated ap-



SOURCES: ECB and Banco de España.

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

proximately 3% from December and the exchange rate against the dollar was up by 6% (see Chart 13).

The monetary aggregates continued to expand at high rates in the first few months of 2008, largely reflecting the flattening of the yield curve and the resulting higher demand for safe and liquid assets. Thus, in February the M3 aggregate increased by 11.3%, a slightly lower rate than in the previous month, but very similar to that in December. At the same time, the more liquid M1 monetary aggregate slowed in February as a result of the lower buoyancy of currency in circulation and particularly of overnight deposits, leaving its growth rate below 4%, at the same level as at end-2007 (see Chart 14).

Credit to the private sector continued to show signs of buoyancy in the first two months of the year, underpinned by the vigour of lending to non-financial corporations, which grew at 14.8% year-on-year in February. This behaviour suggests that, for the time being, bank loan supply has not contracted severely as a result of the financial turbulence, despite the

tighter credit conditions revealed by the Bank Lending Survey. By contrast, loans to households slowed in the first two months of the year, posting an increase of 5.8%. Within these latter loans, those for house purchase slowed to 6.7% in February, while consumer loans held unchanged at a growth rate of 5.3%. According to the Bank Lending Survey, in this case, the lower growth might be due to tighter credit conditions and to a fall in loan demand by households. Lastly, loans to non-monetary financial institutions again grew briskly, probably in line with the recourse to this type of financing in view of the lack of liquidity in the markets.

4 The Spanish economy

On QNA estimates, GDP growth in 2007 Q4 was 3.5% year-on-year, accentuating the slowing profile it had shown throughout the year. The information available for the opening months of 2008 indicates a steeper slowdown in activity in 2008 Q1. For this quarter the GDP growth estimate is 2.8% year-on-year (0.4% quarter-on-quarter) as a result of slacker national demand, whose growth rate fell to 3%, whereas the contribution from the external sector improved slightly to -0.3 pp (see Chart 15). The loss of momentum in national demand in 2008 Q1 was widespread, with the exception of government consumption, which advanced at a sharper pace.

On the supply side, and except for the industry and energy branch, whose pace of growth remained practically unchanged, the slowdown in value added was extensive to all branches of activity, although it was sharper in construction. Services continued to post notable growth, albeit moving on the above-mentioned slowing trajectory. As for employment, the indicators available point to less buoyancy in line with GDP estimates and, consequently, the pace of growth in apparent labour productivity for the whole economy is expected to hold steady at approximately 1%. At the same time, compensation per employee is projected to accelerate significantly due to the higher wage rates under negotiation in collective bargaining agreements and, in particular, to the activation of indexation clauses in the 2007 collective bargaining agreements, as a result of which unit labour costs are estimated to rise in Q1. Turning to consumer prices, the CPI climbed further in the opening months of the year to an average for Q1 of 4.4% year-on-year, up 0.4 pp on 2007 Q4, as a result of rising energy and food prices. Core inflation held at 3.2%, a similar rate to that of 2007 Q4.

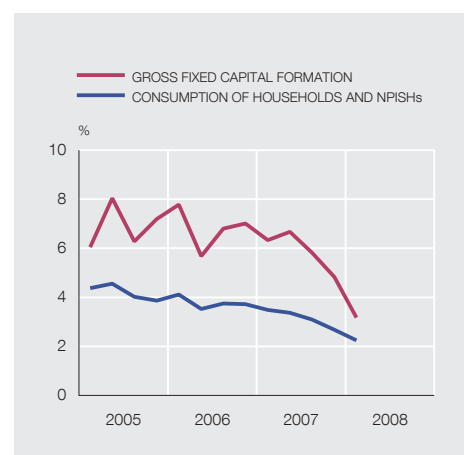
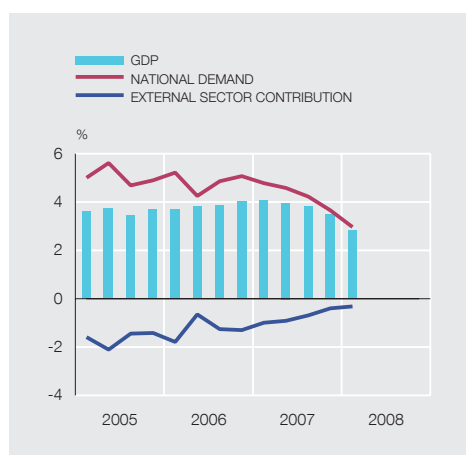
4.1 Demand

In 2007 Q4, final consumption expenditure of households and NPISHs grew by 2.7% year-on-year, 0.4 pp down on the previous quarter. According to the latest conjunctural information, this moderating trend in private consumption intensified in the early months of 2008 (see Chart 16) and, as a result, it is estimated that household consumption may have slowed to 2.2%. Against a backdrop of uncertainty over the economic and international financial situation, coupled with relatively high inflation rates, consumer and retail trade confidence slid further in 2008 Q1 to thirteen-year lows. Among the quantitative indicators, the tax authorities' data on large corporations for January and February indicated less dynamism in their domestic sales of consumer goods and services. The real retail trade index fell again in the same period. Lastly, under consumer durables there was a significant drop in new car registrations in 2008 Q1.

It is difficult to determine whether this easing in private consumption is due to the performance of disposable income or, rather, is in response to other conditioning factors. Admittedly, household disposable income is being unfavourably impacted by less dynamic job creation, the heavier financial burden derived from higher interest rates and the rise in inflation (which diminishes household purchasing power); but the wage increases agreed upon in early 2008 and, above all, the activation of indexation clauses for 2007 for a considerable amount, could be countering these adverse effects. As for other determinants of consumption, the pace of growth of household wealth (in the shape of real estate and financial assets) slowed due to lower expectations of property appreciation (house prices rose by 3.8% year-on-year in Q1, down 3.4 pp on 2007 Q1) and lower share prices. These developments in household assets together with the poor performance of the consumer confidence index would suggest that the savings rate had continued to recover in line with data from the non-

MAIN DEMAND AGGREGATES (a)

CHART 15

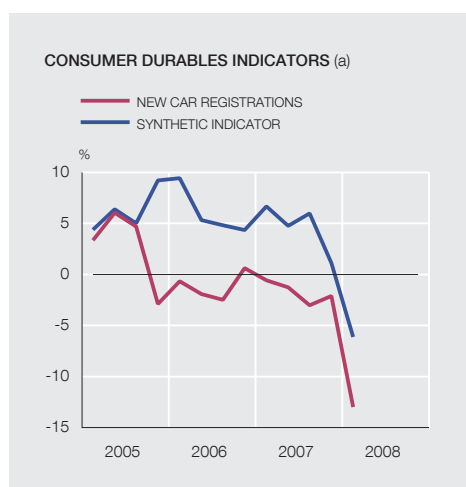
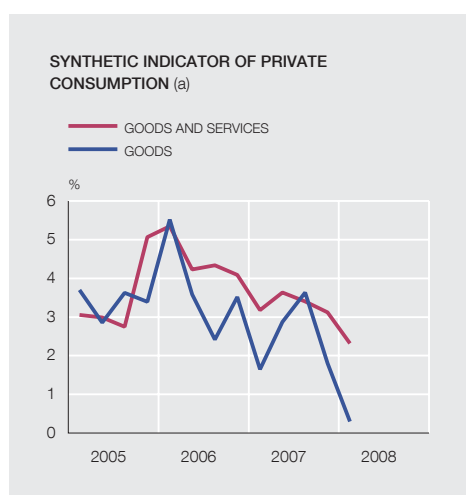


SOURCES: INE and Banco de España.

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

PRIVATE CONSUMPTION INDICATORS

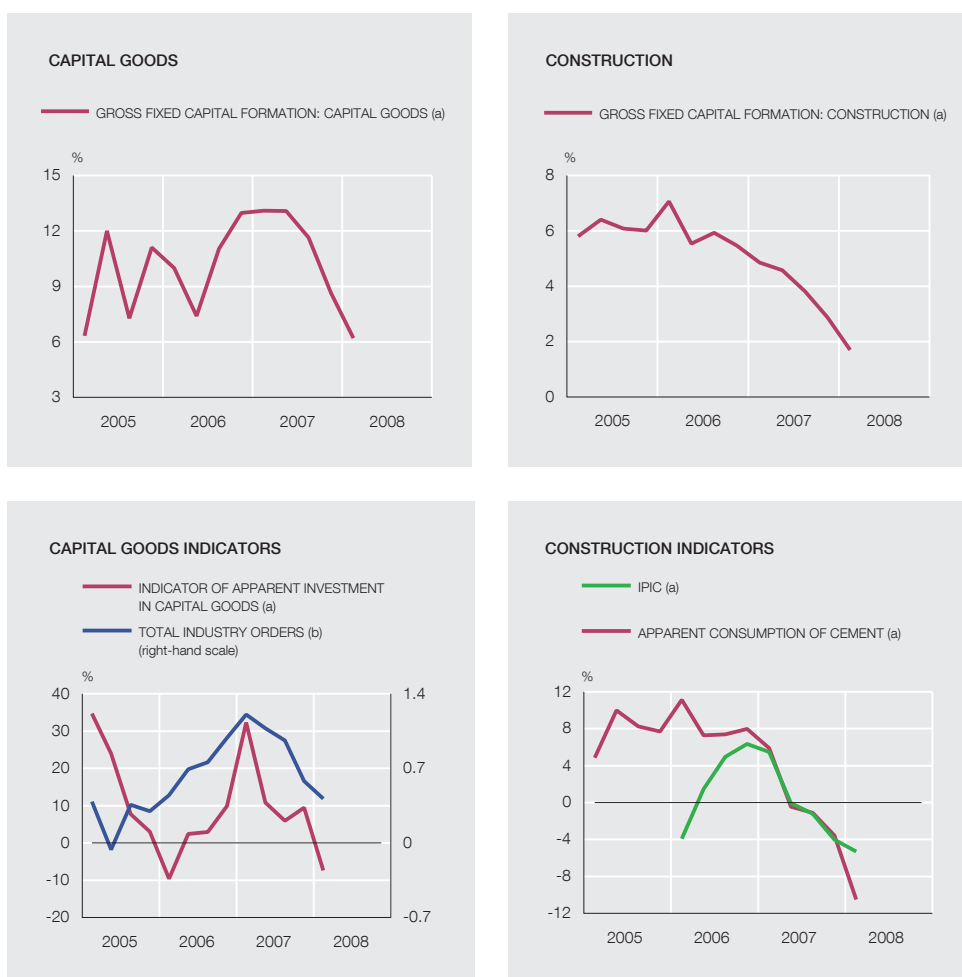
CHART 16



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

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

b. Normalised indicators (deviation from the mean, divided by the standard deviation).



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

- a. Year-on-year percentage change based on the seasonally adjusted series.
 b. Normalised indicator (deviation from the mean, divided by the standard deviation).
 c. Construction Industry Production Index. Year-on-year percentage change based on the seasonally adjusted series.

financial accounts of institutional sectors in 2007 Q4, which showed a rise in the savings rate to 10.3%.

The strength of general government final consumption slackened in 2007 Q4. It grew by 4.4%, 0.7 pp down on the previous quarter, and is projected to quicken in 2008 Q1, according to information available on net purchases of goods and services.

The buoyancy of gross fixed capital formation moderated at end-2007 for the second consecutive quarter, posting a 4.8% increase year-on-year, 1 pp less than in 2007 Q3 (see Chart 17). This was the outcome of a lower pace of growth in investment in equipment and in construction, while investment in other products performed more favourably. On information for 2008 Q1, this slowing trend is continuing and growth is lower in all components of gross fixed capital formation.

Although investment in capital goods remained the most dynamic component of domestic demand, it continued to lose momentum in 2008 Q1, judging by its main indicators. Thus,

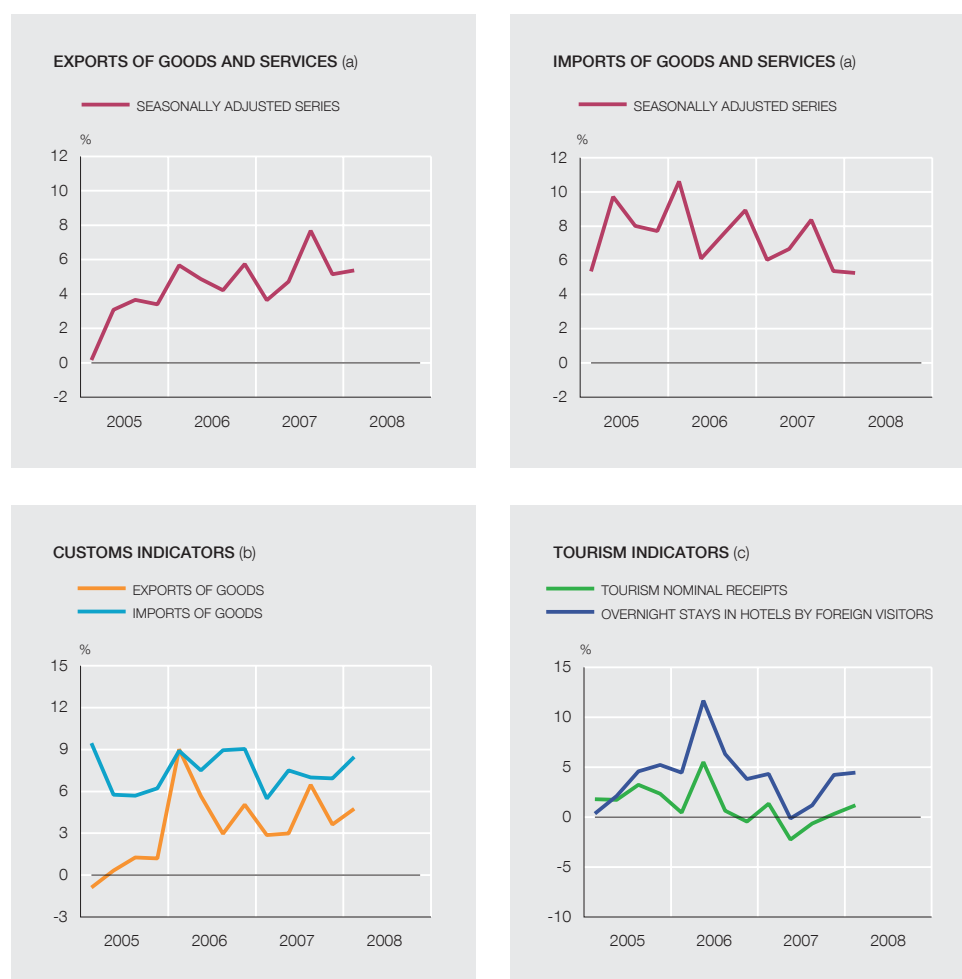
apparent investment in capital goods, calculated with incomplete data for 2008 Q1, advanced at a slower pace while confidence indicators fell off in the case of the industrial climate indicator for capital goods and the order book indicator. The recent trend in investment in equipment continued to be underpinned, on non-financial accounts data for institutional sectors to 2007 Q4, on upbeat activity and corporate earnings, although both factors were affected by the deceleration of demand and the increase in the financial burden, respectively. Accordingly, the growing financing requirements of non-financial corporations against a background of higher borrowing costs, financial market instability and a gloomier economic outlook, could hold back corporate investment plans.

The growth rate of construction dropped 0.9 pp in 2007 Q4 to 2.9% year-on-year, the lowest rate since 1998, with lower increases in residential and non-residential building. In 2008 Q1, the slowdown in investment stepped up according to data relating to inputs and employment indicators for the sector. As regards inputs, domestic output of construction materials recorded negative rates in January and February (double those recorded in 2007 Q4) which was also seen in the apparent consumption of cement. As for employment, the number of Social Security registrations in the sector fell in net terms for the whole of January to March for the first time since 1996, while unemployment in construction increased at a rate of more than 30% in that period. Lastly, the production indices for the construction industry began the year lower both in terms of residential construction and civil engineering projects, while business sentiment in the sector deteriorated considerably between January and March to historical lows not recorded since 1997.

As for the different types of construction work, it is estimated that the rate of increase in residential construction fell due to fewer housing starts during 2007, particularly in the second half of the year. This was the response of the housing supply to the weaker demand observed during 2007. Indeed, the demand for housing has decelerated in recent months, judging by data on transactions from the Association of Registrars and Notaries Public for 2007 Q4, along with the data on new mortgage loans and the new "Statistics on the Transfer of Ownership Rights", which cover the period to January this year. In all instances, however, new house purchases (which are more significant as an indicator of investment in housing) slipped more than those of used homes. Also, approvals of non-residential building projects and government tenders for civil engineering projects have dropped in recent months. Consequently, the slowdown in non-residential building seen in previous quarters will continue.

2007 Q4 ended with a 0.4 pp negative contribution of net external demand to GDP growth, the best recorded in recent years, since imports eased more sharply than exports, to 5.4% and 5.1%, respectively (see Chart 18). In 2007 as a whole, net external demand subtracted 0.7 pp from GDP growth, 0.5 pp less than in 2006, due to the slight acceleration of real export flows and, to a greater extent, the easing of real imports. These results were against a background of slowing international trade which, following growth of approximately 9% in 2006, eased off to a rate of 6% in 2007. The as yet incomplete information for 2008 Q1 suggests that exports remained sound in this period, despite the possible unfavourable effects of a stronger euro. Imports slowed slightly, in keeping with the easing of final demand, meaning that the contribution of net external demand improved slightly on the previous quarter to -0.3 pp.

On QNA figures, the year-on-year growth in real goods exports slackened to 4.6% in 2007 Q4 (down from 6.2% in 2007 Q3), interrupting the accelerating profile they had shown during the year. On Customs data for January and February, real exports recovered slightly to 5.2%, just over 0.5 pp higher than the figure for 2007 Q4. By product type, in the first two months of 2008 the rise in sales of non-food consumer goods (in particular cars) and the decline in



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

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

capital goods exports were especially noticeable. By geographical area, sales climbed in particular in the euro area and in the United Kingdom, while the growth rate of sales to China, Russia and its associated countries, and the OPEC countries remained high.

On QNA figures, real exports of tourist services rose slightly by 0.3% in 2007 Q4, after falling in the two previous quarters. The indicators available for 2008 seem to confirm this trend, given the significant increases seen in Q1 in inflows of foreign tourists (which climbed by 5.3% year-on-year) and in the number of overnight hotel stays (up 5.6%), although it should be remembered that these rates might be biased upwards, since this is a leap year. Likewise, according to the tourism expenditure survey (EGATUR) both total nominal expenditure (with a rate of change of 9% year-on-year) and average spending per tourist picked up in the first two months of the year.

The rise in real exports of non-tourist services slowed in 2007 Q4, although their growth remains sound at 11.7%. The breakdown of information provided by the Balance of Payments for 2007 Q4 shows that this slowdown occurred in two of its main headings: services provided to companies and transport services, while other headings with less weight in the structure of

exports – such as construction services and to a lesser extent financial services, insurance and computer services – remained highly dynamic.

On QNA figures, the year-on-year growth rate of real goods imports slowed to 4.7% in 2007 Q4, down from 7.4% in the previous quarter. More recent data show that the growth rate of purchases abroad, like exports, picked up slightly (by 0.5 pp) throughout January and February to 8.2%. By product group, purchases of both energy and other intermediate goods quickened most noticeably in the first two months of 2008, while imports of capital and consumer goods (especially cars) slowed substantially, in line with the diminished vigour of private consumption and business investment.

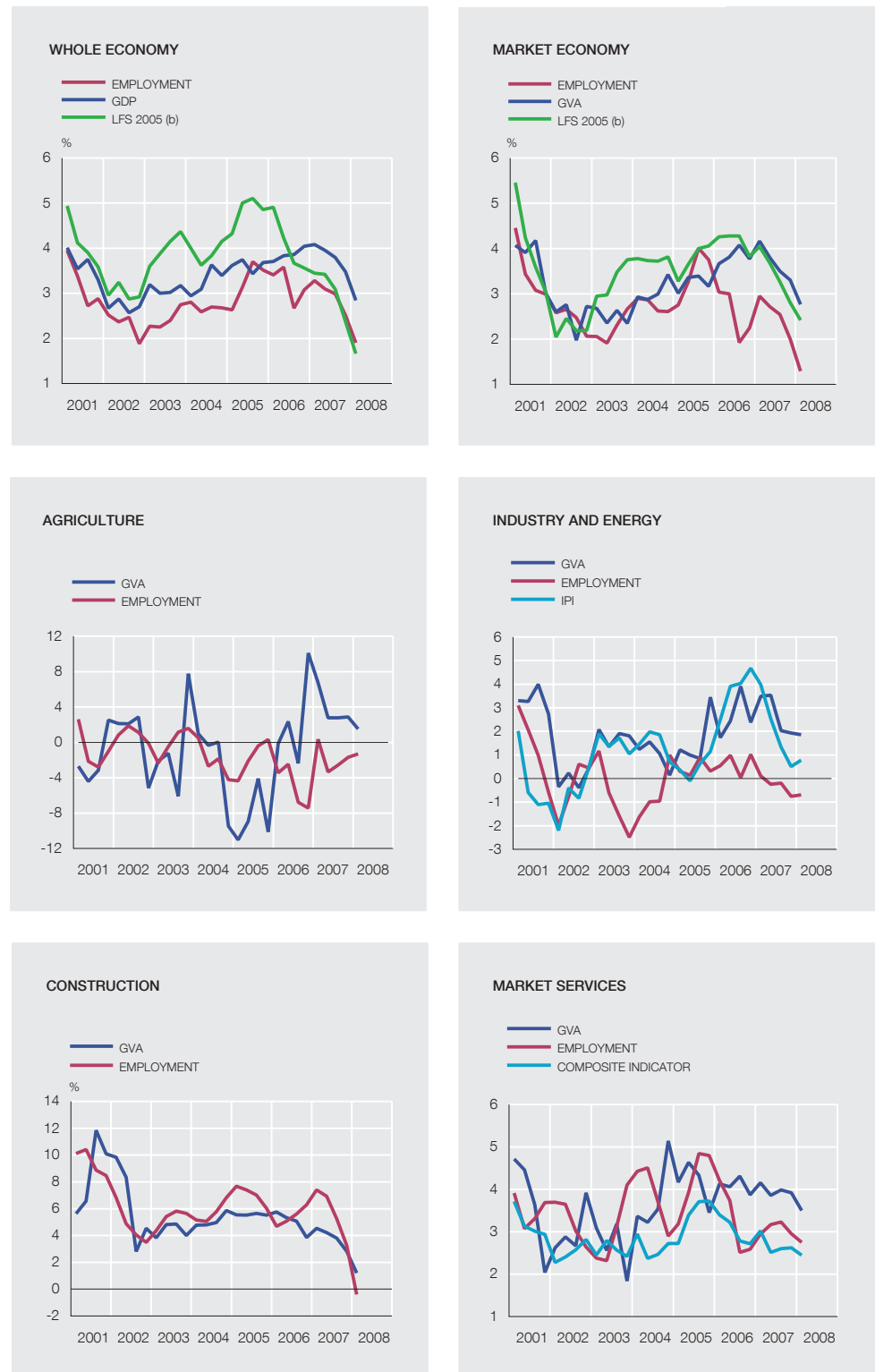
Lastly, in QNA terms the year-on-year growth rate of real imports of services decelerated in 2007 Q4 to 8.2%, down from 12.3% in the previous quarter. This was as a result of the slowdown in the year-on-year rate of real imports of non-tourist services by more than 6 pp to 8.5%. Nevertheless, its main categories (transport services and business services) became more buoyant, in tandem with the pick-up in other minor items such as communications and computer services. Royalties also climbed notably for the second consecutive quarter. Conversely, payments for financial services dropped and payments relating to construction and insurance slowed. Real imports of tourist services quickened in 2007 Q4 to a year-on-year growth rate of 6.5%, compared with 5.5% in Q3.

4.2 Output and employment

In 2007 Q4 the slowing profile shown by the market economy throughout the year continued, meaning that gross value added (GVA) expanded at a rate of 3.3%, 0.2 pp less than in the previous quarter (see Chart 19). The various productive branches were less buoyant across the board with the exception of agriculture and energy. This pattern of diminished strength in the market economy is expected to continue in 2008 Q1, with an estimated 0.5 pp fall in its rate of increase.

The activity of the agriculture and fisheries branches posted a slight rise in 2007 Q4 growing by 2.9%. However, the outlook for 2008 indicates that these branches will be less robust. In fact, although the initial available information indicates that the land set aside for crops in sectors such as cereals has increased by around 5% (probably driven by the strong rise in the prices of these products), weather conditions are not favourable due to low rainfall since the hydrological year began.

The GVA of the industrial and energy branch once again lost momentum in 2007 Q4, albeit much more moderately than in the previous three months. On QNA figures, the slowdown only amounted to 0.1 pp and, as a result, its rate of increase stood at 1.9%. Growth in this branch was contained despite the noticeable boost to its energy component, which went from being flat in Q3 to growing by 4.5% in Q4. The industrial branch, by contrast, slowed to a growth rate of 1.4% in the final quarter of the year. Industrial activity in early 2008 was characterised by the ongoing sluggishness seen between October and December last year. Thus, the year-on-year growth rate of the non-energy component of the industrial production index (IPI) was flat in January and February, while sales by large corporations slipped in the same period, albeit slightly less than in 2007 Q4. Other indicators such as social security registrations in industry or several opinion-based surveys in the sector, such as the European Commission's confidence indicator and the PMI manufacturing index, pointed to even more unfavourable developments in 2008 Q1. Based on the classification of product groups by Broad Economic Categories, capital goods are proving resilient despite the slowdown in their production, and food production has recovered in recent months.



SOURCES: INE, Ministerio de Fomento and Banco de España.

a. Year-on-year percentage rates based on seasonally adjusted series except in the case of LFS when they are based on gross series. Employment in terms of full-time equivalent jobs. For incomplete quarters, the year-on-year rate for the period available within the quarter is taken.

b. Series linked by Banco de España (DG Economics, Statistics and Research) on the basis of the control survey conducted using the methodology applied until 2004 Q4.

In 2007 Q4, GVA in construction slowed by 1 pp to 2.8%, which was lower than the overall growth of the economy for the first time in recent years. As discussed in the previous section, it is estimated that this loss of dynamism, which has continued in 2008 Q1, may have intensified.

The whole of the services branch ended 2007 with a GVA growth rate of 4.1%, representing a loss of dynamism of 0.2 pp with respect to Q3. The slowdown in non-market services was even more marked (0.3 pp), taking its rate of increase to 5% and ending the upward profile seen until Q3. GVA in market services dropped by 0.1 pp to 3.9%. In 2008 Q1, however, the loss of momentum was more marked, according to the conjunctural information available. Thus, the rate of increase in Social Security registrations slowed in comparison with 2007 Q4 by approximately 0.4 pp, while sales by large corporations showed negative rates of change throughout January and February in real and calendar-adjusted terms. Various opinion surveys have also presented a negative picture of 2008 to date. In fact, both the European Commission confidence indicators and the PMI are at an all-time low (although both statistics only present data from 1996 and 1999, respectively), while the retail index is at its lowest value since November 1993.

On QNA information, the slowing path followed by employment throughout the economy in recent months became more marked in 2007 Q4. Specifically, the year-on-year rate of increase in employment stood at 2.5%, half a percentage point lower than in the previous quarter. Employment in the market economy also decelerated by half a point and grew by 2% in year-on-year terms. In both cases, the moderation of the pace of job creation exceeded the loss of momentum of added value and, consequently, apparent labour productivity rose in Q4 to 0.9% in the economy as a whole and 1.3% in the market branches.

On the basis of the indicators available to March, the slowdown in job creation continued and even intensified in 2008 Q1. Thus, growth in the number of Social Security registrations, calculated with average data, dropped to 1.7% in 2008 Q1, 0.8 pp lower than the rise in 2007 Q4. The decline of INEM-registered new hires steepened in 2008 Q1 to -7.2% year-on-year on average, which compares with -2.1% in 2007 Q4. Similarly, the LFS data for 2008 Q1 show a moderation in the buoyancy of employment from 2.4% in 2007 Q4 to 1.7% in 2008 Q1.

By productive branch, there was a sizeable deceleration in Q4 in employment in construction, the year-on-year growth rate of which fell to 3.3%, 2 pp down on the previous quarter. In services, the year-on-year rate of increase in employment remained relatively stable (at approximately 3.5%) due to the buoyancy both of non-market services, where employment rose by 4.7%, and market services, where the related year-on-year increase was 3%. Employment in industry contracted for the third consecutive quarter at a rate of -0.7%, higher than in Q3. Conversely, in agriculture, job destruction eased and fell by approximately 1 pp to -1.7%. The indicators available for Q1 show that job creation was less dynamic in construction and in the agricultural branches, stable in market services and had recovered notably in the industrial branches. Consequently, LFS data for Q1 show that employment in construction dropped by 1.7%, after rising by 2.7% in Q4, whereas it fell by 6.8% in agriculture (-1.7% in the last three months of 2007). In market services, employment retained the buoyancy it showed at end-2007 (5%) and, finally, employment in industry made a strong recovery and grew by 2.2% following the negative increases seen during 2007.

On QNA figures, dependent employment was dynamic in 2007 Q4 and grew by 2.8%, a rate that outpaced that of self-employment (0.6%). However, the pace of growth in dependent employment dipped by 0.5 pp, slightly more than in the case of the self-employed. These

developments match those from statistics on Social Security registrations, although they contrast with those shown in the LFS, which indicate that the slowdown in the rate of change in self-employment was sharper.

The LFS data for Q1 infer that the slowdown in employment affected Spanish nationals in particular, whereas growth rates for foreigners remained considerably higher (10.9%) and were similar to those posted at end-2007. As regards contract duration, permanent employment retained substantial momentum during 2008 Q1, with a year-on-year growth rate of 4.5%; that rate was, however, 2.5 pp down on the previous quarter. The year-on-year rate of decline in temporary employees moderated to -3.9% following the decrease of 6.3% posted in the closing months of 2007. As a result, the ratio of temporary to total employees fell significantly during the quarter to 30.1%, 0.9 pp down on that posted a year earlier. Lastly, as regards the duration of the working day, part-time hiring slowed to a greater extent than full-time hires, giving rise to a 0.4 pp decrease in the part-time/full-time employment ratio to 12%.

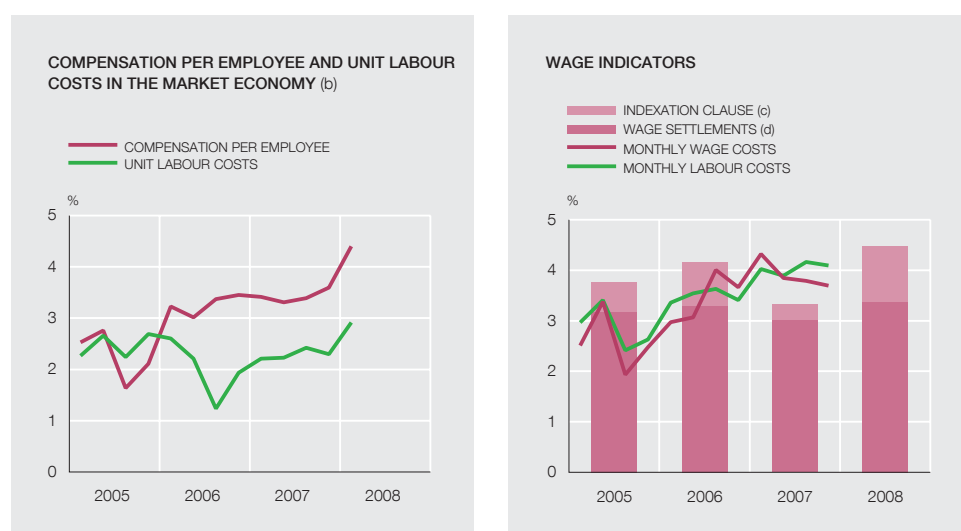
In 2008 Q1, the labour force grew at a year-on-year rate of 3%, 0.3 pp up on the previous quarter, interrupting the slowing trend seen throughout the previous year. This rise occurred despite the lower growth of the population aged over 16 (1.6%), which was 0.2 pp down on the previous quarter. The participation rate climbed to 59.3%, making for a year-on-year rise of 0.8 pp, following the smaller increases seen in 2007. In terms of the breakdown by gender, the rise in the female labour force was sharper and it continued to grow at a rate (3.9%) which was higher than that of the male labour force (2.3%). The participation rates stood at 49.7% for females and 69.3% for males, 1.1 pp and 0.4 pp higher, respectively, than a year ago. By nationality, the foreign labour force pushed growth of the overall labour force higher in Q1 by 13.5%, more than 0.2 pp up on end-2007, while growth of the Spanish labour force held at 1.3% year-on-year. The reason behind the rise seen in the foreign labour force is the increase in the foreign participation rate (up to 76.6%), following the decreases in 2007, since growth of the foreign population moderated to 13%, 2.5 pp down on the previous year.

Finally, the slowdown in the pace of job creation together with the greater dynamism of the labour force led to sharp growth in unemployment in 2008 Q1, with 318,000 more people jobless in comparison with the same period a year earlier. This resulted in a year-on-year increase in unemployment of 17.1%, with the unemployment rate at 9.6%, 1 pp up on the previous quarter. The data for March show a steep rise in registered unemployment, of 10.6% on average in comparison with 3.9% growth in 2007 Q4.

4.3 Costs and prices

On QNA estimates, the year-on-year growth rate in economy-wide compensation per employee climbed 0.3 pp in 2007 Q4 to 3.8% (see Chart 20). This acceleration was extensive to all branches of activity (with the exception of agriculture), although especially noticeable was the sharp rise in the industrial branches. On the information available, the growth rate of compensation per employee continued on this rising trend in 2008 Q1. In particular, the collective bargaining agreements registered in 2008 Q1, which affect 5.6 million employees, include an average increase in agreed wage rates of 3.4% for this year. This figure, which is 0.4 pp up on that for 2007 (excluding the effect of the indexation clause), seems to be slightly higher than the wage rate guidelines agreed under the new Interconfederal Agreement for Collective Bargaining for 2008.¹ As is usual at the beginning of the year, almost all the agreements recorded

1. The extension to 2008 of the Interconfederal Agreement for Collective Bargaining for 2007, which was signed on 18 December 2007 by the main social agents, provides continuity to the various agreements signed since 2002, which include, among others, the following recommendations regarding wages: indexation to projected inflation of 2% in wage negotiations, activation of the indexation clauses if the CPI in December exceeds that projection and tying wage increases in excess of this benchmark to productivity increases in order to favour job creation.



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

- a. Percentage change on same quarter a year earlier.
- b. Rates based on QNA seasonally adjusted series.
- c. Information from registered collective bargaining agreements to March 2008.
- d. Previous year's indexation clause.
- e. ETCL (quarterly labour costs survey).

are the result of the revision of multi-year settlements signed in previous years. In these, the agreed increase was 3.4%, while in the few newly-signed agreements the rise stood at 4.2%. The estimated impact of the 2007 indexation clauses (which affect 74% of employees with an agreement for that year) on wage increases for 2008 is 1.1 pp, some 0.8 pp higher than the estimated impact of the previous year, as a result of the higher deviation of inflation at year-end from the official reference of 2%.

The greater buoyancy of compensation per employee in 2007 Q4 was not offset by the slight rise in apparent labour productivity. That led to a further 0.2 pp quickening in unit labour costs (ULCs), up to a year-on-year growth rate of 2.9%. The situation in the market economy, however, was slightly different, with a moderate slowdown in ULCs due to productivity gains in market services and in industry (see Chart 21). Productivity is also expected to rise a little in the market economy in 2008 Q1, although it will be insufficient to offset the estimated acceleration in labour costs and, as a result, ULCs will probably quicken in that period.

In 2007 Q4, the moderating path on which the final demand and GDP deflators had moved in previous quarters came to a halt or was reversed. The final demand deflator quickened by 0.8 pp to a year-on-year growth rate of 3.3%, as a result, among other factors, of the sharp rise in imports, which stood at 45%, more than 3 pp more than that posted in Q3 due to the higher prices of crude and non-energy commodities on international markets. In turn, the year-on-year growth rate of the GDP deflator held steady at 2.9%. From the expenditure standpoint, the growth in the private consumption deflator rose by 1.8 pp to 3.9%, in line with more expensive imports, while the goods exports deflator dropped slightly to 1.7%.

The year-on-year rate of the CPI continued to rise during 2008 Q1 to 4.4% on average in that period, 0.4 pp more than in 2007 Q4. This acceleration is almost entirely due to the upward trend in energy and processed food prices. The prices of non-energy industrial goods were the only ones whose growth rate, following the performance of recent quarters, eased. Converse-

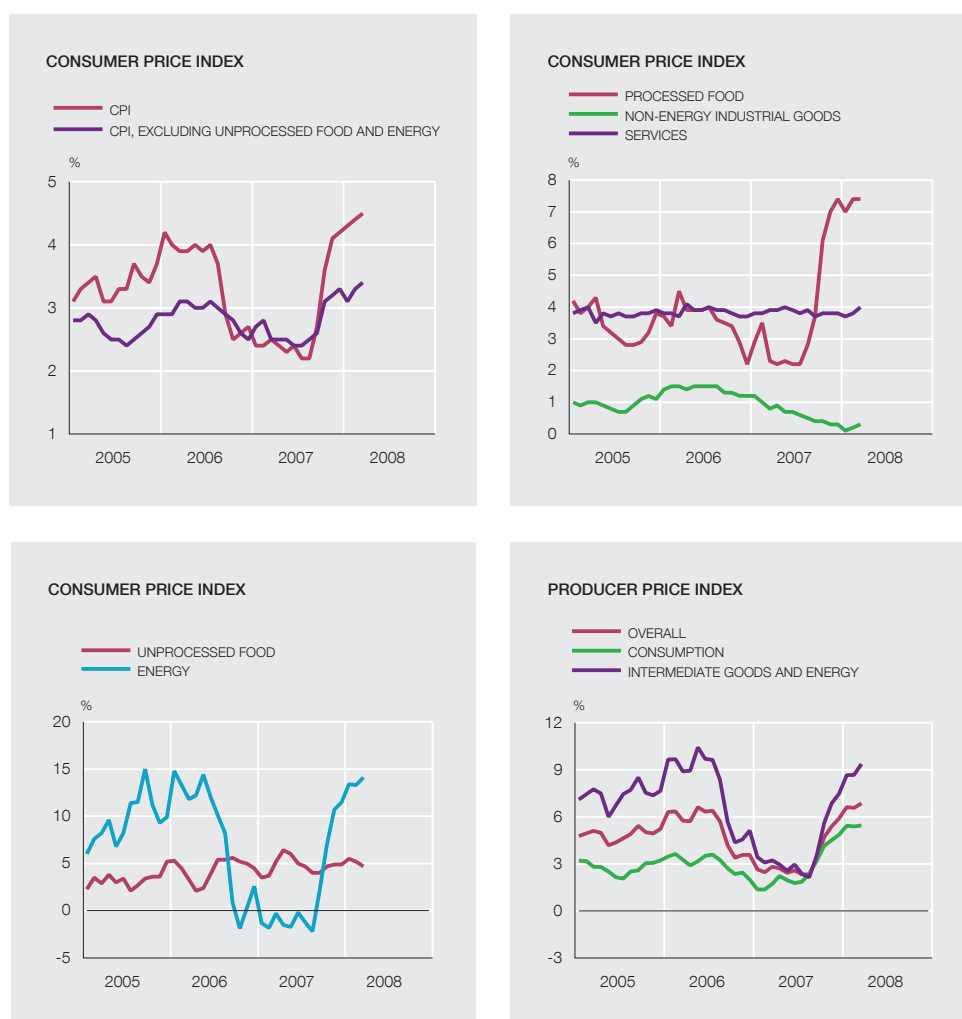


SOURCES: INE and Banco de España.

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

ly, the prices of processed and unprocessed food went up once again, although less sharply than in the previous quarter. The growth rate of services prices held steady, albeit at very high levels of approximately 4%. Consequently, both the overall index excluding energy and the core CPI (excluding unprocessed food and energy) remained practically stable in Q1 on average at 3.4% and 3.2%, respectively (see Chart 22).

For the second consecutive quarter the prices of energy products once again posted the highest increases. The sizeable appreciation of the euro against the dollar (averaging 14.4% in Q1 and finally standing at approximately \$1.55 per euro in March) was not enough to offset the substantial rise in oil and other energy products. The prices of non-energy industrial goods were the only ones to moderate slightly. Year-on-year growth in 2008 Q1 amounted to 0.2%, 0.1 pp less than in the previous quarter, since the slowdown in car prices and electronic and computer equipment stepped up from the beginning of the year. Tourism-related and hotel and restaurant services became slightly more expensive due to the higher prices of package tours following seasonal declines in the previous quarter, while the pace of growth in the prices of restaurants, bars and cafés remained high. Unprocessed food prices continued to increase in the early months of the year, averaging 5.1% in Q1, 0.3 pp more than in the previous quarter due to the higher prices of fish, fruit and eggs. Lastly, processed food increased by 7.3% year-on-year, 0.5 pp above the previous quarter, mainly due to the performance of cheese and certain cereal products such as pasta and flour. Box 4 analyses in greater detail



SOURCE: INE.

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

the recent developments in the prices of this component and their impact on the overall index.

Like the CPI, inflation measured by the HICP increased in 2008 Q1 to 4.5% year-on-year on average (4.6% in March). In the same vein, inflation rose to 3.4% on average (it stood at 3.6% in March) in the euro area as a whole. Consequently, for the quarter as a whole the differential held steady at 1.1 pp, matching the average differential recorded since the inception of the euro area (see Chart 23). By component, the inflation differential held steady in services, while in the case of non-energy industrial goods (the only component for which price increases in Spain are lower than in the euro area) the differential was less pronounced. The positive differential narrowed in the unprocessed food component and, especially, in the processed food component, by 1.3 pp. The positive differential for energy products widened with respect to the previous quarter, which was foreseeable given the more variable energy prices in Spain in view of changes in oil prices.

Finally, the producer price index (PPI) rose in 2008 Q1 to a year-on-year rate of 6.7%, 1.4 pp more than in 2007 Q4, as a consequence, especially, of a rise in energy prices (to 13.8%), al-

For much of 2007, Spanish inflation – measured by the growth rate of the consumer price index (CPI) – held at a moderate rate, somewhat below 2.5% in year-on-year terms. However, from the autumn it embarked on an upward trajectory which has continued into the opening months of 2008. Compared with a rate of 2.2% in August 2007, inflation stood at 4.5% in March this year, a figure not reached since July 1995. As panel 1 shows, the marked increase in the CPI in recent months essentially reflects dearer energy and processed food products. Specifically, of the 2.3 pp rise in the rate of increase of the CPI between August 2007 and March 2008, the energy component would account for 1.5 pp and processed food 0.7 pp. The pronounced growth of energy product prices in recent months largely reflects the impact of the increase in crude oil prices on international markets, which has only been partially countered by the appreciation of the euro. As the effect of the changes in oil prices on Spanish inflation was addressed in a recent article in Spanish in the *Boletín Económico*, the analysis in this box focuses on the effect of developments in processed food prices on inflation.

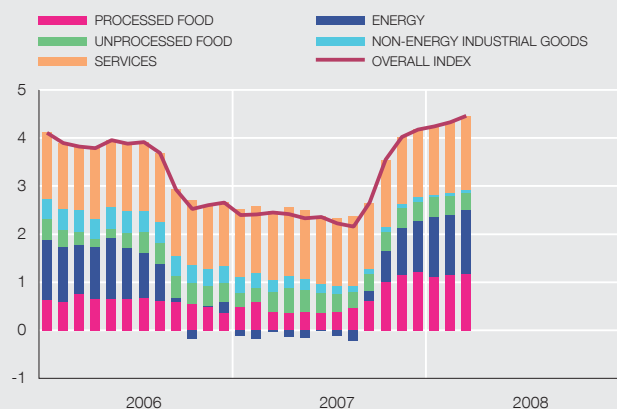
The rise in the consumer prices of specific food products largely reflects price developments on world markets for agricultural commod-

ities. Panel 2, which shows a food price index compiled by the United Nations Food and Agriculture Organisation (FAO) based on the prices of 55 products weighted by their volume in world exports, and the sub-indices of milk and milk products, reveals the sharp rise both in the overall index (57% in March 2008, in year-on-year terms) and in cereals and milk products (88% and 48%, respectively). Other products also showed considerable price increases. The worldwide rise in milk and milk products reflects both supply and demand-side factors. First, there has been a significant contraction in milk production in the main exporting countries, against a background of low inventory levels. Further, there has been a notable increase in the demand for these products, particularly by numerous emerging countries, who are posting high increases in their per capita income. In the case of cereals, the robustness of demand – driven both by household consumption and the manufacture of animal feed and other industrial uses – has compounded the production cuts in some exporting countries and the low levels of stocks.

Along with the strong increase in agricultural commodity prices, higher transport and fertiliser costs have resulted in dearer food prices for final consumers. Prices received by farmers increased in Spain by

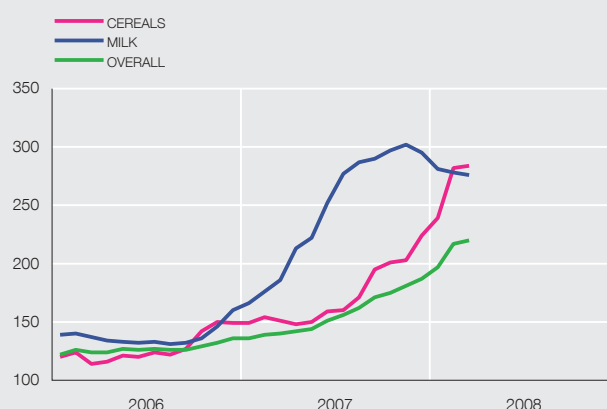
1 CONSUMER PRICE INDEX

Twelve-month percentage change and contributions



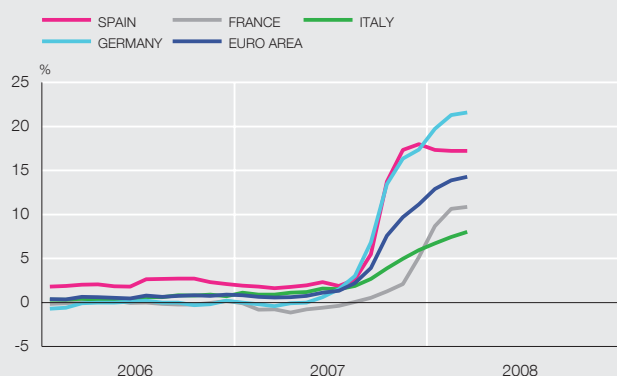
2 COMMODITY PRICE INDICES (a)

1998=2000=100



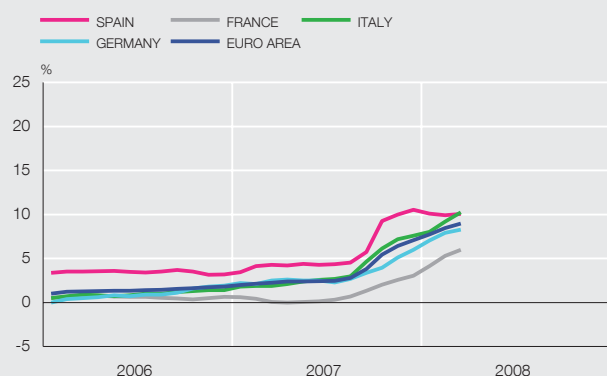
3 HARMONISED INDEX OF CONSUMER PRICES

Milk, cheese and eggs



4 HARMONISED INDEX OF CONSUMER PRICES

Bread and cereals



SOURCES: United Nations Food and Agriculture Organisation (FAO), Eurostat and Banco de España.

a. Price indices prepared by the FAO. The overall index includes 55 products belonging to various categories and weighted by world export shares in the period 1998–2000.

almost 18% year-on-year in December 2007 (24% if livestock products are excluded), and the producer prices of food consumer goods, beverages and tobacco rose by practically 11% in Spain to February 2008, a phenomenon which has also influenced the consumer prices of these goods. Indirect effects are also arising insofar as livestock breeders' production costs increase as the price of cereals for animal food rises. These increases might, therefore, pass through to the prices of meat and other products, such as catering services.

The global phenomenon of dearer food prices is also affecting other European countries, albeit to differing degrees depending on the country and the product. The differences in market structures, the effective level of competition in retail and wholesale distribution, and the cyclical position of the economies are factors bearing on the final pass-through of commodity costs to consumer prices. In Spain, the competition authorities have initiated legal proceedings aimed at determining whether information communicated by certain employers' associations in the food industry to its members may have restricted competition. According to the processed food component of the harmonised index of consumer prices (HICP), the rate for these products in Spain far outgrew that for the euro area as a whole. Specifically, in March 2008 these goods rose by 8.8% year-on-year in Spain, 2 pp above the euro area figure. In the specific case of milk and milk products, prices climbed by 17.2% year-on-year in Spain in March 2008,

almost 3 pp more than in the euro area (see panel 3). Bread and cereal prices increased by 10% in Spain, outgrowing the euro area as a whole by 1 pp (see panel 4).

Admittedly, projections of future developments in these markets are shrouded in uncertainty, but the current FAO forecasts for 2008 predict a sizeable rise in world cereal output, especially of wheat, the cultivation area for which has increased considerably. Naturally, however, final output will depend on the weather up to the harvest period. In the EU, measures aimed at expanding cereal supply have been authorised, and will be effective for the 2007-2008 sowings. These include most notably the elimination of the compulsory set-aside of land, under which farmers had to abstain from using 10% of their cultivatable land area for obtaining produce for human consumption. Further, per capita cereal consumption in the developing countries is expected to fall slightly as demand shifts towards higher nutrition value foods in those countries with higher increases in their per capita income. In addition, milk quotas have been raised by 2% in all EU countries. In step with this set of factors, futures markets for the main agricultural commodities point to an easing in growth rates during 2008. As a result, food prices should once again be running at a lower year-on-year rate at the end of the current year, once the baseline effect caused by the higher prices that began to be set in the second half of 2007 is absorbed.

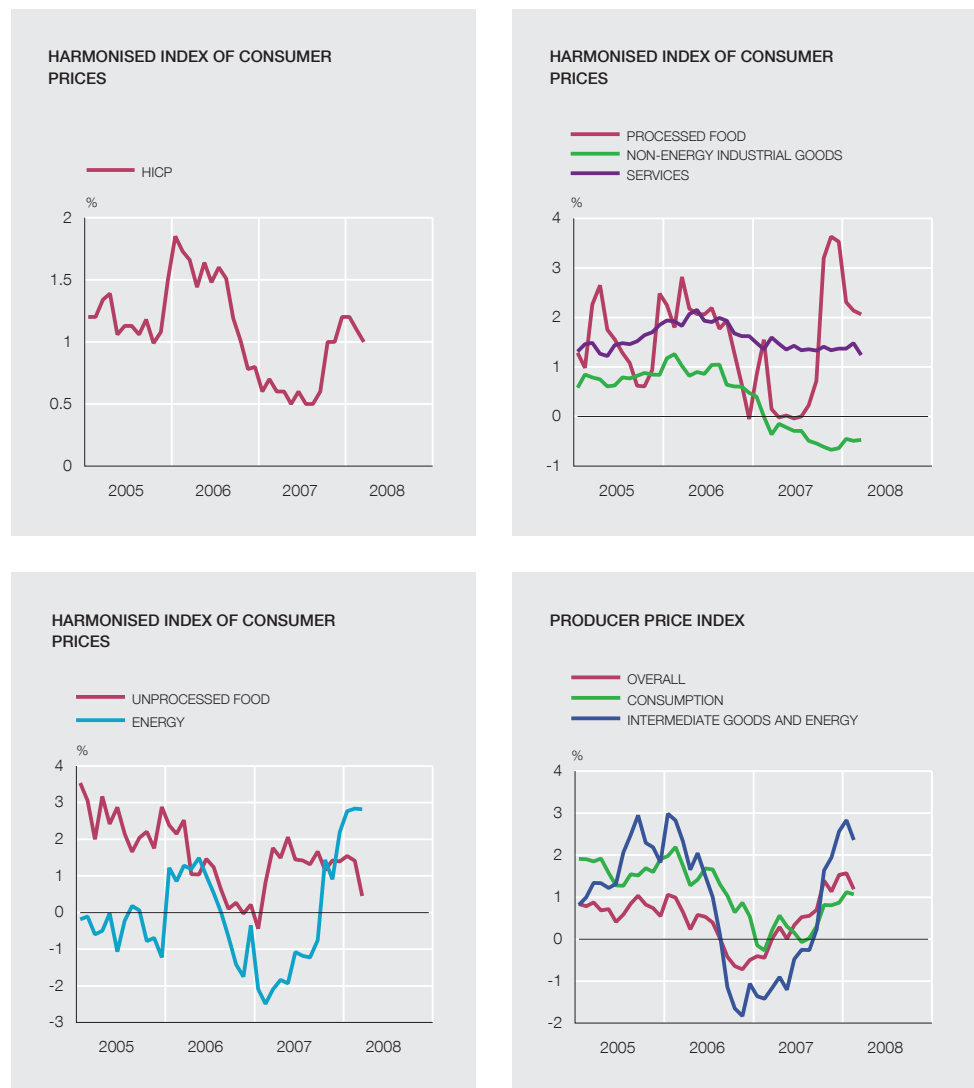
though prices of other intermediate goods and non-durable consumer goods accelerated by 6% and 5.8%, respectively. Conversely, the prices of capital goods moderated to a rate of 2.5% on average in Q1, while those of consumer durables remained practically stable at just above 3%. In the whole of the euro area producer prices increased by 5.3% year-on-year in February, 1.3 pp lower than the rate recorded in Spain in that month.

4.4 The State budget

According to the National Accounts methodology, the State budget outturn in Q1, showed a notable reduction in the surplus, which fell from €6,747 million (0.6% of GDP) in the first three months of 2007 to €3,276 million (0.3% of GDP) in 2008 Q1. This result was essentially due to an increase in resources of only 1.3%, compared with the 12.8% rise in uses.

Along these same lines, the cash-basis results showed a reduction in the State surplus to €1,272 million in 2008 Q1, compared with the surplus of €2,316 million recorded in the same period in 2007 (see Table 3). In these opening months, revenue increased by 1.1%, against the 4.1% increase in State expenditure. The differences with the National Accounts figures are largely due to the different criterion for recording interest. It should not be forgotten, however, that the figures for the opening months of the year are highly erratic and not very representative of how the balance will fare in the following months. Nonetheless, the data appear to point to a reduction in the budget balance compared with the previous year, to which the extraordinary personal income tax credit of up to a maximum of €400 per taxpayer will also contribute.

In respect of revenue, information is available on total takings under the main taxes, both for the portion assigned to the State and that relating to the ordinary-regime Territorial Govern-



SOURCES: Eurostat and Banco de España.

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

ments. According to this information, revenue increased in Q1 by 3.4% compared with the same period a year earlier, owing to the strength of direct tax takings. Direct taxes were sustained by revenue relating to withholdings on work, and by those on movable capital and gains on mutual funds (which increased by 34.1%). In the coming months, however, the above-mentioned personal income tax credit and the impact of the second phase of the reduction in corporate income tax (the cut in the standard rate from 32.5% to 30%) will foreseeably prompt a slowdown in this revenue. Under indirect tax, there was a notable decline in VAT, which posted a negative rate of -5.7% in relation to 2007 Q1. In this case, developments have been affected by the change in the treatment of corporate groupings, which are allowed to offset balances payable by and refundable to the various group companies (which is tantamount to bringing forward refunds applied for); accordingly, the figures are not homogenous when set against those of the previous year. Excise duties were contained somewhat, owing to the sluggishness of the tax on hydrocarbons. The items aggregated under the "Other State revenue" heading (see Table 3) posted relatively high growth owing to the share in Banco de España profits and to the current transfers received from the Regional (Autonomous) Governments,

EUR m and %							
	Outturn 2007	Percentage change 2007/2006	Initial Budget 2008	Percentage change 2008/2007	Outturn		
					2007 JAN-MAR	2008 JAN-MAR	Percentage change
	1	2	3	4 = 3/1	5	6	7 = 6/5
1 REVENUE	159,840	12.7	158,757	-0.7	37,782	38,181	1.1
Direct taxes	96,980	19.5	90,753	-6.4	15,980	17,516	9.6
<i>Personal income tax</i>	48,626	17.3	43,260	-11.0	13,896	15,112	8.7
<i>Corporate income tax</i>	44,823	20.5	44,420	-0.9	1,258	1,511	20.1
<i>Other (a)</i>	3,531	42.8	3,073	-13.0	826	893	8.1
Indirect taxes	48,445	0.2	53,363	10.2	18,725	17,371	-7.2
VAT	33,752	-4.7	38,205	13.2	15,393	13,926	-9.5
<i>Excise duties</i>	11,468	15.9	11,661	1.7	2,559	2,623	2.5
<i>Other (b)</i>	3,224	7.2	3,497	8.5	773	822	6.3
Other net revenue	14,415	16.4	14,641	1.6	3,077	3,294	7.1
2 EXPENDITURE	139,704	7.2	152,331	9.0	35,467	36,909	4.1
Wages and salaries	23,678	6.6	25,378	7.2	5,223	5,363	2.7
Goods and services	4,454	17.2	3,563	-20.0	967	955	-1.2
Interest payments	14,539	-6.9	16,631	14.4	5,701	6,532	14.6
Current transfers	77,680	7.6	83,372	7.3	18,981	19,549	3.0
Contingency fund	...	...	3,100	...	...	...	...
Investment	10,106	11.8	10,588	4.8	2,579	2,580	0.0
Capital transfers	9,248	23.5	9,699	4.9	2,016	1,930	-4.3
3 CASH-BASIS BALANCE (3 = 1 - 2)	20,135	...	6,426	...	2,316	1,272	...
MEMORANDUM ITEM: NATIONAL ACCOUNTS							
Resources	165,171	12.2	157,166	-4.8	37,807	38,298	1.3
Uses	151,877	6.2	153,920	1.3	31,060	35,022	12.8
NET LENDING (+) OR BORROWING (-)							
	13,294	...	3,246	...	6,747	3,276	...
(as a percentage of GDP)	1.3		0.3		0.7	0.3	

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.

which offset the decline in funds received from the European Union, especially from the ERDF.

State cash-basis expenditure increased by 4.1%, below the budgetary forecast, which points to growth of 9% for the year as a whole. With the exceptions of expenditure on goods and services and of interest payments, the remaining items posted growth rates below those envisaged in the Budget. Wages and salaries and current transfers (mainly to other general government) were particularly contained during these months. However, in view of the figures budgeted, this expenditure may be expected to quicken in the coming months.

4.5 The balance of payments and capital account

The overall balance on current and capital account was a deficit of €10,717 million in January 2008, 46.4% up on the same month a year earlier (see Table 4). The current account deficit widened by 38.6% year-on-year to €11,951 million. In turn, the surplus on capital transactions declined by 5.2% to €1,234 million. The balances of the main current account components worsened in January, with a significant widening of the deficits on the trade and income bal-

EUR m		JANUARY	
		2007	2008
CREDITS	Current account	25,436	29,330
	<i>Goods</i>	14,205	15,431
	<i>Services</i>	6,434	7,355
	— Tourism	2,673	2,759
	— Other services	3,761	4,596
	<i>Income</i>	3,808	4,949
	<i>Current transfers</i>	988	1,595
	Capital account	1,444	1,372
	Current + capital accounts	26,880	30,702
DEBITS	Current account	34,058	41,281
	<i>Goods</i>	20,657	23,806
	<i>Services</i>	5,483	6,034
	— Tourism	1,114	1,136
	— Other services	4,369	4,899
	<i>Income</i>	5,757	8,585
	<i>Current transfers</i>	2,160	2,855
	Capital account	143	138
	Current + capital accounts	34,201	41,419
BALANCES	Current account	-8,622	-11,951
	<i>Goods</i>	-6,452	-8,375
	<i>Services</i>	952	1,321
	— Tourism	1,560	1,623
	— Other services	-608	-302
	<i>Income</i>	-1,949	-3,636
	<i>Current transfers</i>	-1,172	-1,260
	Capital account	1,301	1,234
	Current + capital accounts	-7,320	-10,717

SOURCE: Banco de España.

a. Provisional data.

ances, although services were the exception, particularly the reduction in the deficit on non-tourist services.

The deficit on the trade balance increased in January 2008 by €1,924 million in relation to the same month a year earlier, rising to €8,375 million, the result of the substantial increase in the energy bill. Indeed, the non-energy trade deficit declined, with the increase in nominal exports of these goods exceeding imports in January. Turning to the services balance, the slight improvement in its surplus in January 2008 was due to the increase in the tourism surplus and to the decline in the deficit on other services. Nominal tourist revenue rose by 3.2%, down on the previous year's increase on the whole. This development is in keeping with the moderate growth shown in January by the tourism indicators (such as the number of foreign tourists and their overnight stays in hotels); however, these indicators posted more significant increases in February and March, as discussed in section 4.1. Tourist payments slowed appreciably in January, increasing by 2%, in step with the diminished dynamism of private consumption. As to other services, the buoyancy of revenue was more pronounced than that of expenditure (the related growth rates were 22.2% and 12.1%, respectively).

The deficit on the income balance widened notably in January to €3,636 million, up €1,687 million compared with the level observed in the same month of the previous year. Both revenue and, to a greater extent, payments were expansionary, with year-on-year growth rates of 30% and 49%, respectively. This is related to the rise in interest rates on money and securities markets, and to the growing net debit position of the Spanish economy. The current transfers balance posted a deficit of €1,260 million in January 2008, similar to that in the same month a year earlier. Finally, the capital account surplus stood in January 2008 at €1,234 million, somewhat down on January 2007 owing to the decline in revenue received by general government under ERDF structural funds, which countered the rise in Cohesion and EAGGF Guidance Funds.

5 Financial developments

5.1 Highlights

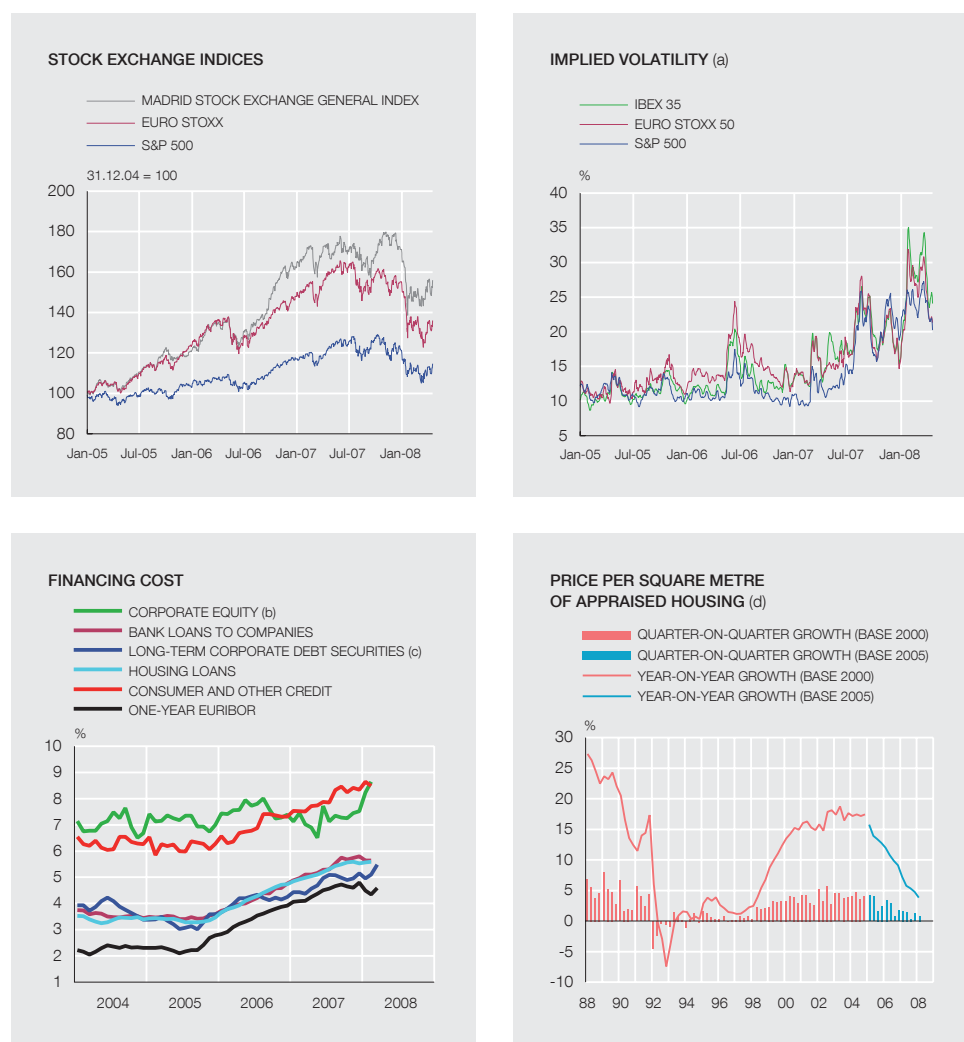
In 2008 Q1, financial developments continued to be shaped by the turbulence on international financial markets that began in summer 2007. Various episodes that highlighted the difficulties being experienced by certain financial institutions exacerbated the existing confidence problems. This was reflected in a further tightening of interbank markets, which also stemmed from liquidity problems. Hence, although one-year EURIBOR fell in the first two months of the year, from 4.8% in December to 4.3% in February, it rose in March to an average level of 4.6%, 90 basis points (bp) above the return on secured transactions (repos) at the same maturity.

Tensions were also observed in other markets. In fixed-income markets, for instance, risk premiums continued to rise strongly in all sectors. At the same time, the preference for liquidity and the safest assets led to a fall in public debt yields. This fall was sharpest in the case of German securities, leading to a widening in the interest rate spread with the other euro area countries. On stock markets price volatility rose, while prices declined markedly (see Chart 24). From the middle of March, there was a certain improvement in some of these markets, although it is too soon to know if it will continue. As the Spanish version of this report went to press, the Madrid Stock Exchange General Index stood 9.8% below its end-2007 level, this loss being somewhat smaller than that suffered over the same period by the EURO STOXX broad index of European stock markets (12.4%), but greater than that of the S&P 500 index of US companies (4.8%).

The latest information on the cost of financing for the private sector suggests that developments varied according to the instrument concerned, basically depending on the dynamic relationship of each with market yields, since there were no significant changes in the margins applied. In the case of households, interest rates on loans for house purchase, which reflect interbank rate movements with a certain lag, rose between December and February, as did those on consumer and other loans, which are more variable. By contrast, the cost of corporate bank borrowing and bond issuance fell, although the cost of equity rose notably, so that the synthetic indicator of the cost of financing for firms showed no significant changes during this period. In any event, it should be noted that the above figures do not yet reflect the rise in interbank rates in March. In addition, there has been an increase in the return on long-term debt issued by this sector and, according to the January Bank Lending Survey (BLS), institutions were expecting to tighten their credit standards further in 2008 Q1.

The latest data supplied by the Ministry of Housing show that, the gradual slowdown in the value of appraised unsubsidised housing continued in 2008 Q1. As a result, the year-on-year rate stood at 3.8% in March, down one percentage point from December 2007.

Against this background, in 2008 Q1 the gradual moderation of the expansion of private-sector debt seen in the preceding quarters continued. In the case of households, the year-on-year growth rate of financing stood at 12% in February, down somewhat more than half a percentage point from December. Meanwhile, corporate borrowing rose by around 16% on the same period of the previous year, almost 1 pp less than in 2007 Q4. The latest information on lending by purpose, for December, shows that there was a slowdown in most productive branches. This slowdown was sharper in real estate services and somewhat less pronounced in construction and industry, while other services maintained their buoyancy, in line with the greater relative strength of investment in this sub-sector.



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

a. Five-day moving averages.

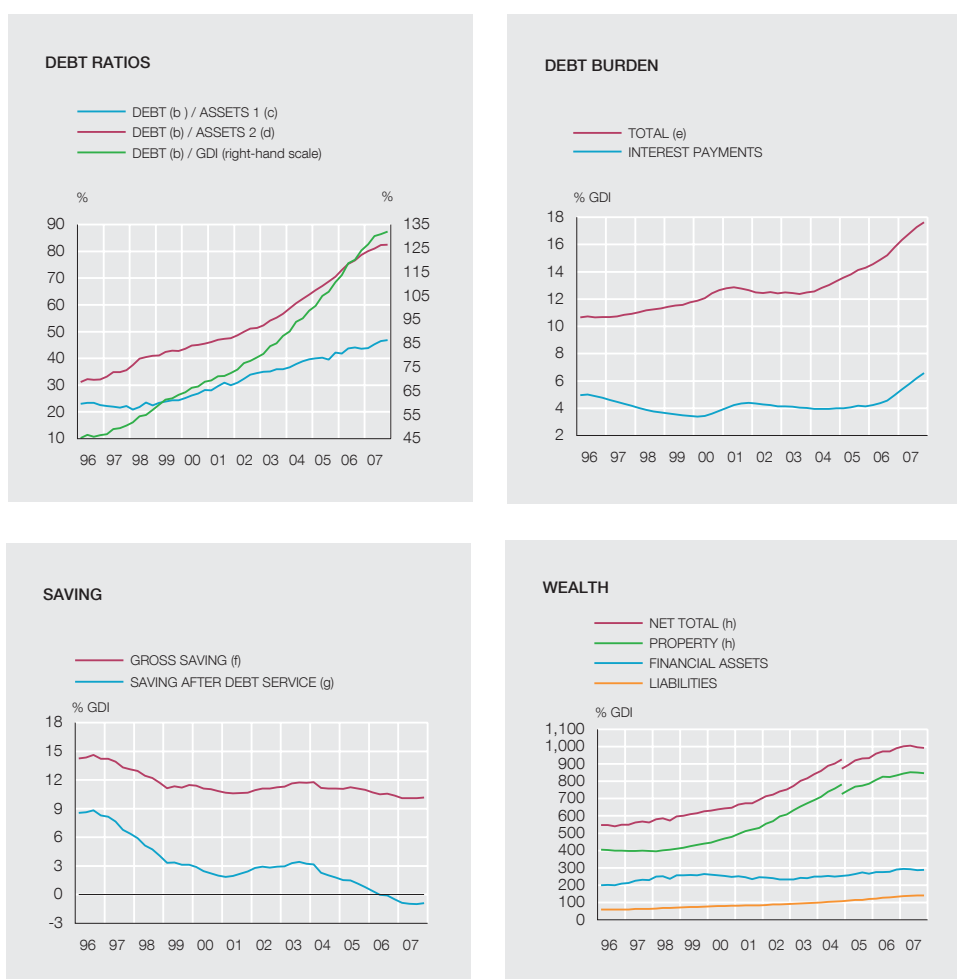
b. The cost of equity is based on the three-stage Gordon dividend discount model.

c. The interest rate on long-term debt securities is approximated by the sum of the 5-year euro swap rate and a weighted average of the 5-year CDS premiums of Spanish non-financial corporations.

d. New statistic from 2005.

The slowdown in household borrowing is contributing to the moderation in the rate of growth of the debt and debt-burden ratios, albeit less in the latter case owing to the rising cost of financing (see Chart 25). Also, at end-2007, the sector's ability to save, after deducting its debt-repayment obligations, and its net borrowing stood at similar levels to previous quarters, in terms of gross disposable income (GDI) and GDP, respectively. Meanwhile, household net wealth grew at a similar rate to GDI, so that the ratio between these two variables remained, virtually unchanged, at historically high levels.

In the case of corporations, the rate of growth of their aggregate debt ratio also moderated in 2007 Q4, while their debt burden, affected by the rise in the cost of financing, grew at a faster rate, which continued to contribute to curbing earnings growth. According to the available projections, these same trends would have continued during 2008 to date. The data for the sample of firms that respond to the quarterly survey of the Central Balance Sheet Data Office (CBQ), in which large firms predominate, showed less buoyant debt and interest payments in



SOURCE: Banco de España.

- a. From 1999, the sectoral National Accounts data correspond to the CNE base 2000. For prior periods, an estimate consistent with this base is used.
- b. Includes bank credit and 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.

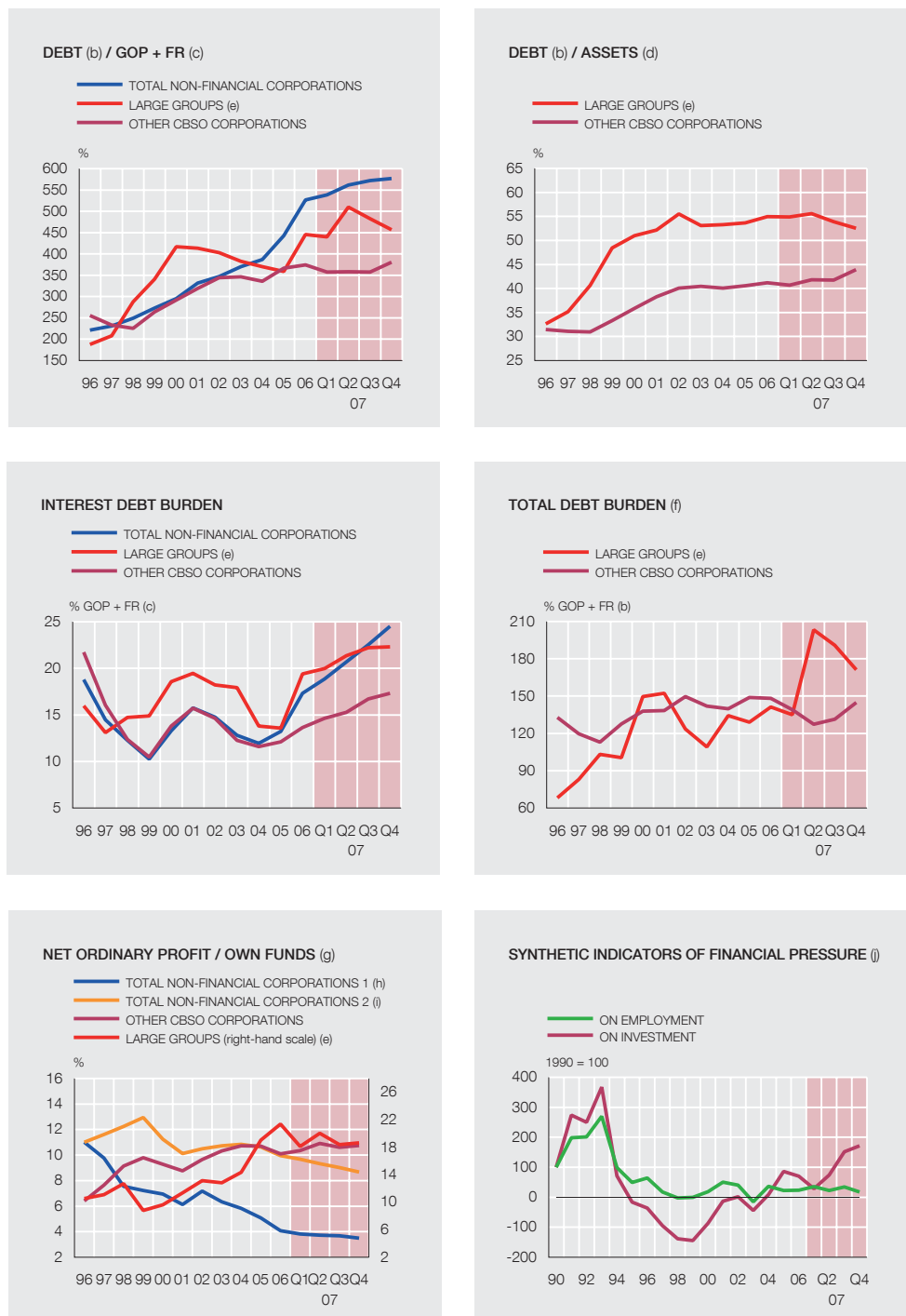
2007 Q4, along with favourable earnings behaviour. As a result of all these developments there was barely any change in the indicators of financial pressure on investment and employment during 2007 Q4 (see Chart 26). Finally, the latest information from the Financial Accounts shows a further increase in the sector's net borrowing in 2007 Q4, to 11.8% of GDP in cumulative 12-month terms, up 0.3 pp from September.

The larger borrowing requirement of non-financial corporations (and, to a lesser extent, of households) and the fall in general government saving were not fully offset by the rise in the surplus of financial institutions, so that the nation's net borrowing rose to 9.5% of GDP in cumulative annual terms (see Table 5).

In 2007 Q4, the funds obtained from the rest of the world by the private financial sector (excluding institutional investors), were again less than on average in recent years. This develop-

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

CHART 26



SOURCE: Banco de España.

a. Based on CBA and CBQ 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 Telefonica 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.

% GDP									
	2002	2003	2004	2005	2006	2007			
					Q4	Q1	Q2	Q3	Q4
National economy	-2.7	-2.9	-4.8	-6.5	-8.1	-8.3	-8.6	-8.9	-9.5
Non-financial corporations and households and NPISHs	-3.3	-3.8	-5.1	-8.2	-10.5	-11.1	-11.9	-12.9	-13.4
<i>Non-financial corporations</i>	-4.0	-3.9	-4.5	-6.9	-8.9	-9.2	-10.3	-11.5	-11.8
<i>Households and NPISHs</i>	0.7	0.1	-0.6	-1.3	-1.7	-1.9	-1.5	-1.5	-1.6
Financial institutions	1.2	1.0	0.6	0.7	0.6	0.8	1.2	1.4	1.6
General government	-0.5	-0.2	-0.4	1.0	1.8	2.0	2.0	2.6	2.2
MEMORANDUM ITEM:									
Financing gap of non-financial corporations (a)	-8.5	-8.2	-8.7	-11.1	-15.8	-13.5	-15.4	-16.3	-17.1

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.

ment is linked to the decrease in the recourse to international financial markets by these intermediaries, against the background of a rise in the cost of long-term bond issuance and scant activity on these markets. At the same time, the net acquisition of external assets by institutional investors and non-financial corporations fell to negative levels, so that the need for foreign funds (to finance the current account deficit and financial investment abroad) was reduced somewhat, although not sufficiently to offset the weakness of funds raised by financial institutions. Hence, the net position of the Banco de España vis-à-vis non-residents declined further, although to a lesser extent than in 2007 Q3 (see Box 5).

In short, the moderation in the growth of household and corporate borrowing is helping to bring the debt of these agents onto a more sustainable path. At the same time, although the financial turbulence worsened and spread, it has so far had only a limited effect on the cost and availability of financing to the private sector. However, given the Spanish economy's high level of net external borrowing, the impact may be greater in future if this episode continues for a lengthy period.

5.2 Households

In 2008 Q1, household financing conditions continued to deteriorate. Between December and February interest rates on new loans for house purchase rose by around 6 bp, while those on consumer and other credit rose by 14 bp (see Chart 24). Also, according to the January BLS, financial institutions were expecting to apply more restrictive credit standards to both types of loans in Q1 than at end-2007.

The tightening of credit standards contributed to the gradual slowdown in the growth of household debt, to a year-on-year rate of 12% in February, somewhat more than half a percentage point down from December 2007. By purpose, the moderation in the growth of liabilities was seen both in lending for house purchase and in consumer and other finance, whose growth rates fell to somewhat more than 12% and 10%, respectively.

According to the Financial Accounts data for 2007 Q4, household acquisition of financial assets moderated and, in cumulative annual terms, represented 7.8% of GDP, almost 2 pp less than in September (see Table 6). The breakdown by instrument shows that the portfolio reallocation seen in the preceding months continued. The notable buoyancy of time deposits, which are included

In recent years, the Spanish economy has needed to raise a large amount of funds from the rest of the world in order to finance its current account deficit and increasing levels of acquisition of foreign assets by the private sector, against a background of internationalisation of Spanish corporations and geographical diversification of institutional investors' portfolios. Financial institutions have played a central role in channelling these flows, primarily through the issuance of fixed-income securities. Thus, as seen in Chart 1, most of the resources from abroad have been obtained through the sale of instruments issued by credit institutions or by other intermediaries, including securitisation special purpose entities.

The episode of financial turbulence that began in mid-2007 has given rise to a substantial change in this pattern of cross-border flows. First, there has been a significant fall in funds raised through other financial intermediaries, related to the standstill and notable tightening of financing conditions in asset securitisation markets. However, as can be seen in Chart 2, the new liabilities incurred by credit institutions have not been significantly reduced. In net terms, private financial institutions (excluding institutional investors) continued to receive funds from abroad in the second half of 2007. Second, the inflow of capital channelled through public debt securities turned negative during that period, this being linked to the decline in the stock of securities issued by that sector, against the background of a surplus in public finances.

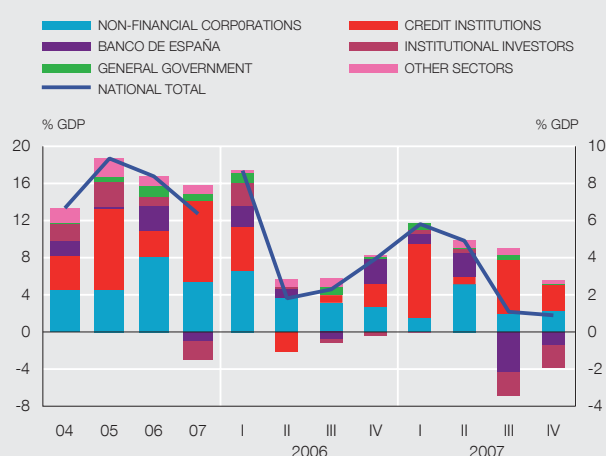
In addition, there was a decline in the second half of 2007 in the acquisition of foreign assets by the private sector, especially in the case of institutional investors, partly reflecting the net redemption of mutual fund shares against a background of greater uncertainty and ris-

ing volatility in market prices. The buoyancy of corporate financial investment abroad also fell. This, along with the unchanged volume of resources raised in the rest of the world, led to Spanish firms becoming, for the first time in recent years, net recipients of capital from the rest of the world.

However, the lower rate of accumulation of foreign assets by these sectors was not sufficient to offset the decline in the capital inflows channelled through private financial institutions and general government, so that part of the net borrowing had to be covered by means of a reduction in the Banco de España's net external asset position, although this decline slowed considerably in Q4. This change reflects the greater recourse of Spanish monetary financial institutions to liquidity supplied by the Eurosystem, although the amount thereof remains in line with their weight in the euro area and represents only 1.3% of their balance sheet.

In short, as a result of the tensions on international markets, there have been some important changes in the pattern of financial flows between Spain and the rest of the world. First, the net acquisition of foreign assets by resident sectors has declined, so that the gross volume of external funds required has been reduced. Second, part of this lower requirement has been covered by means of the sale of some of the securities in agents' foreign portfolios. Hence, despite the less favourable environment, it has been possible in recent quarters to continue financing the large current account deficit without any significant impact on domestic spending. However, the room for manoeuvre provided by these two channels is not unlimited. Consequently, the possibility that the turbulence may continue for a lengthy period is an element of risk for the future performance of the Spanish economy.

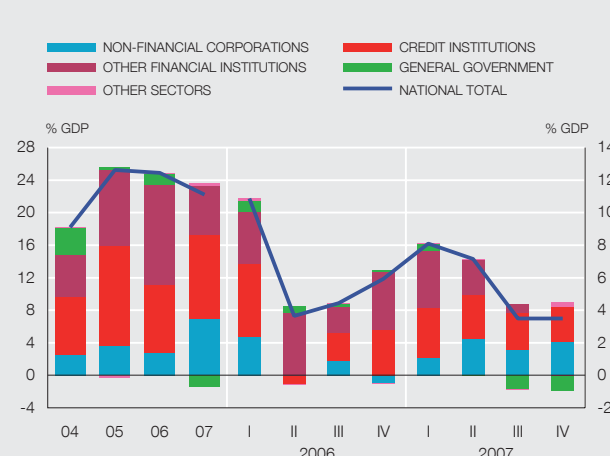
1 ASSET FINANCIAL TRANSACTIONS VIS-À-VIS THE REST OF THE WORLD (a)



SOURCE: Banco de España.

a. The quarterly data, which have been divided by annual GDP, refer to the right-hand axis.

2 LIABILITY FINANCIAL TRANSACTIONS VIS-À-VIS THE REST OF THE WORLD (a)



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

TABLE 6

% GDP						
	2004	2005	2006	2007		
				Q2	Q3	Q4
HOUSEHOLDS AND NPISHs						
Financial transactions (assets)	9.5	10.4	11.5	10.6	9.6	7.8
Cash and cash equivalents	3.9	4.0	3.1	1.7	0.5	-1.1
Other deposits and fixed-income securities (a)	1.2	1.6	5.8	7.2	7.6	8.1
Shares and other equity (b)	0.3	0.2	-0.7	-0.3	0.0	0.5
Mutual funds	1.5	1.9	0.2	-0.6	-0.6	-1.1
Insurance technical reserves	1.8	2.0	1.7	1.8	1.6	1.0
<i>Of which:</i>						
<i>Life assurance</i>	0.7	0.7	0.6	0.7	0.6	0.3
<i>Retirement</i>	0.9	1.0	0.9	0.9	0.9	0.6
<i>Other</i>	0.7	0.7	1.3	0.8	0.5	0.4
Financial transactions (liabilities)	10.1	11.7	13.2	12.2	11.1	9.4
Credit from resident financial institutions (c)	10.8	12.3	13.0	11.6	10.9	9.4
<i>House purchase credit (c)</i>	8.7	10.2	9.9	8.9	8.5	7.2
<i>Consumer and other credit (c)</i>	2.1	2.2	3.1	2.7	2.5	2.2
<i>Other</i>	-0.7	-0.6	0.2	0.5	0.2	0.0
NON-FINANCIAL CORPORATIONS						
Financial transactions (assets)	14.7	18.5	23.0	20.9	17.9	13.7
Cash and cash equivalents	1.0	2.0	2.3	1.2	0.4	-0.4
Other deposits and fixed-income securities (a)	0.3	1.4	2.5	4.0	3.3	2.8
Shares and other equity	6.5	7.4	10.4	9.2	7.8	6.8
<i>Of which:</i>						
<i>Vis-à-vis the rest of the world</i>	3.8	3.9	6.8	5.5	4.5	5.1
<i>Other</i>	6.8	7.7	7.8	6.5	6.5	4.5
Financial transactions (liabilities)	19.2	25.4	31.9	31.2	29.4	25.4
Credit from resident financial institutions (c)	8.3	12.9	17.7	17.9	16.9	13.9
Foreign loans	0.7	2.1	3.3	2.7	2.4	2.4
Fixed-income securities (d)	0.0	0.3	1.8	0.8	0.8	0.5
Shares and other equity	4.4	3.7	2.5	3.5	4.1	5.1
<i>Other</i>	5.8	6.4	6.7	6.3	5.3	3.6
MEMORANDUM ITEM: YEAR-ON-YEAR GROWTH RATES (%):						
Financing (e)	16.3	21.2	24.2	20.6	18.8	15.2
Households and NPISHs	20.2	20.9	19.6	16.4	15.3	12.7
Non-financial corporations	13.2	21.4	27.9	23.9	21.5	17.1

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.

under other deposits and fixed-income securities, was maintained (in terms of GDP, they reached 8.1%), while net flows into cash and cash equivalents, which include cash and sight deposits, and into mutual funds turned negative again. Finally, there was a small rise in direct purchases of equities, while the volume of funds in the form of technical insurance reserves declined slightly.

The more moderate buoyancy of financing caused the household debt ratio to grow at a lower rate, and at end-2007 it stood at more than 130% of GDI (see Chart 25). This, along with the rise in interest rates in recent months, led to a further increase in the associated debt burden, to around 18% of GDI, as at the same date. Meanwhile, there were hardly any significant

changes in either households' saving, after deducting the expenses associated with their liabilities, or in their net borrowing, while household net wealth, relative to GDI, remained high.

5.3 Non-financial corporations

In the case of corporations, interest rates on new bank loans, in line with the trend in interbank rates, declined between December and February (see Chart 24). The extent of the decline depended on the size of the transaction (19 bp in the case of loans of less than €1 million and 27 bp in the case of larger amounts). Yields on fixed-income securities also fell (by 48 bp in the case of short-term securities and 5 bp in that of long-term ones). However, the return required on equity increased significantly, largely reflecting lower market capitalisations. As a result of these movements, the synthetic indicator of the sector's cost of capital remained practically unchanged. In any event, there has probably been a rise in firms' cost of capital in March, given its dynamic relationship with the EURIBOR indices. There was also a rise in the cost of long-term debt issuance (38 bp) in March and, according to the January BLS, institutions were expecting to apply substantially tighter credit standards in 2008 Q1 than they did in 2007 Q4.

Against this background, corporate debt continued to slow, to a year-on-year growth rate of around 16% in February, down almost 1 pp from end-2007. The shortest rates point to less—albeit still high—buoyancy in annualised terms (around 12%). By instrument, this outturn was basically the result of the moderation in resident institutions' lending, which is the most important item.

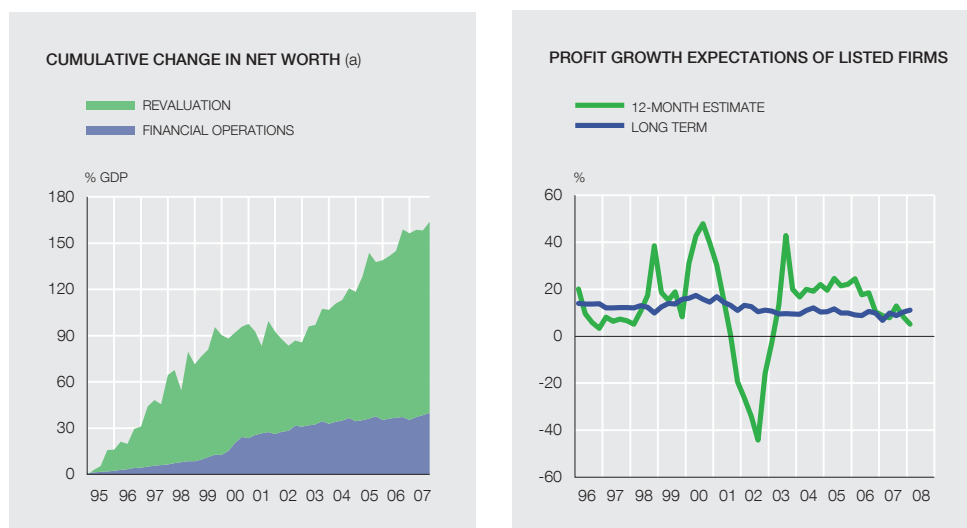
The latest data on the breakdown by productive activity of lending to corporations, for December 2007, show that the slowdown in 2007 Q4 extended to practically all sectors, although it was most pronounced in real estate services, whose year-on-year growth rate fell from 35% to 24%. In industry and construction, the rate of growth fell by somewhat more than 3 pp, to 18% and 14%, respectively, while in other services it was very similar to three months previously (22%).

The Financial Accounts information for 2007 Q4 shows a further rise in corporate net borrowing, to 11.8% of GDP in cumulative 12-month terms. For its part, the *financing gap*, an indicator that approximates the funds required to bridge the difference between gross corporate saving and gross capital formation plus permanent foreign investment, grew to a greater extent, reaching 17.1% of GDP (see Table 5).

The continued high level of corporate borrowing in 2007 Q4 led to a further rise in the sector's debt-to-earnings ratio, although at a lower rate than in the previous quarters (see Chart 26). This development, along with the increase in the average cost of the outstanding amount of borrowing, meant that interest payments grew again, to represent almost 25% of profits. The increase in financial costs continued to check income growth. Hence, while the gross operating surplus increased by more than 7% in annual terms in December 2007, income after interest payments rose by only 2%.

The latest CBQ information, based on a sample in which large corporations predominate, shows that in December the debt ratio held at similar levels to September 2007, while the debt burden increased, albeit at a slower rate than during the preceding months, and profit developments were favourable. As a result, the synthetic indicators of financial pressure on investment and employment remained at around the same levels as in the preceding quarter. By branch of activity, the favourable performance of profits in industry was especially notable.

Finally, in 2008 Q1, analysts once again revised down profit growth expectations for quoted non-financial corporations for the next 12 months, from 8% to 5%, in step with the anticipated lower economic growth in the coming months (see Chart 27).

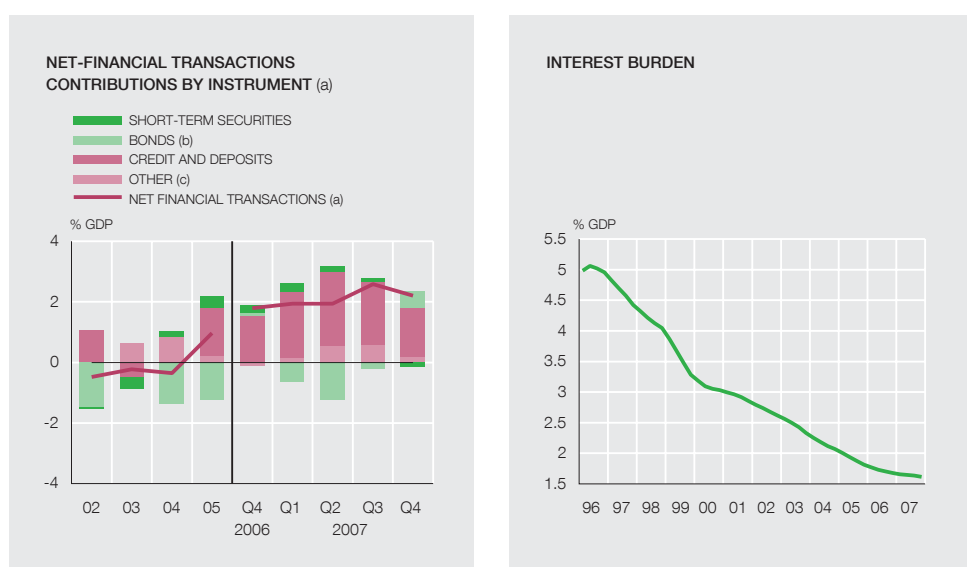


SOURCES: I/B/E/S and Banco de España.

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

GENERAL GOVERNMENT

Four-quarter data



SOURCE: Banco de España.

a. A positive (negative) sign denotes an increase (decrease) in assets or a decrease (increase) in liabilities.

b. Includes only liabilities transactions.

c. Unpaid accrued interest on bonds and net investment of Social Security funds in assets issued by the rest of general government.

FINANCIAL TRANSACTIONS OF THE NATION
Four-quarter data

TABLE 7

% GDP						
	2004	2005	2006	2007		
				Q2	Q3	Q4
NET FINANCIAL TRANSACTIONS	-4.8	-6.5	-8.1	-8.6	-8.9	-9.5
FINANCIAL TRANSACTIONS (ASSETS)	13.3	18.7	16.7	17.1	15.8	12.7
Gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0
Cash and deposits	3.2	2.2	5.5	6.3	5.6	2.2
<i>Of which:</i>						
<i>Interbank (a)</i>	0.7	3.1	3.4	4.7	5.9	4.2
Securities other than shares	1.8	8.8	-1.2	2.5	2.7	1.6
<i>Of which:</i>						
<i>Credit institutions</i>	1.0	6.6	-2.0	1.7	2.4	1.8
<i>Institutional investors (b)</i>	0.3	2.3	0.9	0.5	0.1	-0.3
Shares and other equity	6.8	5.1	9.2	7.5	6.1	7.3
<i>Of which:</i>						
<i>Non-financial corporations</i>	3.8	3.9	6.8	5.5	4.5	5.1
<i>Institutional investors (b)</i>	0.8	0.9	1.2	0.5	-0.3	-1.0
Loans	0.8	1.1	2.1	0.3	0.9	1.0
FINANCIAL TRANSACTIONS (LIABILITIES)	18.2	25.2	24.9	25.7	24.7	22.2
Deposits	1.7	5.6	0.3	3.6	5.4	7.3
<i>Of which:</i>						
<i>Interbank (a)</i>	5.0	7.2	0.6	4.1	5.3	6.7
Securities other than shares	12.4	15.8	21.3	18.2	14.5	7.8
<i>Of which:</i>						
<i>General government</i>	2.7	0.2	1.3	0.6	-0.4	-1.4
<i>Credit institutions</i>	4.6	6.3	7.7	6.9	5.4	3.3
<i>Other non-monetary financial institutions</i>	5.1	9.3	12.3	10.6	9.4	5.9
Shares and other equity	2.7	0.9	-0.7	0.4	1.7	4.1
<i>Of which:</i>						
<i>Non-financial corporations</i>	1.7	1.0	-1.1	0.6	1.7	4.3
Loans	1.3	2.3	3.5	3.0	2.7	2.6
Other, net (c)	-0.6	-0.9	-0.6	0.0	0.0	-0.2
MEMORANDUM ITEMS						
Spanish direct investment abroad	5.8	3.7	7.3	5.8	6.1	8.0
Foreign direct investment in Spain	2.4	2.2	1.6	2.1	1.9	4.1

SOURCE: Banco de España.

a. Correspond only to credit institutions and include repos.

b. Insurance corporations and portfolio investment institutions.

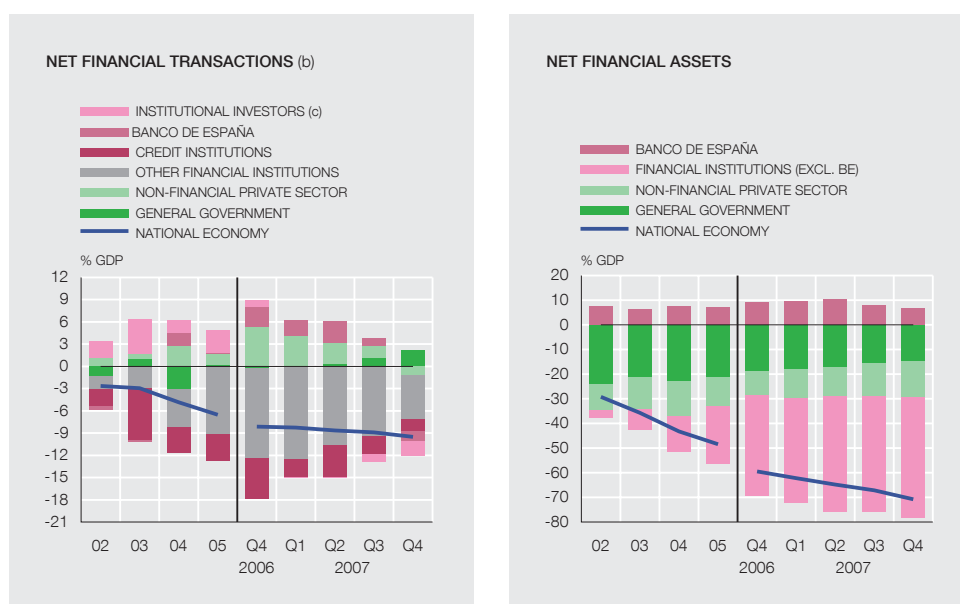
c. Includes, in addition to other items, the asset-side caption reflecting insurance technical reserves and the net flow of trade credit.

5.4 General government

General government net saving stood in December 2007, in cumulative twelve-month terms, at 2.2% of GDP, 0.4 pp less than in Q3 (see Chart 28). By instrument, this development was a consequence of a smaller increase in the balance of deposits net of lending, and of an increase in short-term securities issuance that was not fully offset by the net redemption of medium and long-term securities. At the same time, the reduction in the debt ratio meant that, despite the rise in the average cost of funds, interest payments held at 1.6% of GDP.

5.5 The rest of the world

In 2007 Q4, the debit balance of the nation's financial transactions continued to rise, to stand, in cumulative twelve-month terms, at 9.5% of GDP, as against 8.9% in September. By sector, this was a consequence of an increase in the net borrowing of firms and, to a lesser extent, of



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

households, as well as of the lower general government saving, which was not fully offset by the increase in the surplus of financial institutions (see Table 5).

Capital inflows fell in 2007 Q4, to 22.2% of GDP, in cumulative twelve-month terms, 2.5 pp less than in September (see Table 7). This reduction was primarily a consequence of the reduced buoyancy of the amount in the form of securities other than shares, which fell from 14.5% of GDP in September to 7.8% in December. In particular, there was a decline in the funds obtained through this channel by both credit institutions and other non-monetary financial institutions, including securitisation special purpose entities, a phenomenon linked to the decline in the issuance of these securities, against a background of tightening financing conditions on international debt markets, especially of those linked to mortgage loans. At the same time, net foreign investment in instruments issued by general government was negative, in step with the fall in the outstanding amount thereof. By contrast, there was an increase in the volume of acquisitions of shares and other equity (4.1% of GDP), a development linked to the rise in foreign direct investment in Spain, and in the flows of financing obtained through the interbank market which, in net terms, turned negative.

The acquisition of external assets also fell, to 12.7% of GDP in cumulative twelve-month terms, down 3 pp from September. By instrument, net purchases of fixed-income securities were less buoyant, while investment in shares and other equity recovered from the previous quarter, a development linked to the increase in Spain's direct investment in the rest of the world, which reached 8% of GDP, up almost 2 pp from three months earlier.

As a result of the developments in cross-border financial flows 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 rise (see Chart 29). By sector, this development was basically a consequence of the increase in the debit balance of financial institutions (excluding the Banco de España), which was around 50% of GDP, and of the non-financial private sector, which reached a level close to that of general government.

25.4.2008.

SPANISH ECONOMIC PROJECTIONS REPORT

Summary

This report analyses the situation of and outlook for the Spanish economy. It has been prepared by the Directorate General Economics, Statistics and Research of the Banco de España, taking into account the information available to 7 March. Its time span covers the years 2008 and 2009. The report is in response to the commitment announced by the Banco de España last spring to regularly publish macroeconomic projections to enhance transparency in the diagnosis of the situation of, and the outlook for, the Spanish economy, in line with the practices of other central banks. The projections report will be published regularly in the March *Boletín Económico*.

The year 2007 saw a prolongation of the period of buoyant economic activity in Spain, with GDP growth of 3.8%, only 0.1 pp down on the previous year. This performance was compatible with an easing of approximately 0.5 pp in the contribution of national demand to growth, offset by a similar-sized improvement in the contribution of the external sector. However, following strong growth of 4.1% in 2007 Q1, activity gradually slowed to 3.5% in 2007 Q4.

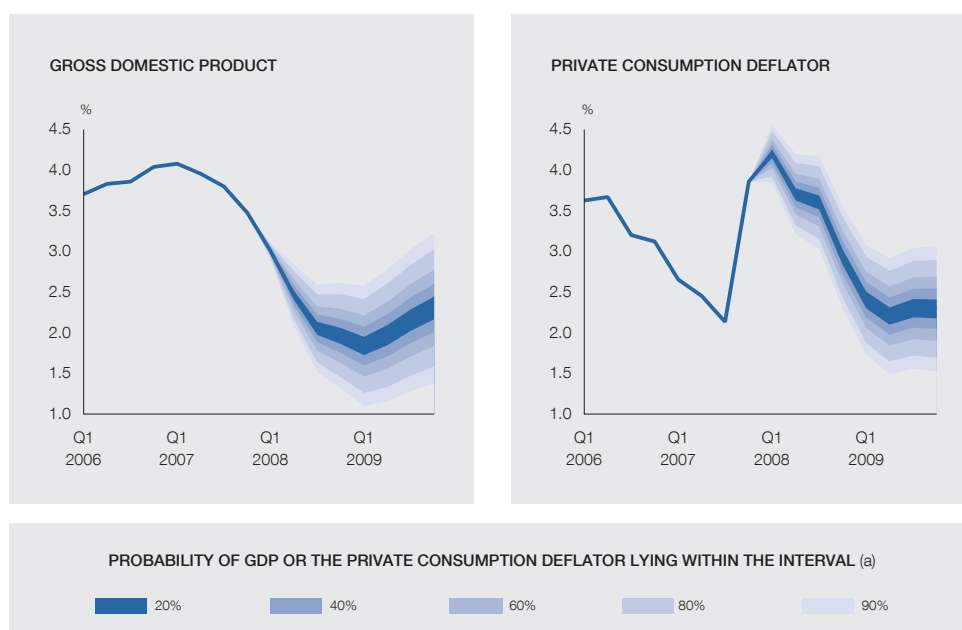
The projections presented in this report point to a somewhat more marked slowdown in activity in the coming quarters. In the central scenario, GDP growth for 2008 is expected to be 2.4%. As in 2007, the moderation in growth stems from less vigorous national demand, particularly in investment, although household consumer spending is also expected to slow. Meanwhile, the contribution of net exports to growth is forecast to carry on improving due to the lesser pace of imports. This pattern of easing activity is projected to continue in 2009, with a GDP growth rate of 2.1% for the year as a whole, although output would begin to recover during that year. The slowdown in national demand will be milder than in 2008, although the containment of residential investment will become more marked. The external sector will once again make a positive contribution to growth, with exports increasing more than imports.

Turning to inflation, after averaging 2.8% for 2007, the private consumption deflator is projected to rise significantly in 2008 to 3.6%, due to dearer energy and processed food, since the other items are expected to dampen inflationary pressure. However, the inflation rate is estimated to fall in 2008 to below 3% in 2008 Q4. Should there be no further shocks on commodities markets, in 2009 the private consumption deflator is projected to fall significantly to 2.3%.

As with any economic forecast, the projections set out here are subject to considerable uncertainty, which increases as the forecasting horizon lengthens. In the current circumstances, this uncertainty is even greater than usual insofar as it is very difficult to forecast the future extent of certain events (such as commodity price rises or, in particular, financial turbulence) which have been significantly affecting the world economy in recent months. One way of representing this uncertainty is, on the basis of past forecasting errors, to show the bands within which each macroeconomic variable is expected to fall with a given probability. This is the approach which has been used to show the uncertainty surrounding GDP growth and inflation projections (see Chart 1).¹

Some sources of risk are discernible in this setting. These risks mean that potential upward or downward deviations from the central scenario do not appear as equally likely. Thus, although

1. The annex at the end of this report gives some technical details on how this chart was prepared.



SOURCES: Instituto Nacional de Estadística and Banco de España.

a. The chart shows the uncertainty surrounding the central projection. The intervals have probabilities of 20%, 40%, 60%, 80% and 90%, respectively, based on past forecasting errors.

Latest data: 2007 Q4.

the projection considers a less buoyant international scenario than in recent years, it cannot be ruled out that the weakness of certain economies (particularly the United States) will be greater than expected or that the contagion of this loss of momentum to other areas will be more intense. The implications of the financial turbulence may also be more marked than projected. These factors, which might also exacerbate the adjustment of residential investment in Spain, suggest that the risks surrounding the output growth projections are on the low side. This means that downward deviations from the growth path of the central scenario of this report are considered more likely than upward ones. In the case of inflation, the risks are predominantly on the upside, particularly in 2009, since it is possible that the strains in the oil and commodities markets may persist and pass through to labour costs and to domestic prices.

The section following this summary explicitly sets out the external assumptions underlying the projections given in this report. Section 3 makes a detailed diagnosis of the outlook for the Spanish economy, and the final section analyses the main risks to the central scenario described.

External assumptions underlying the projections

The projections prepared by the Banco de España are based on a set of assumptions about the path of the main exogenous conditioning factors of the Spanish economy's activity, price and cost variables.

Exchange-rate, interest-rate and oil-price projections are based on the respective markets as at the time immediately before the projections were prepared.² It is assumed that the

² To avoid distortions from volatility on any specific day, average values from a reference period prior to the cut-off date for information were adopted (namely, the two preceding weeks). The calculation of these external assumptions is in line with the procedures usually applied in Eurosystem projection exercises.

Annual rates of change, unless otherwise indicated

					Projection		Difference from projection released on 30 March 2007 (**)	
					2008	2009	2007	2008
International environment								
World output	5.3	5.3	5.5	5.2	4.2	4.3	0.2	-0.8
Global markets	10.8	7.9	8.9	6.0	5.3	6.3	-1.3	-2.0
Spain's export markets (a)	8.2	6.1	8.1	5.4	4.5	5.3	-1.1	-1.9
Oil price in dollars (amount)	38.3	54.4	65.4	72.7	96.1	95.6	15.8	36.4
Competitors' export prices in euro (b)	-0.5	3.6	3.0	0.5	0.0	1.7	0.0	-1.5
Monetary and financial conditions								
Dollar/euro exchange rate (amount)	1.24	1.24	1.26	1.37	1.48	1.48	0.07	0.18
Short-term interest rates (3-month Euribor)	2.1	2.2	3.1	4.3	4.3	3.7	0.4	0.4
Long-term interest rate (10-year bond yield)	4.1	3.4	3.8	4.3	4.3	4.5	0.5	0.5

SOURCES: Banco de España and ECB.

(*) Projection cut-off date: 7.3.2008

(**) A plus (minus) sign means that the current projection is higher (lower) than that released in March 2007.

a. Weighted according to their share in Spain's exports.

b. Weighted according to their share in Spain's exports, adjusted for the effect of third markets.

euro exchange rate will remain constant at its current value on the spot market in the reference period. In terms of the bilateral euro/dollar exchange rate, this means that the average value of the euro will appreciate by 8% in comparison with the average for 2007 (see Table 1). Compared with the March 2007 projection,³ the current assumption for this variable entails a considerable appreciation of the euro in 2008. The short-term interest rate path (measured by the three-month EURIBOR) is obtained from the expectations implicit in money market curves, which show a declining profile. On this information, the short-term interest rate is expected to average 4.3% in 2008 (an upward revision of 0.4 pp in comparison with the previous projection) and 3.7% in 2009. The long-term interest rate path, which is approximated through market expectations about ten-year public debt yields, is quite stable: 4.3% in 2008 and 4.5% in 2009. Oil prices are expected to rise to US\$96 over the course of 2008 and 2009, according to futures markets' expectations for this commodity in the reference period, making for a rise of 32% with respect to 2007, although the appreciation of the euro partially limits the impact of dearer oil prices. The slowdown in recent years in housing prices is expected to continue, with growth rates in real terms turning negative in 2008 and 2009.

As for the international environment, future developments in euro area foreign trade variables match those included in the macroeconomic projections prepared by ECB experts and presented in the ECB Monthly Bulletin for March 2008. The world economy is expected to slow down in 2008, mainly reflecting the weakness in the United States which will pass through to other areas, in particular the euro area. This will result in less buoyant export markets for Spain, which are projected to grow by 4.5% in 2008, almost 2 pp less than anticipated in March 2007. Foreign markets are expected to recover in 2009, with growth rates similar to those seen in 2007. In spite of higher oil and other non-energy commodity prices, export prices on

3. Throughout this report the current projections are compared with those in the projections report released on the Banco de España website on 30 March 2007.

international markets in euro are projected to stabilise in 2008 as a result of the appreciation of the euro and will increase by 1.7% in 2009.

Finally, it should be stressed that the effects of possible budgetary measures which may be adopted in future in Spain have not been considered in these projections; only the effects of those measures already approved are taken into account.

Outlook for the Spanish economy

GDP growth stood at 3.8% in 2007, 0.2 pp higher than projected in the March 2007 report, basically as a result of the improved performance of the external sector, in particular due to less buoyant imports (see Table 2). Indeed, in 2007 the rebalancing of the respective contributions of national demand and of net exports continued, a process which had clearly begun in 2006. Thus, the net external balance trimmed growth by 0.7 pp in 2007, 0.5 pp less than in the previous year, which was the outcome of the less expansive performance of imports and the fact that exports grew at a slightly higher rate than in 2006 (see Chart 2).

The contribution of national demand to the growth rate of output in 2007 decreased by 0.5 pp in comparison with 2006. The mildly declining pattern in the rate of expansion of household consumption, already clear in the closing months of 2006, continued in 2007, although its rate of increase remained relatively high as a result of buoyant employment. Nevertheless, this growth was 0.3 pp lower than projected in March 2007. Gross fixed capital formation also slowed slightly, by rather more than was projected last spring. This was due to the highly differentiated performance of its two main components: investment in capital goods was robust and better than expected whereas investment in construction, which was projected to post a rate of increase similar to that of 6% recorded in 2006, clearly slowed.

In 2008 a more pronounced slowdown in the rate of output growth is expected, owing to the greater loss of momentum in national demand which is projected to be only partially offset by the improvement in the contribution of the net external balance. GDP is expected to grow by 2.4% in 2008, 0.7 pp less than the projection made one year ago. The reasons for the downward revision in the growth figure centre on a less favourable international environment in 2008, with lower growth in export markets, higher commodity prices and a more pronounced adjustment in housing in Spain. This began as early as 2006 in response to the gradual tightening of monetary policy since 2005 and less favourable expectations of a rise in property prices. However, in recent quarters this process has intensified, due partly to the financial instability on markets since summer 2007 (see Chart 3). It is projected that the loss of steam in the property sector will mean less dynamic job creation and that the stimulus from the increase in wealth which has been driving growth in household spending in recent years will disappear.

Private consumption is projected to slow to a rate of 2.3% in 2008 as a consequence of the smaller rise in gross disposable income and in household real and financial wealth. Disposable income measured in real terms will decelerate in 2008 due to moderating job creation, although lower tax revenue and high wage increases will help cushion this loss of dynamism. Capital goods investment, while still showing some vigour in 2008, is also expected to moderate in step with the less expansionary tone of foreign markets and of national demand. In 2008 exports will foreseeably slow due both to the lower growth of foreign markets and to the appreciation of the euro; however, the positive impact on activity of the slowdown in imports (due to less vigorous final demand) will hold greater sway, and this will enable the net contribution of the external sector to continue improving.

Annual rates of change, unless otherwise indicated

	2004	2005	2006	2007	Projection		Difference from projection released on 30 March 2007 (**)	
					2008	2009	2007	2008
GDP	3.3	3.6	3.9	3.8	2.4	2.1	0.2	-0.7
Private consumption	4.2	4.2	3.8	3.2	2.3	1.9	-0.3	-0.7
Government consumption	6.3	5.5	4.8	5.1	4.8	4.4	1.0	1.0
Gross capital formation	5.2	6.5	7.0	6.0	1.5	0.4	-0.2	-2.2
<i>Investment in capital goods</i>	5.1	9.2	10.4	11.6	4.4	2.6	2.6	-2.1
<i>Investment in construction</i>	5.4	6.1	6.0	4.0	-0.2	-1.2	-1.9	-3.0
Exports of goods and services	4.2	2.6	5.1	5.3	4.0	4.5	0.0	-1.4
Imports of goods and services	9.6	7.7	8.3	6.6	4.1	3.4	-0.6	-1.9
National demand (contribution to growth)	4.9	5.3	5.1	4.6	2.7	2.0	0.0	-0.9
Net external demand (contribution to growth)	-1.7	-1.6	-1.2	-0.7	-0.3	0.0	0.2	0.2
Private consumption deflator	3.6	3.4	3.4	2.8	3.6	2.3	0.6	0.9
Unit labour costs	2.4	2.5	2.3	2.7	3.4	2.5	0.0	0.8
Compensation per employee	3.0	2.9	3.0	3.6	4.3	3.5	0.2	1.1
Apparent labour productivity	0.6	0.4	0.7	0.8	0.9	1.0	0.2	0.2
Employment (equivalent jobs)	2.7	3.2	3.2	3.0	1.5	1.1	0.0	-0.9
Unemployment rate (% of labour force)	10.6	9.2	8.5	8.3	9.0	9.8	0.1	0.9
Household savings rate and NPISHs	11.3	11.0	10.5	10.5	10.8	11.4	0.4	0.6
Nation's net lending (+) / net borrowing (-) (% of GDP)	-4.8	-6.5	-8.1	-9.5	-10.0	-10.0	-0.8	-0.6
General government net lending (+) / net borrowing (-) (% of GDP)	-0.3	1.0	1.8	2.2	1.2	0.2	1.0	0.2

SOURCES: Banco de España and Instituto Nacional de Estadística (INE).

(*) Projection cut-off date: 7.3.2008.

(**) A plus (minus) sign means that the current projection is higher (lower) than the projection released in 2007.

Latest data released by INE: 2007 Q4.

The slowdown in GDP is expected to continue in 2009, albeit more moderately, leaving overall growth for the year at 2.1%. Again, this projection is based on a slowdown in all components of national demand, albeit a more moderate one than in 2008. Also, in 2009 public investment will significantly boost construction figures following the more modest growth of the previous year, linked to the habitual electoral cycle. In 2009 the external sector's contribution to growth will continue to improve thanks to greater export buoyancy underpinned by the recovery of international markets and to slower imports, which will continue to reflect the weaker pace of final demand.

It is estimated that the size of the expected slowdown in the rate of job creation will be slightly greater than that projected for output. Hence the overall productivity of the economy is projected to recover from 0.8% in 2007 to 0.9% in 2008 and 1% in 2009. Also, it is expected that the growth rate of compensation per employee for the total economy will rise significantly in 2008, mainly as a result of the impact of indexation clauses, owing to the higher inflation rate in late 2007. Wage increases will foreseeably decelerate in 2009, although still holding at a relatively high rate (3.5%) not entirely consistent with the slower expansion of economic activity.

As regards inflation, developments in the rate of change of the private consumption deflator are being driven by the recent increase in energy prices and by price rises in certain processed foods. This higher inflationary pressure will give way in the coming months to a gradual decline in the inflation rate. That said, the private consumption deflator for 2008 as a whole will be



SOURCES: Instituto Nacional de Estadística and Banco de España.

a. Latest data: 2007 Q4.

high, at around 3.6%, although at the end of the year inflation will probably stand below 3%. For 2009, in the absence of fresh pressure in the oil and food commodity markets, the private consumption deflator is expected to ease substantially to 2.3%, partly due to the disappearance of the base effects that have dominated recent developments and also because of the lower inflationary pressure generated by weaker spending.

This central scenario of slowing growth leads to the lessening of some imbalances in the Spanish economy. In this respect, it is projected that the nation's net borrowing will continue to rise in 2008, to 10% of GDP, but will stabilise at this proportion in 2009. Although the financing of the external deficit does not pose any difficulties in the euro area, the high dependence on saving from the rest of the world may prove a risk at times of instability in the international financial markets, like those seen since last August, as the markets through which Spanish credit institutions have customarily channeled external saving have been strongly affected by the financial turbulence. Nonetheless, the trend towards gradual moderation in corporate, and particularly household, investment will foreseeably enable the external imbalance to be reduced.

In the case of households, the last few quarters have seen a clear moderation in their recourse to financing, as a result of the interest rate increases by the ECB since late 2005 and the rise in money market interest rates derived from the financial turbulence first seen last summer. The increasing financial burden on households is playing a part in dampening consumption and will foreseeably propel a recovery in the household saving rate from 2008, following the continual falls of recent years. All this would lead to a smooth adjustment towards more moderate and sustainable rates of spending and indebtedness. Along these same lines is the gradual but continuous deceleration of house prices now under way and the decline in stock market prices, which will reduce the scale of the wealth effect on consumption. The recourse by non-financial corporations to borrowing has also eased off, particularly in the case of firms related to the construction and property development sector. Lending to

BREAKDOWN OF INVESTMENT

Rates of change in real terms

CHART 3



SOURCES: Instituto Nacional de Estadística and Banco de España.

a. Latest data: 2007 Q4.

manufacturing and services firms has, however, continued to grow at a notable pace, reflecting their ongoing favourable medium-term expectations, despite the downward revision of world and national economic projections.

A general government surplus of 2.2% of GDP was posted at end-2007. This was substantially higher than initially projected, thanks to high tax receipts, particularly of direct taxes. However, the favourable trend of tax revenue in recent years also has a transitory component as associated with the strong growth of corporate profits and with property market developments. However, in 2007 a decline was already becoming apparent in certain previously buoyant tax receipts, such as those of transfer tax. This decline could become steeper in 2008 and 2009 as property market activity slows. Moreover, the loss of dynamism in employment and in private consumption will lead to more modest tax growth. Also, the projected increase in the unemployment rate will mean higher unemployment benefit payments, making for higher public expenditure. As a result of all this, it is projected that 2008 will see the general government surplus decrease to 1.2% of GDP and that this decline will continue in 2009, when the surplus will virtually disappear (0.2% of GDP). Fiscal impulse indicators (designed to characterise the budget policy situation in relation to the cyclical position of the economy) point to an expansionary stance in both 2008 and 2009.

Risks to the projections

The projections presented in this report imply a slowdown in GDP in 2008 and 2009 based on less dynamic national demand, cushioned by an improvement in the contribution of external demand to economic growth. The tightening in monetary policy since end-2005 and the onset of the adjustment in the residential sector caused national demand to slow in 2007. The tighter financial conditions following the shocks seen in the international financial markets since summer 2007 and a phase of sharper real estate market adjustment will mean a more significant slowdown in activity in 2008. It is expected that the external sector will, mainly because of the slowdown in imports, soften the negative impact of national demand on GDP.

As noted in Section 1, whether these projections actually materialise is subject to notable uncertainty, especially in the current circumstances. In the case of activity, the risks per-

ceived are mainly on the downside. In the external sphere, world economic activity (in both the industrialised and emerging countries) may be affected by the international financial instability more than anticipated at present. In addition, if the difficulties of credit institutions seeking funds at reasonable prices on the international markets persist, it cannot be ruled out that financial conditions (interest rates or conditions of access to credit) may become more stringent for the financing of household and corporate spending in Spain. This could in turn make the adjustment under way in the real estate sector more pronounced.

With regard to inflation, the short- and medium-term projections depend closely on the behaviour of the oil and agricultural commodity markets. It is difficult to discern whether these markets will remain on their upward trend or whether, on the contrary, the diminished dynamism of the world economy will rein in the growth rates of prices of these commodities in the future. In any event, the presence of indexation clauses in wage agreements in Spain means that past price increases feed through to compensation per employee and put upward pressure on future inflation, generating a certain persistence in the inflation dynamic. Moreover, the reduction in demand-side pressure associated with the projected slowdown in private consumption (and, in general, in national demand) over the forecasting horizon may help ease underlying inflationary pressures. On the whole, these factors mean it is considered more likely that the possible deviations of inflation from the central scenario will be upward, particularly in 2009.

26.3.2008.

ANNEX

Uncertainty associated with the projections

As indicated in the main body of the text, macroeconomic projections are inherently uncertain. Firstly, projected variables generally have numerous determinants, with which they have an often complex and only partially known relationship. Secondly, projections rest on various assumptions about the behaviour of certain exogenous variables that may not hold in practice. Finally, economic variables are affected by shocks that are completely unpredictable.

Two significant features of the projections prepared by the DG Economics, Statistics and Research of the Banco de España - which bear on their uncertainty - are their conditional nature and the consideration of expert information. They are conditional projections as they are made under the set of technical assumptions described in Section 2 of this report. Further, the results arising from econometric models are complemented by the additional information provided by different experts. This means that uncertainty must be quantified on the basis of the out-of-sample forecasting errors of projection exercises performed in the past.

Among the potential options for communicating the uncertainty associated with the projections, the presentation of their density function has been chosen, which makes for a more complete representation than if a single confidence interval were considered. This avoids the risk, which usually arises when projections are presented along with their intervals, of erroneously considering that all the points within the intervals are equally likely. Chart 1 shows, for each projection period, a set of five intervals around the central projection, with respective probabilities of 20%, 40%, 60%, 80% and 90%. Each of these intervals includes those associated with probabilities less than that considered. Thus, for example, the 90% interval is that lying between the lower and upper limits and encompasses those for the 20%, 40%,

60% and 80% probabilities. Note that the width of these intervals increases more than proportionally with their associated probability.

The underlying assumption is that the density function is normal, which means that the probability of lying above the central scenario equals the probability of lying below it. Usually, the standard deviation is used as a measure of the variability of past forecasting errors in the construction of the intervals. However, in this case, and to avoid an excessive impact of outlying past errors, it has been decided to use the median absolute deviation, which is a more robust measure than the standard deviation.⁴

4. Alternative robust measures provide very similar results.

RESULTS OF NON-FINANCIAL CORPORATIONS TO 2007 Q4
AND SUMMARY YEAR-END DATA

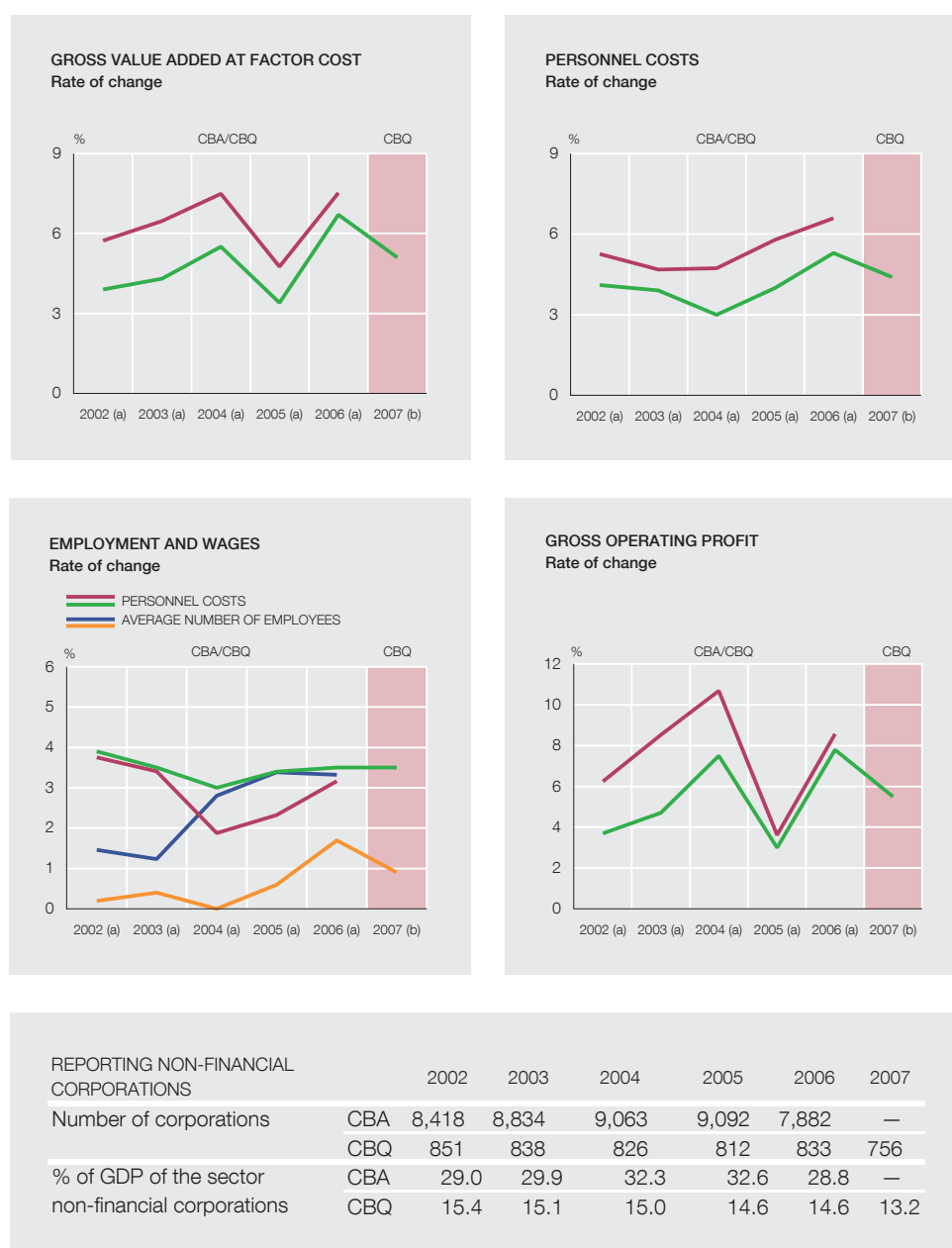
Overview¹

The data of the Central Balance Sheet Data Office Quarterly Survey (CBQ) to 2007 Q4 represent the preliminary results of changes in the non-financial corporations sector for the year as a whole, which will be finalised when the results of the Central Balance Sheet Data Office Annual Survey (CBA) are disseminated in November. Although the information of the nearly 800 firms in the CBQ makes it possible to reliably approximate the trends later reflected in the CBA, which includes information on approximately 9,000 firms (see Chart 1), it is worth taking into account that large firms and certain economic sectors are more highly represented in the CBQ, and this unavoidably introduces certain biases. Broadly speaking, the information available for the whole of 2007 confirms the trend of a moderate, yet gradual, slowdown of productive activity seen in the first three quarters of the year, which reduced the growth of gross value added (GVA) in 2007 as a whole to 5.1% in comparison with 6.7% the year before. This lower buoyancy particularly affected certain sectors of activity, such as wholesale and retail trade and energy, which in 2007 posted considerably lower GVA growth than in the previous year. Conversely, the more expansionary behaviour of the industrial sector continued, since throughout 2007 capital goods investment and exports remained strong, which had a more direct effect on the firms of this aggregate.

Personnel costs increased by 4.4% in 2007, almost 1 pp less than in the previous year (5.3%), mainly as a result of the slowdown in job creation at sample firms and of the continued moderate pace of growth of average compensation. In 2007 the average number of employees increased by 0.9%, nearly half the previous year's rate of increase (1.7%). Part of the change in the employment data is accounted for by certain large firms with a high weight in the CBQ sample which are still involved in workforce restructuring processes. The wholesale and retail sector, in keeping with the slowdown in its activity, was the sector which experienced the highest decline in job creation, down from a growth rate of 2.7% in 2006 to practically zero in 2007 (0.1%). The growth rate of average compensation in 2007 remained moderate at 3.5%, similar to that of the previous two years (3.5% in 2006 and 3.4% in 2005). However, it showed an upward trend throughout 2007, which was particularly pronounced in the last quarter of the year when average wage costs rose by 3.9%.

The slowdown in GVA and the developments in personnel costs gave rise to 5.5% growth of gross operating profit (GOP) in 2007, just over 2 pp less than the previous year's figure. Financial revenue grew strongly in 2007 (22.8%) at a higher rate than in 2006 (13.3%), mainly as a result of the increase in interest received by firms because of rising interest rates. Financial costs continued to increase sharply in 2007 (33.6%), although to a lesser extent than in 2006 (39.8%). Rising financial costs were the result of more expensive loans and higher corporate indebtedness linked to sizeable share purchase transactions in 2007. The combined performance of financial revenue and costs gave rise to 5.7% growth in ordinary net profit (ONP) in 2007, which was more than 1 pp higher than in the previous year (4.4%), and enabled firms to hold their profitability levels at very similar levels to those in 2006. Thus, the return on investment stood at 8.6% in 2007, only 0.1 pp down on the previous year, while the return on equity slipped slightly from 13.1% to 12.6% in 2007. Meanwhile, the ratio that approximates the cost of borrowing continued along its upward path of recent years (it rose half a percentage

1. This article is based on the information obtained by the Central Balance Sheet Data Office from the 756 corporations that, on average, reported their data to 14 March 2008. The GVA of this aggregate accounts for 13.2% of the total GVA of the sector non-financial corporations (according to CNE data).

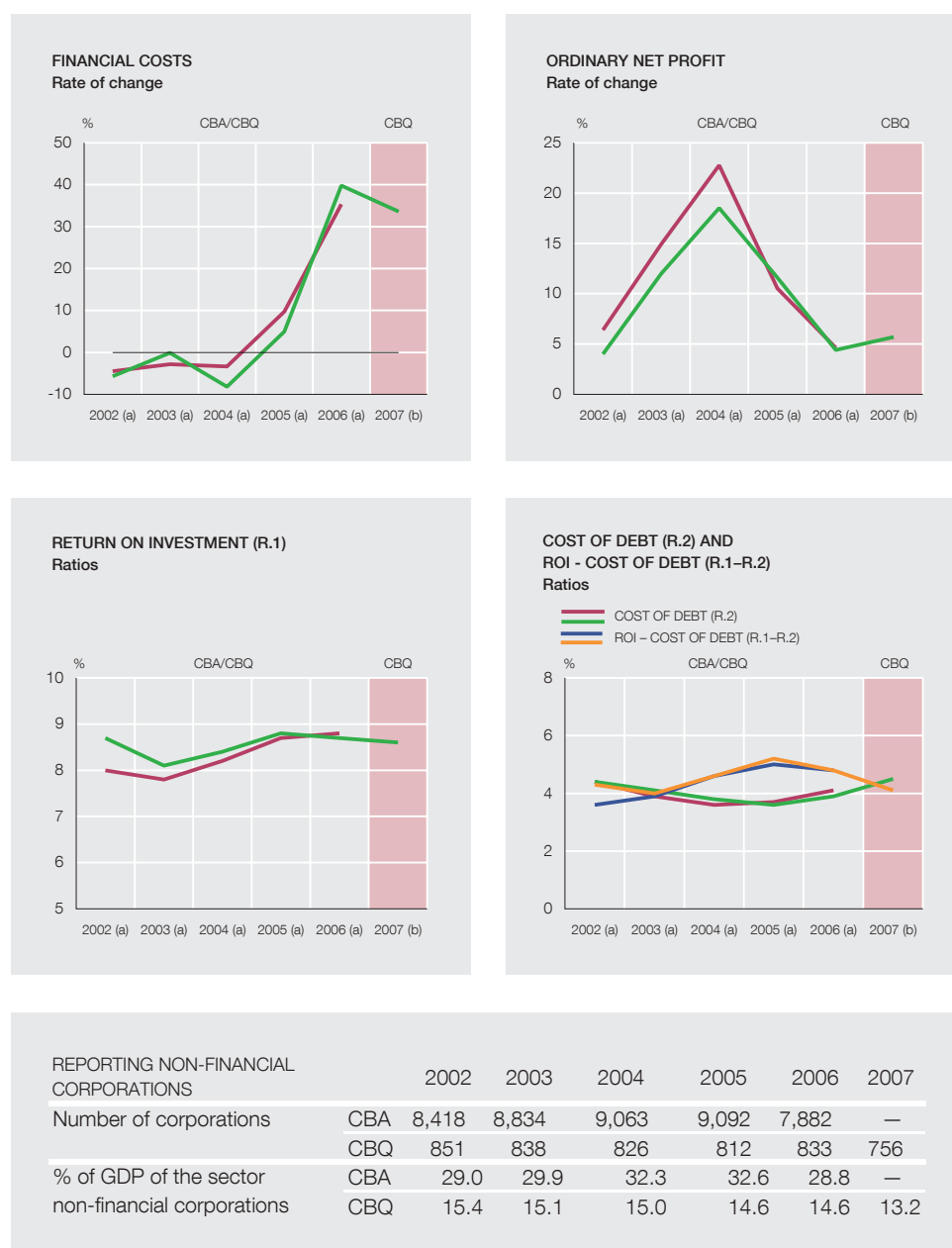


SOURCE: Banco de España.

- a. The 2002, 2003, 2004, 2005 and 2006 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 2007 in relation to the same period in 2006.

point above the previous year's figure to 4.5%), due to the effect of interest rate rises on these costs and, consequently, the difference between ROI and the cost of debt narrowed clearly to 4.1 (in comparison with 4.8 in 2006). Therefore, despite the slowdown in activity in 2007, non-financial corporations still have high profitability levels and a clearly positive differential with regard to the cost of debt.

Finally, extraordinary expenses and, in particular, extraordinary revenue posted a notable increase in 2007, since the latter included sizeable gains generated on the sale of fixed assets (both tangible and financial). Consequently, final net profit grew faster than ONP at a rate of



SOURCE: Banco de España.

b. The 2002, 2003, 2004, 2005 and 2006 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 2007 in relation to the same period in 2006.

14.9% throughout 2007, slightly lower than the growth rate of 18% recorded the previous year. Nevertheless, in view of the slowdown in GVA in 2007, the CBQ firms' profit level, expressed as a percentage of GVA, stood at 38.1%, 3 pp up on 2006.

In short, the data of non-financial firms reporting to the CBQ showed in 2007 a gradual deceleration of their productive activity which resulted in slackening growth of their operating surpluses and a slowdown of job creation. This trend did not have the same effect on all sectors since while some aggregates like manufacturing industry continued to expand, others like wholesale and retail trade and energy were more sharply affected by the loss of momentum in

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	2006	2005	2006	05 Q1-Q4/ 04 Q1-Q4	06 Q1-Q4/ 05 Q1-Q4	07 Q1-Q4/ 06 Q1-Q4
Number of corporations		9,092	7,882	812	833	756
Total national coverage		32,6%	28,8%	14,6%	14,6%	13,2%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT (including subsidies)	100.0	9.9	9.4	12.2	10.4	5.9
Of which:						
— Net amount of turnover and other operating income	140.4	11.9	9.8	15.8	9.7	3.9
2. INPUTS (including taxes)	68.9	12.5	10.3	17.2	12.3	6.3
Of which:						
— Net purchases	41.5	13.5	11.9	19.9	14.3	5.9
— Other operating costs	27.6	12.2	7.8	12.4	5.8	6.9
S.1. GROSS VALUE ADDED AT FACTOR COST [1 – 2]	31.1	4.8	7.5	3.4	6.7	5.1
3. Personnel costs	16.2	5.8	6.6	4.0	5.3	4.4
S.2. GROSS OPERATING PROFIT [S.1 – 3]	14.8	3.6	8.6	3.0	7.8	5.5
4. Financial revenue	3.6	24.4	16.7	24.7	13.3	22.8
5. Financial costs	3.2	9.7	35.3	5.0	39.8	33.6
6. Depreciation and operating provisions	5.9	-0.1	7.9	-0.4	2.0	-1.3
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.3	10.5	4.6	11.6	4.4	5.7
7. Capital gains and extraordinary revenue	7.3	33.6	71.4	26.5	50.1	95.3
8. Capital losses and extraordinary expenses	2.6	35.5	-26.4	61.1	-27.4	26.3
9. Other (provisions and taxes)	4.8	-5.2	67.3	-41.9	61.6	84.2
S.4. NET PROFIT [S.3 + 7 – 8 – 9]	9.1	20.0	36.4	40.7	18.0	14.9
NET PROFIT/GVA (S.4/S.1)		22.1	29.4	32.5	34.8	38.1
PROFIT RATIOS	Formulas (b)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	8.7	8.8	8.8	8.7	8.6
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	3.7	4.1	3.6	3.9	4.5
R.3 Ordinary return on equity (before taxes)	S.3/E	12.8	13.0	13.4	13.1	12.6
R.4 ROI - cost of debt (R.1 – R.2)	R.1-R.2	5.0	4.8	5.2	4.8	4.1

SOURCE: Banco de España.

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

b. The items 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.

private consumption and posted lower GVA growth. Nevertheless, firms' profitability levels remained high and the difference with respect to the cost of borrowing was clearly positive, although in both cases they were lower than in preceding periods. Therefore, at the data cut-off for the 2007 CBQ there was a less favourable outlook than in the previous year and it was subject to greater uncertainty derived from the international economic situation (financial market turbulence and considerably higher crude oil prices) and the slowdown of the Spanish economy, which mainly affects construction and real estate companies.

Activity

On CBQ information, in 2007 there was a gradual, moderate slowdown of the productive activity of non-financial corporations. GVA grew by 5.1% in comparison with 6.7% in 2006 (see Table 1 and Chart 1). This lower buoyancy did not have the same effect on all sectors: there was a contrast between the notable slowdown of the productive activity of the wholesale and retail trade and energy sectors, and the more expansionary performance of transport and communications and, in particular, industrial firms.

VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND COMPENSATION PER EMPLOYEE. BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS

TABLE 2.A

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	2006	06 Q1-Q4	07 Q1-Q4	2005	2006	06 Q1-Q4	07 Q1-Q4	2005	2006	06 Q1-Q4	07 Q1-Q4	2005	2006	06 Q1-Q4	07 Q1-Q4
Total	4.8	7.5	6.7	5.1	3.4	3.3	1.7	0.9	5.8	6.6	5.3	4.4	2.3	3.2	3.5	3.5
SIZE																
Small	4.7	4.2	—	—	-0.6	0.0	—	—	4.7	4.7	—	—	5.3	4.7	—	—
Medium	4.5	9.0	6.0	6.2	2.0	2.3	1.1	2.5	6.0	6.3	5.3	5.6	3.9	3.9	4.2	3.0
Large	4.8	7.5	6.7	5.0	3.8	3.6	1.8	0.7	5.8	6.7	5.3	4.4	2.0	3.0	3.4	3.7
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	12.3	5.6	6.0	0.8	-0.9	-2.0	-1.4	-0.3	4.4	3.2	4.0	3.0	5.3	5.3	5.5	3.3
Industry	-0.1	5.5	6.3	10.8	-0.7	-0.7	-0.7	-0.5	2.3	3.2	2.6	2.6	3.1	3.9	3.3	3.1
Wholesale and retail trade	5.3	8.2	6.0	0.9	5.2	2.4	2.7	0.1	6.9	7.6	7.2	1.3	1.6	5.1	4.4	1.2
Transport and communications	1.9	3.7	4.7	5.7	0.9	1.0	-0.2	-0.4	4.0	4.6	4.2	5.1	3.0	3.6	4.4	5.5

SOURCE: Banco de España.

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

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 2.B

	TOTAL CBQ CORPORATIONS 2007 Q1 - Q4	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations	756	479	277
PERSONNEL COSTS			
Initial situation 06 Q1-Q4 (€m)	25,350.8	12,554.8	12,796.0
Rate 07 Q1-Q4/ 06 Q1-Q4	4.4	10.1	-1.1
AVERAGE COMPENSATION			
Initial situation 06 Q1-Q4 (€m)	43,394.2	41,182.1	45,808.4
Rate 07 Q1-Q4/ 06 Q1-Q4	3.5	4.0	3.7
NUMBER OF EMPLOYEES			
Initial situation 06 Q1-Q4 (000s)	584	305	279
Rate 07 Q1-Q4/ 06 Q1-Q4	0.9	5.9	-4.6
Permanent			
Initial situation 06 Q1-Q4 (000s)	482	238	244
Rate 07 Q1-Q4/ 06 Q1-Q4	1.9	6.8	-2.9
Non-permanent			
Initial situation 06 Q1-Q4 (000s)	102	67	35
Rate 07 Q1-Q4/ 06 Q1-Q4	-4.2	2.4	-16.6

SOURCE: Banco de España.

The sample corporations in the wholesale and retail trade sector, which were affected by the deceleration in private consumption, posted a meagre 0.9% rate of change in GVA in 2007. This was considerably lower than the rate of 6% recorded in 2006, and was the lowest of the whole quarterly series. Activity in the energy sector also dropped off notably, down from a 6% rate of change of GVA in 2006 to 0.8% in 2007. In this aggregate the electricity, gas and water utilities experienced the largest slowdown, with the GVA increases of 4.5% amounting to less than half the previous year's rises. This slowdown is due to two factors: firstly, lower

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

TABLE 3

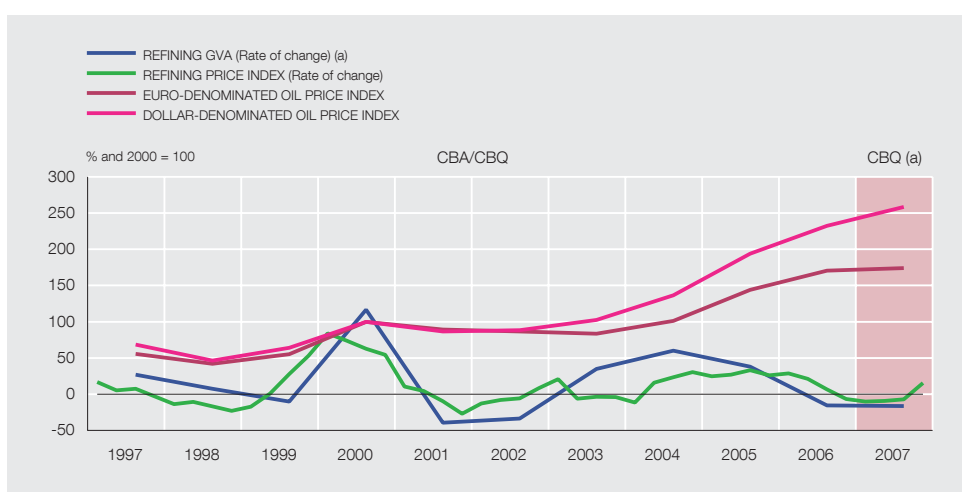
		CBA		CBQ (a)	
		2005	2006	06 Q1-Q4	07 Q1-Q4
Total corporations		7,882	7,882	756	756
Corporations reporting source/destination		7,882	7,882	714	714
Percentage of net purchases according to source	Spain	69.0	68.4	81.6	80.3
	Total abroad	31.0	31.6	18.4	19.7
	EU countries	16.9	16.6	14.1	14.9
	Third countries	14.0	15.0	4.3	4.9
Percentage of net turnover according to destination	Spain	84.5	84.2	90.8	90.6
	Total abroad	15.5	15.8	9.2	9.4
	EU countries	10.9	10.5	6.7	6.8
	Third countries	4.6	5.3	2.5	2.5
Change in net external demand (exports less imports), rate of change	Industry	-9.1	-7.8	-18.2	2.5
	Other corporations	-33.3	-5.5	-9.4	-15.0

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

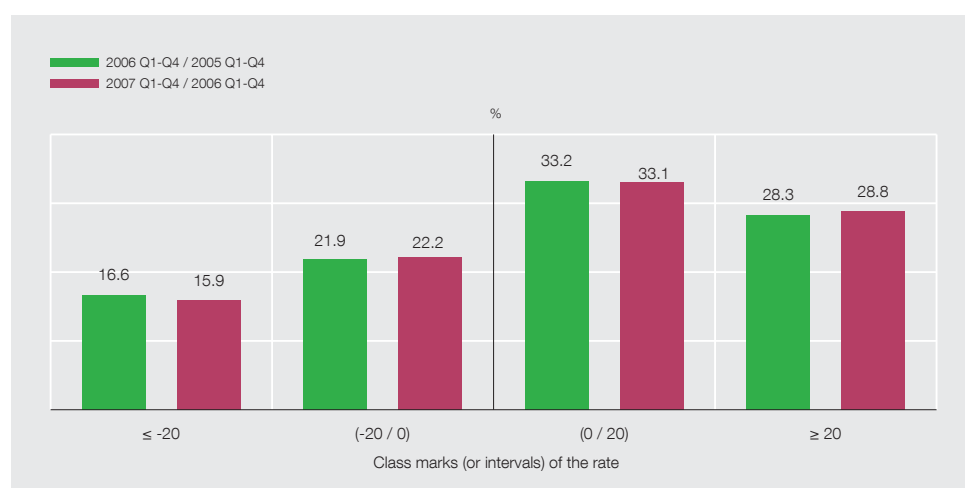
CHART 2



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

a. 2007 data relate to the CBQ.

growth of gas utilities in comparison with their exceptional expansion in 2006 and, secondly, the narrower margins of electricity generating utilities linked to the sharp fall in wholesale market prices and higher generating costs in a year of low rainfall, particularly in the closing months of 2007. The performance of the other large group of firms in the energy sector, which includes refining companies, was very similar in 2006 and 2007, with decreases in GVA of 15.3% and 16.2%, respectively, due to these firms' shrinking margins over the last two years. Conversely, the GVA of transport and communications firms grew by 5.7% in 2007, up 1 pp on the previous year bolstered by the expansion of the telecommunications sector and



SOURCE: Banco de España.

the favourable performance of certain large transport firms. Lastly, the fastest rate of expansion in 2007 was shown by the industrial sector, albeit with a declining profile over the year. Firms in this sector posted a 10.8% increase in GVA for the year as a whole boosted by the positive performance of investment in capital goods and of exports, which were highly buoyant and in 2007 grew at a similar rate to that of the previous year (7.5%). Also, as a result of the notable decline in the pace of import growth from 22.3% in 2006 to a mere 9.4% in 2007, net external demand (exports less imports) improved ostensibly in comparison with previous years and the industrial aggregate posted a slightly positive rate of change of 2.5% throughout 2007 (see Table 3).

Finally, Chart 3 includes the distribution of firms by rate of change of GVA, irrespective of their size or sector of activity. The data for the whole year show a very similar distribution in each of the last two years. There was a very slight increase in the percentage of companies whose GVA increased in 2007 in comparison with the previous year (61.9% as against 61.5%). This confirms that the slowdown in activity, although gradual, continued throughout the year at moderate rates and that it did not have the same effect on all sample corporations, since, as indicated above, certain sectors suffered the consequences of the decline more acutely than others which posted even higher growth than in the previous year.

Employment and personnel costs

In 2007 personnel costs rose by 4.4%, almost 1 pp less than a year earlier, mainly due to the smaller increase in employment in the period under analysis, while average compensation continued to grow at similar rates to those in previous periods.

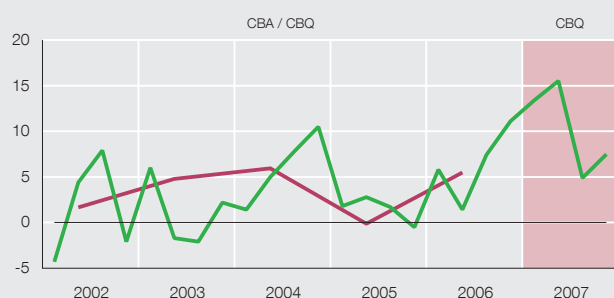
The average number of persons employed by the CBQ firms increased by 0.9% in 2007, considerably lower than the rate of 1.7% recorded in 2006. By contract type, non-permanent employment performed more negatively (-4.2%), while permanent employment clearly increased, even more than in the previous year (1.9% in 2007 in comparison with 0.6% in 2006), due to the impact of permanent job creation policies on recruitment decisions. By sector, the development which accounts most for this trend is the considerable drop in the rate of change of employment in the wholesale and retail sector, which had been the most buoyant in this respect. However, in 2007 this sector had the most negative performance (growth in employment in this aggregate fell from 2.7% in 2006 to only 0.1% in 2007), on a par with the deceleration in its productive activity. Among the other sectors, the slight improvement

According to CBSO data on firms in the industrial sector, the productive activity of this aggregate expanded strongly in 2007 since its GVA increased by 10.8% in this period, as against 6.3% in 2006. The continued high buoyancy of investment in capital goods and the favourable performance of exports are the two main reasons for this growth. Export data provided by reporting industrial firms confirm that in 2007 export growth was strong (7.5%). It contributed to the expansion of this sector, and the rate of change of net external demand (exports less imports) turned slightly positive (2.5%, see Table 3), a development which is also accounted for by the slowdown in imports in the same period. The positive performance of productive activity affected practically all industrial sub-sectors, including most notably "chemicals" and "manufacture of glass, ceramics and metal products", since their GVA increased most strongly (by 17.2% and 13.2%, respectively). As for employment, the 2007 data indicate the continued absence of job creation at industrial firms with their slightly negative rate of -0.5%, which was less negative than in 2006 (-0.7%). Although this figure was influenced by workforce reductions which had a greater

impact on specific sub-sectors (employment in the "manufacture of transport equipment" sector fell by 3.6%), job creation continues to be the unresolved problem of this aggregate, all the more so considering that, if the quarterly series for full years is analysed, the industrial sector has not recorded positive employment rates since 2000. Average compensation grew moderately in 2007 at a rate of 3.1%, slightly lower than in 2006 (3.3%), although quarterly developments underline a quickening of these costs in the latter part of the year. In line with the remarks made on the sample total, growth in compensation should be analysed with caution. Although it has remained moderate in recent years, a slight gradual upward trend can be seen, which could worsen if the increase in inflation in recent months is passed through to salaries via indexation clauses. The combined trend in compensation and employment resulted in an increase of 2.6% in personnel costs which enabled growth in gross operating profit (GOP) to rise to 20.7% (in comparison with 11.1% in 2006). Since financial revenue and costs grew strongly, the growth of ordinary net profit (ONP) moved up to 28.3%, which explains why the upward trend in profit ratios

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

GROSS VALUE ADDED AT FACTOR COST
Rate of change



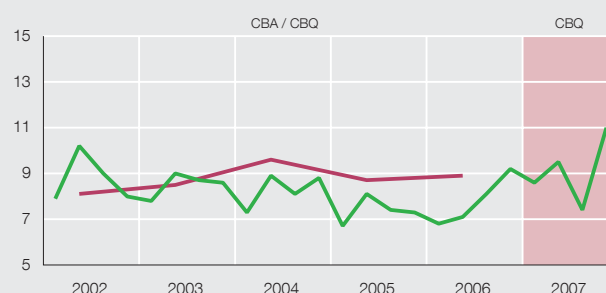
EMPLOYMENT AND WAGES
Rate of change



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				2,530				2,457				2,130				—			
	CBQ	391	378	369	357	367	362	354	346	352	342	335	333	323	311	304	296	321	305	292	281	313	295	267	190
% of GDP of the sub-sector industrial corporations	CBA	26.6				27.1				28.9				28.2				24.6							
	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	16.7	17.2	18.5	17.5	16.1	17.0	18.7	18.9	14.9	10.6

SOURCE: Banco de España.

continued in 2007, as in the previous year. Thus the return on investment stood at 9.4% in 2007 against 8.8% a year earlier, while the return on equity rose to 13.2%, up 1 pp on 2006. The ratio that approximates the cost of debt continued to increase gradually in 2007 to 4.5% (up 0.5 pp on the previous year) due to the pass-through of higher interest rates to corporate costs. As a result of the upward path followed by return on investment and financial costs, the difference between them remained at a high positive value of 4.9, very similar to that in 2006. In short, the productive activity of Spanish industry con-

tinued to expand in 2007, underpinned by the buoyant investment in capital goods and the sound performance of exports, thus consolidating the previous year's positive trend. However, these positive developments have not resulted in net increases in employment in this sector. Perceived risks and uncertainties (high oil prices, international financial tensions, rising inflation and the real estate sector crisis) could affect the confidence of economic agents and, consequently, the absence of workforce growth in the aggregate could become more widespread in the next few quarters.

in the energy and industry sectors should be noted, although this did not lead them to record positive rates of change (−0.3% and −0.5%, respectively). Employment in the transport and communications sector continued to be slightly negative both in 2006 (−0.2%) and in 2007 (−0.4%). These data were strongly influenced by the impact of certain workforce reductions that were highly focused on two large firms in this aggregate. Finally, in 2007 the average number of employees increased most markedly at firms in the other services sector (specific data for this aggregate are not presented in the tables in this article), which posted an increase of 6% in 2007. Lastly, the data in Table 4 show that, irrespective of events in other sectors, a clear majority of firms (63.1%) in the CBQ sample continued to increase their workforces in 2007 and that, moreover, this percentage was 3 pp higher than a year earlier.

The growth rate of average compensation in 2007 (3.5%) was very similar to that of the two previous years (3.5% and 3.4% in 2006 and 2005, respectively). Conversely, the quarterly profile shows a quickening of these costs, particularly in 2007 Q4, when average salaries increased by nearly 4%, so developments in this variable over the next few quarters should be interpreted with caution. In this respect, the data of Table 4 show, among other things, how in the last two years the percentage of firms whose average compensation increased at or above the rate of inflation has gradually risen (from 50.7% in 2005 to 54.7% in 2007). By sector, wage increases were highest in transport and communications (5.5%), partly because of the greater costs associated with the above-mentioned workforce reductions. By contrast, the wholesale and retail sector posted the lowest increases (1.2%), while energy and industrial firms were in the intermediate range and, with salary increases slightly above 3%, showed a moderate trend similar to that for the sample total.

Profits, rates of return and debt

The slowdown of productive activity coupled with lower growth of personnel costs pushed GOP up by 5.5% in 2007, compared with 7.8% in 2006. Financial costs and revenue increased sharply in 2007 and posted rates of change of 22.8% and 33.6%, respectively. The following table shows the reasons for this behaviour of financial costs and revenue:

	07 Q1-Q4/06 Q1-Q4
Change in financial costs	33.6%
A. <i>Interest on borrowed funds (1+2)</i>	35.3%
1. Due to the cost (interest rate)	15.7%
2. Due to the amount of interest-bearing debt	19.6%
B. <i>Commissions and cash discounts</i>	−1.3%

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

TABLE 4

	CBA			CBQ (a)		
	2004	2005	2006	05 Q1-Q4	06 Q1-Q4	07 Q1-Q4
Number of corporations	9,063	9,092	7,882	812	833	756
PERSONNEL COSTS	100	100	100	100	100	100
Falling	28.1	26.6	25.7	29.0	26.9	26.9
Constant or rising	71.9	73.4	74.3	71.0	73.1	73.1
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	31.4	30.9	30.6	41.1	39.2	36.8
Constant or rising	68.6	69.1	69.4	58.9	60.8	63.2
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	44.0	43.3	42.3	49.3	48.4	45.3
Higher or same growth (b)	56.0	56.7	57.7	50.7	51.6	54.7

SOURCE: Banco de España.

a. Weighted average of the relevant quarters for each column.

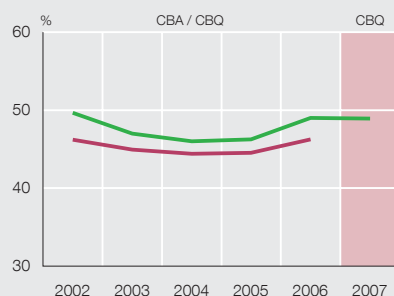
b. Twelve-month percentage change in the CPI for the CBA and quarter-on-quarter change in the CPI for the CBQ.

As shown by the above table, the increase in financial costs in 2007 is mainly accounted for by the rise in borrowing against a background in which benchmark interest rates have also exerted considerable upward pressure on these costs. The growth in indebtedness in 2007 is related to certain sizeable acquisitions mainly made by large corporations the financing of which required them to secure borrowed funds. Despite this rise in debt, ratio E1 (see Chart 4), i.e. interest-bearing borrowing to net assets, did not increase with respect to its level in 2006, since similar proportions of these acquisitions were financed with the equity of the firms involved (mainly through the issuance of shares) and with borrowed funds. The ratio E2, which can be used to analyse the ability to repay the principal of the debt contracted and shows debt relative to value added generated, presented a clear upward trend as a result of the increase in debt levels (the numerator) and the slowdown in GVA (the denominator of the ratio) in 2007. Lastly, Chart 4 also depicts the interest burden, showing interest on borrowed funds relative to the firm's income. In 2007 the upward trend initiated by this ratio in the previous year continued as a direct consequence of the increasing weight of interest on borrowed funds in firms' profit and loss accounts.

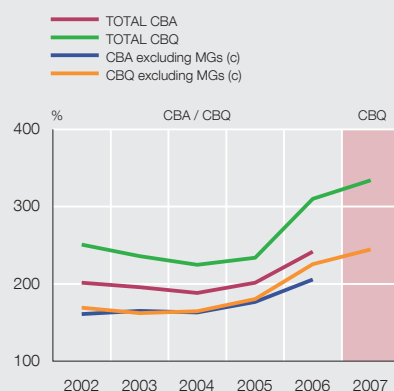
Financial revenue also grew strongly in 2007 (22.8%), in this case mainly due to the increase in interest received on loans granted, since although there was a rise in the dividends received, it was not as sharp as in previous years. Financial revenue outpaced the rise in financial costs and, as a result, ONP grew at a rate of 5.7%, slightly up on that of 4.4% obtained in 2006. The performance of ONP, together with that of the funds assigned to financial costs (the numerator used to calculate the return on investment), enabled firms to continue to earn high returns, although they were slightly lower than those of the immediately preceding periods.

Specifically, the return on investment (R1) was 8.6% for 2007 (8.7% in 2006), while the return on equity reached 12.6% in 2007 (13.1% in 2006). The ratio that approximates the cost of borrowing (R.2) remained on the upward path of recent years and moved up to 4.5% in 2007, slightly more than 0.5 pp higher than the figure for the whole of 2006 (3.9%), as interest rate rises were passed through to business costs. Consequently, the difference between return on investment and the cost of debt remained positive and high at 4.1, although it clearly stands below the value obtained a year earlier (4.8).

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



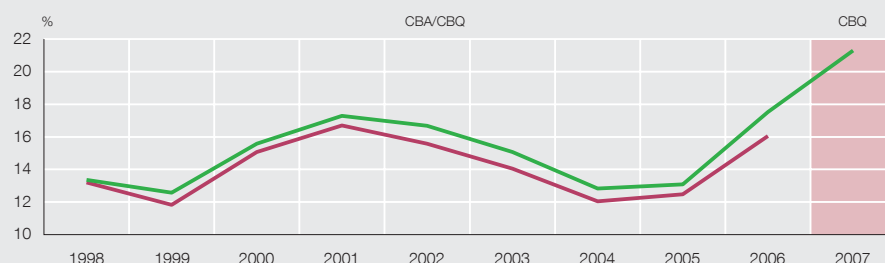
E2. INTEREST-BEARING BORROWING/GVA (b)
Ratios



	2002	2003	2004	2005	2006	2007
CBA	46.2	44.9	44.4	44.5	46.2	
CBQ	49.7	47.0	46.0	46.3	49.0	48.9

	2002	2003	2004	2005	2006	2007
CBA	201.5	195.8	188.4	201.3	241.7	
CBQ	250.7	235.9	224.9	233.8	310.0	334.0
CBA excl. MGs	161.1	165.0	163.0	176.5	205.8	
CBQ excl. MGs	169.3	162.2	164.8	180.6	225.5	244.6

INTEREST BURDEN
(Interest on borrowed funds)/(GOP + financial revenue)



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
CBA	13.2	11.8	15.1	16.7	15.6	14.0	12.0	12.5	16.0	
CBQ	13.4	12.6	15.6	17.3	16.7	15.1	12.8	13.1	17.5	21.3

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 intragroup debt (approximation of consolidated debt).

c. MGs: sample corporations belonging to the main reporting multinational groups. Excluding large corporations in the construction sector.

**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	2006	06 Q1-Q4	07 Q1-Q4	2005	2006	06 Q1-Q4	07 Q1-Q4	2005	2006	06 Q1-Q4	07 Q1-Q4	2005	2006	06 Q1-Q4	07 Q1-Q4
Total	3.6	8.6	7.8	5.5	10.5	4.6	4.4	5.7	8.7	8.8	8.7	8.6	5.0	4.8	4.8	4.1
SIZE																
Small	4.7	3.4	—	—	9.2	8.0	—	—	6.7	6.9	—	—	3.1	2.8	—	—
Medium	2.3	12.9	6.9	6.8	4.0	20.7	17.9	0.0	7.4	7.7	7.1	7.5	3.9	3.9	3.6	3.2
Large	3.7	8.3	7.8	5.5	11.2	3.3	4.0	5.9	8.9	9.0	8.7	8.6	5.2	4.9	4.8	4.1
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	14.9	6.3	6.5	0.2	39.6	-2.4	0.9	0.1	9.5	9.6	9.9	9.0	6.1	5.9	6.3	4.7
Industry	-3.4	8.7	11.1	20.7	-0.6	8.4	27.8	28.3	8.7	8.9	8.8	9.4	4.9	4.7	4.8	4.9
Wholesale and retail trade	3.3	9.0	4.4	0.3	6.2	12.1	7.5	-3.6	11.6	11.4	8.0	7.1	7.9	6.9	4.3	2.8
Transport and communications	0.5	3.0	5.1	6.1	3.5	-5.4	8.3	12.1	9.2	7.1	11.8	13.3	5.4	3.0	7.6	8.9

SOURCE: Banco de España.

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

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 Q1-Q4	07 Q1-Q4	06 Q1-Q4	07 Q1-Q4
Number of corporations		833	756	833	756
Percentage of corporations by profitability bracket	R ≤ 0%	23.9	23.5	27.8	28.4
	0% < R ≤ 5%	22.4	19.3	16.7	13.6
	5% < R ≤ 10%	14.9	17.5	11.2	12.9
	10% < R ≤ 15%	11.3	10.9	8.6	9.0
	15% < R	27.5	28.7	35.7	36.2
MEMORANDUM ITEM: Average return		8.7	8.6	13.1	12.6

SOURCE: Banco de España.

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

Lastly, extraordinary results had a positive impact on final net profit, primarily because there were significant capital gains generated by fixed assets sales, in a setting in which extraordinary expenses also grew sharply, especially due to certain provisioning for shares. All told, in 2007 final net profit increased by 14.9% and although this growth rate did not exceed the 18% recorded the previous year, as a percentage of GVA final net profit stood at 38.1%, clearly higher than the 34.8% of the previous year.

14.3.2008.

HALF-YEARLY REPORT ON THE LATIN AMERICAN ECONOMY

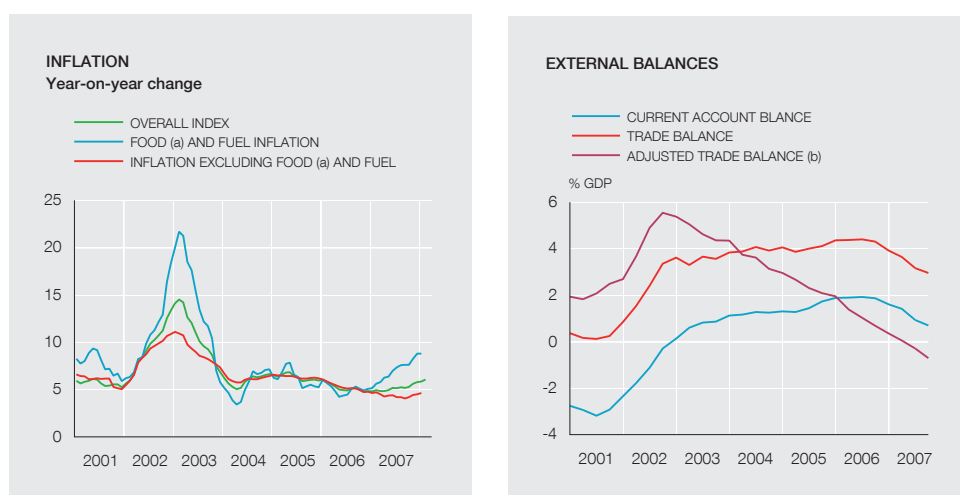
Introduction

The year 2007 was the fifth consecutive one of economic expansion for Latin America. Across the seven main economies in the region, activity grew by 5.8%, up on 2006 and 2005 and only 1 pp below the high in the current cycle recorded in early 2004. Most significantly, there were no signs of the pace of growth easing in the Latin American economies in the second half of the year, despite the deterioration in the international economic and financial picture. Thus, underpinned by the sizable reduction in financial vulnerabilities in recent years and with the continuation of very high commodities price levels proving supportive, the Latin American economies have been able to bypass a period of deep-seated instability on the international financial markets. Indeed, the impact in terms of their internal financing conditions and the real economy has been very limited, especially when compared with past episodes (see Box 1). The slowdown in the US economy has not exerted any notable effect through the trade channel, not even in those economies with a higher level of integration with the United States, such as Mexico and Central America. Country by country, growth rates in 2007 were particularly robust in Peru (9%), Argentina (8.7%), Venezuela (8.4%) and Colombia (7.5%). Brazil posted its highest growth rate for the last three years (5.4%), while Chile grew by 5.1% and Mexico by 3.3%. Growth in all the countries, except Mexico and Venezuela, outpaced that in 2006, and in most it was higher than expected at the beginning of the year.

Against this clearly favourable backdrop, there were two differential features in regional economic developments over the past six-month period. First, there was a generalised rise in inflation (common to most of the economies, emerging and developed alike), due mainly but not solely to higher food prices, and which brought the prolonged period of low inflation over the past four years to an end. The rise in inflation from historical lows to a year-on-year rate of 6.4% for the seven main regional economies as a whole made for more complicated monetary policy management in some countries, in a setting in which the opening up of interest-rate spreads over the dollar has exerted extra pressure on exchange rates. These currencies had already appreciated substantially relative to the dollar. That said, inflation, excluding food (processed and unprocessed) and energy, held stable (see Chart 1). And while inflation expectations have rebounded in recent months, they remain relatively anchored, which is a positive factor given that the cycle is now maturing.

The second differential feature has been the reduction in the region's trade and current account surplus, for the first time in the last five years. This came about due to robust import growth, which far exceeded that of exports, despite commodities prices holding at highs. Albeit with notable cross-country differences, the outcome was a swift downturn in external balances in the second half of the year, cutting the trade surplus for the seven main countries as a whole by 2 pp (from 4.2% of GDP in 2006, to 2.3% in 2007), and placing the current account surplus at below 1% of GDP (see Chart 1).

The outlook for 2008 largely hinges on the international setting. Developments in recent months have offered sound proof that Latin America has been able to capitalise on the improvement in its macroeconomic fundamentals and on the reduction in its past vulnerabilities, showing notable resilience in the face of the worsening external environment. However, given the degree of trade and financial integration, it is unlikely that the region will not be affected by a significant slowdown in the world economy. China may prove to be key here since, thanks to its contribution to the global demand for exports, it is shaping up as an essential pillar not only for Latin America but also for other emerging economies, and it may moreover retain



SOURCE: National statistics.

a. Processed and unprocessed food.

b. Estimate of the trade balance setting import and export prices as an average from 1990 to the latest available figure.

some immunity to the financial turbulence. Yet notwithstanding this attenuating factor, Latin America's trade ties with the United States and the risk of the slowdown spreading to other industrialised countries mean that, unlike in 2007, activity may tend to decelerate moderately in 2008. Intensity will depend mainly on the scale of the slowdown in the United States, on commodities price developments and on the behaviour of the financial channel. Downside risks in the coming quarters may well stem from these three facets.

Economic and financial developments

EXTERNAL ENVIRONMENT

From September 2007 to March 2008, the external economic environment was marked by financial market strains, which spread progressively from the US subprime mortgage market to other segments and agents. In early 2008, the pressures on stock markets, private fixed-income markets and also – albeit to a lesser extent – on emerging financial markets became more significant. Faced with rising financial strains and a rapid macroeconomic deterioration, the Federal Reserve reacted by forcefully cutting its official interest rates, while the European Central Bank and the Bank of Japan held their rates unchanged. Interest rates on US 10-year Treasury bonds fell to around 3.50%, reflecting a “flight to quality”, which has also contributed to containing the rise in the cost of financing in Latin America.

The signs of a weakening in global economic activity became clear in 2007 Q4. In particular, growth in the United States eased significantly as a result of the intensification of the real estate correction and of an incipient slowdown in consumption. However, growth remained dynamic in China and in other emerging economies. In parallel, inflationary pressures increased globally, coinciding with the rise in commodities prices (oil and food in particular), although core inflation remained contained.

The sluggishness of the US economy and the widening of interest-rate spreads with the United States prompted a continuous and generalised depreciation of the dollar (another key aspect of international financial developments in the past six months) against both the euro and the yen and, to differing degrees, against almost all the emerging economies' currencies. This weakness of the dollar has had a considerable effect on exchange rates in Latin America, accentuating the strength of certain currencies which, in many cases, had already appreciated significantly relative to the dollar.

The evolution of the main financial variables in Latin America during the current episode of global instability shows that the impact of turbulence has so far been much more limited than in previous episodes. This box compares the evolution of such variables in recent months with two previous episodes of global financial instability: the Russian crisis (that began in August 1998) and the end of the technology bubble, from April 2000. Both these episodes played a fundamental role in spreading the serious financial crises that afflicted Latin America in the late 1990s and early 2000s.

One of the main differences in developments on Latin American financial markets since summer 2007 is that on this occasion, in contrast to events in the two previous episodes, there have been no massive capital outflows triggered by “contagion” effects or dramatic risk re-pricing. Thus, as seen in panel 1, compared with the rise of some 100 bp in sovereign spreads in Latin America since last summer, the Russian crisis led to an increase of more than 900 bp and the end of the technology bubble some 750 bp. In fact, in Mexico and Brazil, the increase in sovereign spreads during the Russian crisis was around 15 times greater than the current increase, and after the bursting of the technology bubble, the increase in Brazil’s sovereign spread was more than 20 times the current increase.

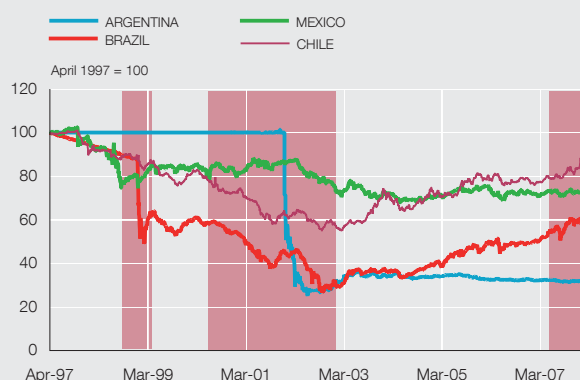
Meanwhile, the exchange rates of most of the countries of the region have tended to appreciate significantly against the dollar since the beginning of the current turbulence, or have remained steady, amid heavy accumulation of reserves. These developments contrast with the strong tendency for depreciation in the two previous episodes (see panel 2), and are key to explaining why monetary policies have been able to focus on their domestic objectives in recent months. Finally, stock exchange losses have been clearly smaller than during the Russian crisis, although similar in most cases to those recorded in the first stages of the bursting of the technological bubble.

Overall, recent developments in financial markets support the perception of improvement in Latin America’s economic fundamentals, which is also confirmed by the usual indicators of vulnerability. Thus, notably, Latin America’s level of vulnerability is much lower than in the past, as seen in panel 3. This lower vulnerability is reflected in a better external position (a surplus, as opposed to the current account deficits in past episodes), lower public deficit and debt service levels than in the past, and a much more significant volume of foreign-exchange reserves. Sovereign ratings are, on average, no higher than in the two previous episodes of turbulence, although that is largely due to the downward pressure introduced by Argenti-

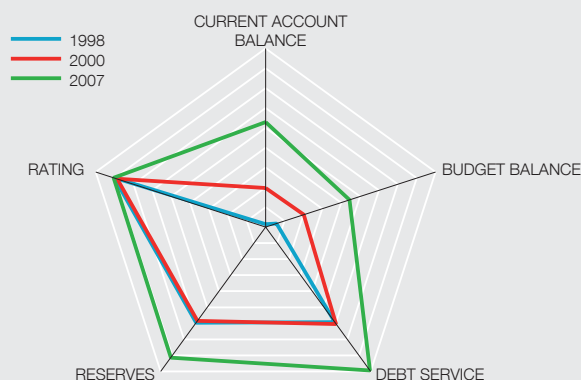
1 INTEREST RATE DIFFERENTIAL



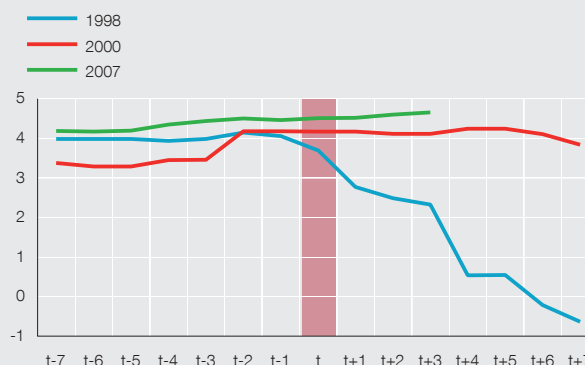
2 EXCHANGE RATES AGAINST THE DOLLAR



3 VULNERABILITY INDICATORS FOR THE REGION (a)



4 GROWTH FORECAST FOR THE FOLLOWING YEAR (b)



SOURCES: National statistics, Consensus Forecasts, Economist Intelligence Unit and Banco de España.

- a. The variables are re-scaled to show an improvement in the situation as an increase in the distance of the figure from the origin.
b. Evolution of each variable during the quarters or months before or after the outburst of turbulence.

na's rating following the default on its debt, since most other countries have higher ratings.

In this respect, one of the most important differences is precisely the current account surplus. Both in 1998 and in 2000-2001 there was a large current account deficit in Latin America, showing the significant dependence of economic growth on external financing. In 1998, the adjustment took place through a sharp depreciation of currencies, which ultimately improved the external balance. By contrast, in 2000-2001, the contraction of activity in the United States led to lower demand for Latin American products and a fall in exports, which delayed correction of the external position, until the global recovery and the strong growth in commodities changed the sign of the current account balance, giving rise to the surplus that still prevails (see panel 3). Another significant difference in the current episode of instability is that capital inflows to the region have proved to be more robust and

their adjustment has so far been much more limited than in the previous episodes. This development contributes to the continued availability of credit which, as indicated in the text, is also underpinned by the availability of considerable domestic savings.

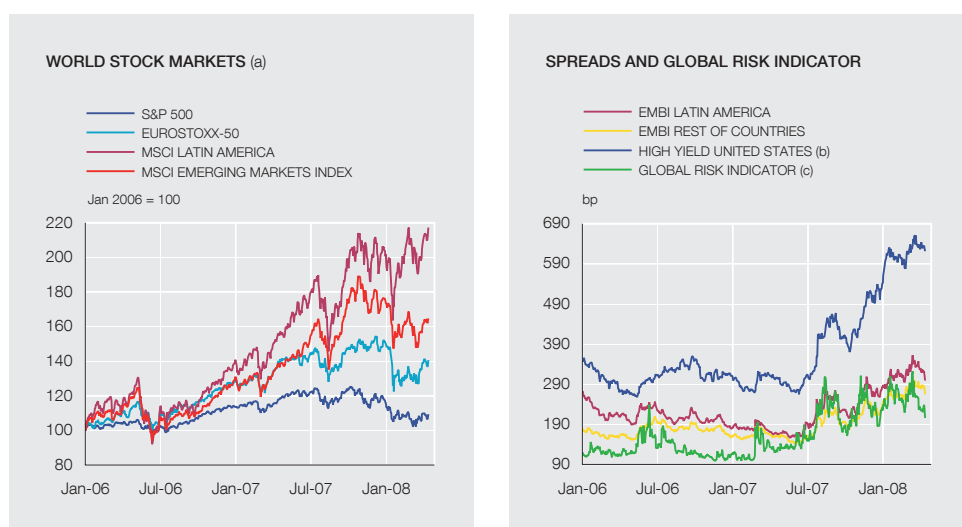
All these factors may have contributed to ensuring that the growth forecasts for the region as a whole have barely changed during the current episode of global instability. This is in contrast to the period following the Russian crisis, when the downward revision to growth prospects was practically immediate and very significant (more than 4 percentage points after 6 months), as seen in panel 4. Following the end of the technology bubble, growth forecasts were hardly revised initially, but that did not prevent zero growth being recorded in Latin America in 2002. This should serve as a warning against excessive complacency regarding the eventual impact on Latin America of this episode of turbulence.

The emerging financial markets (and stock markets in particular) showed notable resilience in the second half of 2007. But January saw a significant correction, in parallel with the decline in stock markets in the industrialised countries, albeit on a lesser scale. Moreover, the equity market falls in Asia and in certain Eastern European countries were more marked than in Latin America (see Chart 2). Conversely, the widening of sovereign spreads was relatively uniform across the various emerging regions: in the last six months they increased by around 90 bp in Asia and in emerging Europe, only somewhat lower than the increase in Latin America. The widening of the spreads of the industrialised countries' corporate bonds with a similar rating to that of the emerging markets was comparatively greater, denoting a much more unfavourable assessment of credit risk since the start of the turbulence (see Chart 2).

ECONOMIC ACTIVITY AND DEMAND

GDP growth in Latin America increased in the second half of 2007 to year-on-year rates of 5.8% and 6.2% in Q3 and Q4, respectively, after posting growth of somewhat less than 5.5% in the first half of the year. The quarter-on-quarter rates are consistent with this strengthening, averaging out at 1.6% in the last two quarters, compared with 1% in Q1 and 1.7% in Q2 (see Table 1 and Chart 3). The economic expansion continued to be underpinned by buoyant domestic demand, which posted the highest growth rate of the current upturn and contributed 0.8 pp to growth in Q4, up on its contribution in 2004, when the current cycle peaked (see Chart 3). Accordingly, the pattern of growth followed since 2005 intensified, involving increasingly robust domestic demand and with external demand detracting more from growth, albeit on a relatively limited scale. The dynamism of domestic demand was due both to the behaviour of investment and, above all, to the strength of private consumption. Conversely, the contribution of external demand worsened further, subtracting 2.5 pp from growth at the end of the year, against the background of some slowing in exports but, above all, of the strong momentum of imports. The contributions of the various countries to growth in the region changed somewhat in relation to 2006, with a bigger contribution by the major South American economies (Brazil and Argentina, which jointly accounted for 3.3 pp of regional growth) at the expense of Mexico, whose contribution to growth fell considerably to 0.9 pp.

The higher frequency indicators for the opening months of 2008 show certain disparities. Some of Mexico's consumption indicators (confidence, retail sales) have felt the impact of the



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

- a. Indices in dollars.
- b. B1-rated bond.
- c. Implicit CBOE options volatility.

weakening US economy, although industrial production and foreign trade do not clearly confirm this trend. Something similar is happening in Chile, though for different reasons (the rise in prices, the tightening of monetary policy during 2007 and the mounting cost of electricity generation). However, in several countries (Argentina, Brazil and Peru) the demand indicators have continued to display clear signs of robustness at the start of the year, which is substantiated by the aggregate consumption and confidence indicators for the region's seven main countries (see Chart 4) and by industrial production.

In the last two quarters, private consumption quickened practically across the board, with the exception of Chile, up to a year-on-year growth rate of 8% in Q4, 2 pp up on the average for 2006 (see Chart 4). Behind this development is the sound behaviour of the labour market in the past four years, which has made for a reduction in the unemployment rate to levels not seen since the early 90s (6.9% of the labour force), a moderate rise in real wages and a significant increase in the availability of consumer credit. Of particular note has been the course of private consumption in Brazil, which has been further supported by the strong interest-rate cuts in recent years.

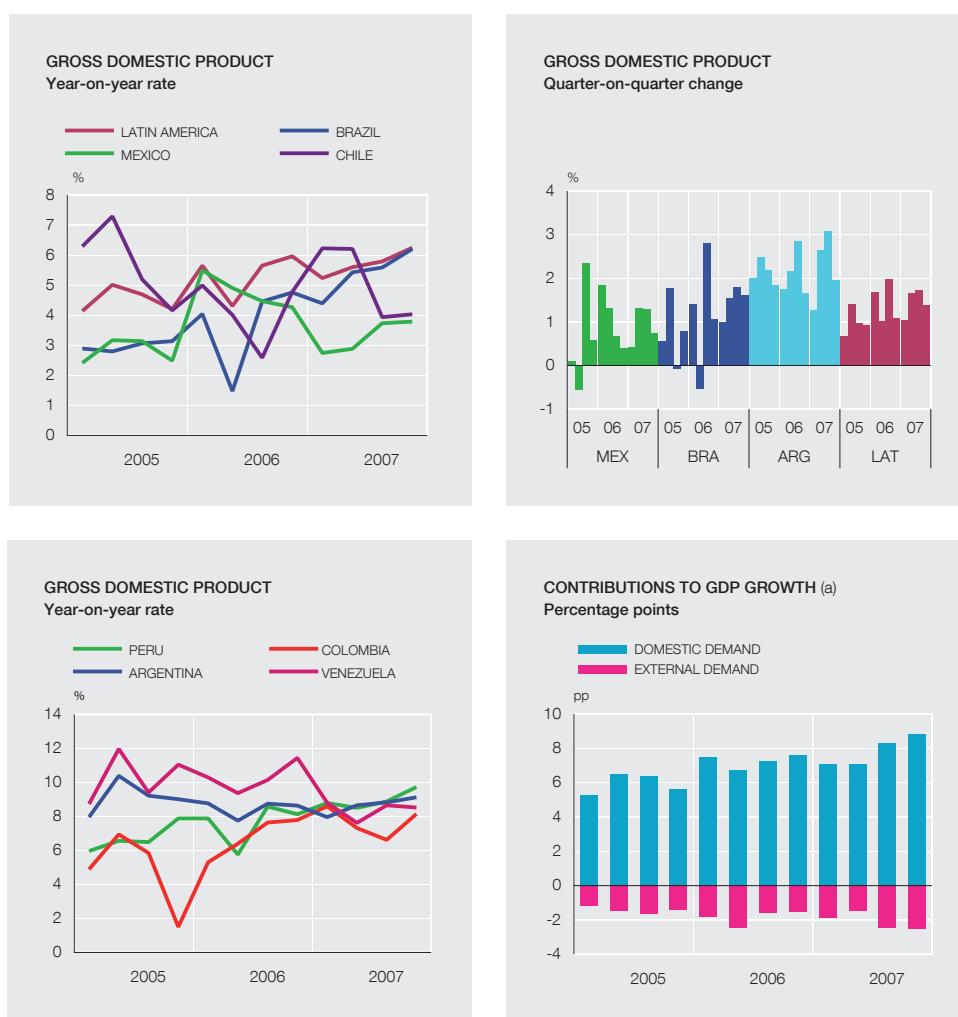
During the period under study, investment remained the most dynamic component of domestic demand, posting growth of over 15% year-on-year in Q4. As a result, investment has grown above 10% for four years running in the region (see Chart 5). In most countries this dynamism is concentrated in the capital goods component, although construction has continued to play a very important role in Chile and Colombia. The investment process has continued to be financed by domestic saving, as demonstrated by the maintenance of a current (though diminishing) surplus, which may have contributed to a general deterioration in the economic picture not being seen in the second half-year period, despite the worsening global environment. Adding to this is the fact that credit granted by the banking system has continued to be financed essentially by the deposit base, which would provide leeway in situations marked by less access to external financing (see Chart 6). In this respect, although credit to the private sector has shown signs of easing in many countries since late 2007, its growth rate remains very high

	2004	2005	2006	2007	2006				2007			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (year-on-year change)												
Latin America (a)	6.2	4.5	5.4	5.8	5.6	4.3	5.6	5.9	5.2	5.6	5.8	6.3
Argentina	9.1	9.2	8.5	8.7	8.8	7.7	8.7	8.6	8.0	8.6	8.8	9.1
Brazil	5.7	3.2	3.7	5.4	4.0	1.5	4.5	5.1	4.4	5.4	5.6	6.2
Mexico	4.2	2.8	4.8	3.3	5.5	4.9	4.5	4.3	2.7	2.9	3.7	3.8
Chile	6.0	5.7	4.0	5.1	5.0	4.0	2.6	4.3	6.2	6.2	3.9	4.0
Colombia	4.9	4.7	6.8	7.5	5.4	6.4	7.6	7.8	8.6	7.3	6.6	8.1
Venezuela	19.4	10.3	10.3	8.4	9.8	9.4	10.1	11.4	8.8	7.6	8.6	8.5
Peru	5.2	6.7	7.6	9.0	8.0	6.5	9.2	8.1	8.8	8.5	8.9	9.7
Uruguay	12.0	6.6	7.0	7.4	7.1	7.9	7.2	6.1	6.6	3.9	9.6	9.3
CPI (year-on-year change)												
Latin America (a)	6.0	6.3	5.2	5.2	5.8	5.1	5.0	4.8	4.9	5.0	5.2	5.5
Argentina	4.4	9.6	10.9	8.8	11.6	11.4	10.6	10.1	9.5	8.8	8.6	8.5
Brazil	6.6	6.9	4.2	3.6	5.5	4.3	3.8	3.1	3.0	3.3	4.0	4.3
Mexico	4.7	4.0	3.6	4.0	3.7	3.1	3.5	4.1	4.1	4.0	4.0	3.8
Chile	1.1	3.1	3.4	4.4	4.1	3.8	3.5	2.2	2.7	2.9	4.8	7.2
Colombia	5.9	5.0	4.3	5.5	4.3	4.0	4.6	4.3	5.2	6.2	5.3	5.4
Venezuela	21.7	16.0	13.6	18.8	12.6	11.2	14.6	16.2	19.0	19.5	16.2	20.0
Peru	3.7	1.6	2.0	1.8	2.4	2.3	1.8	1.5	0.4	0.8	2.4	3.5
Uruguay	9.2	4.7	6.4	8.1	6.4	6.4	6.6	6.2	7.0	8.1	8.7	8.6
PUBLIC SECTOR BALANCE (% GDP)												
Latin America (a)	-1.0	-1.0	-0.7	-0.5	-0.7	-0.6	-0.4	-0.7	-0.5	-0.2	-0.3	-0.5
Argentina	2.6	1.8	1.8	1.1	1.4	1.5	1.8	1.8	1.5	1.6	1.7	1.1
Brazil	-2.3	-2.8	-2.9	-2.2	-3.2	-3.0	-3.1	-2.9	-2.6	-2.1	-2.2	-2.2
Mexico	-0.3	-0.1	0.1	0.0	0.2	0.4	0.4	0.1	0.7	0.4	0.1	0.0
Chile	2.4	4.7	8.0	8.7	6.1	6.6	7.9	8.0	7.9	8.6	8.7	8.9
Colombia	-4.5	-5.0	-3.7	-3.3	0.2	0.6	1.8	-3.7	-3.2	-2.1	-2.7	-3.4
Venezuela	-2.1	2.0	0.0	—	-1.3	-5.5	-3.7	-1.5	-1.3	1.2	1.0	—
Peru	-1.3	-0.7	1.4	1.1	-0.1	0.7	1.0	1.4	1.5	1.2	1.7	1.8
Uruguay	-2.0	-0.8	-0.6	-0.3	-0.2	-0.6	-0.6	-0.6	-0.8	0.3	0.7	-0.3
PUBLIC SECTOR DEBT (% GDP)												
Latin America (a)	48.0	41.0	39.1	36.0	40.4	38.6	39.0	38.7	38.1	37.4	36.7	36.0
Argentina	120.3	70.7	64.2	55.5	69.0	59.1	59.9	59.8	61.5	59.1	55.8	55.5
Brazil	47.0	46.5	44.7	42.8	46.6	45.5	45.0	44.7	44.7	43.9	43.2	42.8
Mexico	21.3	22.4	23.2	24.1	21.7	21.3	23.9	23.2	23.3	23.9	24.3	24.1
Chile	10.0	6.8	5.3	5.5	6.2	5.5	5.4	5.3	5.2	5.1	4.4	5.5
Colombia	47.0	46.6	44.8	—	46.9	47.7	45.6	44.8	42.7	42.2	41.7	—
Venezuela	53.3	48.2	41.9	30.1	36.1	38.2	40.0	41.9	31.7	29.9	28.2	30.1
Peru	44.3	37.8	32.7	29.3	36.1	35.0	33.1	32.7	30.8	29.6	30.8	29.3
Uruguay	100.7	83.8	70.9	—	73.1	74.9	75.5	70.9	66.4	71.6	72.9	—
CURRENT ACCOUNT BALANCE (% GDP)												
Latin America (a)	1.3	1.7	1.8	0.7	2.0	2.0	2.0	1.9	1.6	1.4	0.9	0.7
Argentina	2.1	3.1	3.6	2.8	3.6	3.3	3.2	3.5	3.4	3.3	2.7	2.8
Brazil	1.8	1.6	1.3	0.3	1.5	1.3	1.4	1.3	1.2	1.3	0.7	0.3
Mexico	-1.0	-0.7	-0.3	-0.8	-0.2	-0.2	-0.3	-0.3	-0.6	-0.8	-0.9	-0.8
Chile	2.2	1.2	4.7	4.4	1.7	2.8	3.9	3.6	5.9	5.7	5.0	4.4
Colombia	-0.9	-1.5	-2.3	-3.4	-1.7	-2.0	-1.9	-2.3	-2.9	-3.2	-3.5	-3.6
Venezuela	15.3	22.2	19.5	11.7	23.6	24.2	22.5	19.5	15.9	13.3	11.7	11.7
Peru	0.0	1.4	3.0	1.4	1.0	1.3	2.2	2.8	2.9	2.9	2.1	1.5
Uruguay	-0.8	0.2	-2.2	-0.8	0.2	-0.3	-1.0	-2.2	-1.3	-0.7	-1.1	-0.8
EXTERNAL DEBT (% GDP)												
Latin America (a)	38.5	26.5	22.4	21.6	25.4	23.2	23.2	23.1	22.8	22.9	22.4	21.6
Argentina	107.6	59.1	47.5	47.3	56.1	48.1	49.1	47.5	50.6	50.8	48.9	47.3
Brazil	28.9	19.2	16.1	14.7	17.6	15.8	15.4	16.2	16.4	16.4	15.9	14.7
Mexico	18.9	15.4	13.4	12.6	15.2	15.4	15.3	13.4	13.8	13.3	13.2	12.6
Chile	41.7	33.5	32.0	34.0	32.8	31.5	33.1	32.0	32.3	33.0	33.9	34.0
Colombia	40.2	31.3	29.5	26.0	30.0	28.9	28.2	26.5	24.9	25.5	25.6	26.0
Venezuela	42.5	39.1	30.2	32.4	31.3	28.9	29.2	29.6	30.9	31.9	32.0	32.4
Peru	42.0	35.3	28.2	28.7	34.3	28.8	29.3	28.2	28.9	29.5	29.3	28.7
Uruguay	87.6	68.6	54.6	—	58.6	59.3	59.0	54.6	50.3	54.7	55.2	—

SOURCE: National statistics.

a. Aggregate of 8 represented countries, except Uruguay.

Quarter-on-quarter and year-on-year changes, and percentage points



SOURCE: National statistics.

a. Aggregate of the seven main economies.

in real terms, averaging around 25% year-on-year in the seven main countries in the region (see Box 2). In the medium term, however, heightening uncertainty abroad and, on the domestic front, the consolidation of an upward cycle in interest rates may slow the growth rate of investment somewhat, which has been exceptionally high in recent years by the region's standards.

As regards external demand, there was a strong acceleration in imports in terms of volume, up to a year-on-year rate of close to 20% of the end of the year (2 pp up on 2006), amid the heightening dynamism of domestic demand and strengthening currencies. The export volume held at a similar growth rate to that in 2006, at around 6% (with the significant exception of Venezuela, where exports fell for the second year running). These developments help explain why the trade balance stood at 2.3% of GDP in Q4, 2 pp down on 2006, despite the prices of the main export commodities holding at record levels (see Chart 8). The current surplus underwent a parallel reduction, and stood at 0.7% of GDP at the end of the year, which was the case for most of the countries (except Chile). Mexico and Colombia posted a current account deficit of around 1% and 3.5% of GDP, respectively. In the case of Mexico, the reduction in remittances received in the second half of the year was a substantial factor behind the deterioration

PRIVATE CONSUMPTION AND DEMAND INDICATORS

CHART 4

Year-on-year rate, three-month moving average of the year-on-year rate and indices



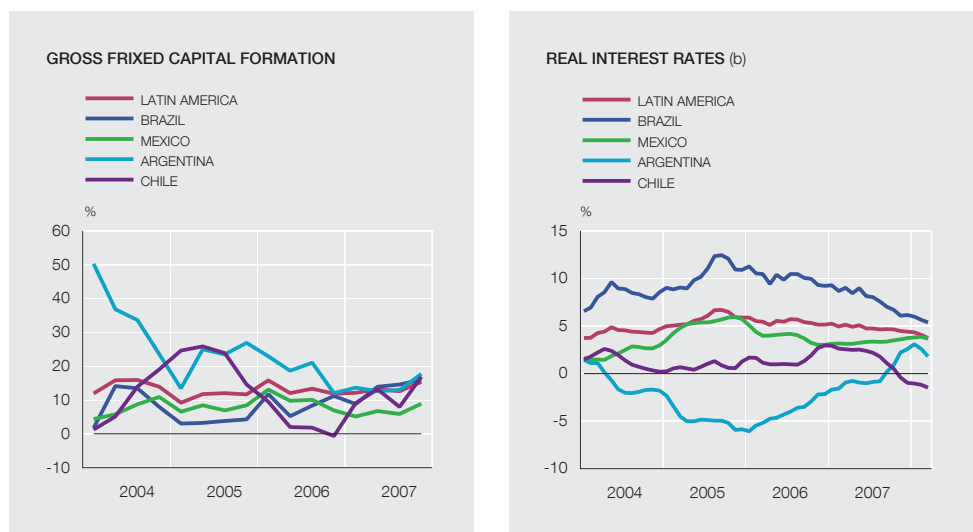
SOURCE: National statistics.

- a. Argentina, Brazil, Mexico, Chile, Colombia and Venezuela.
b. Argentina, Brazil, Mexico, Chile and Peru.

GROSS FIXED CAPITAL FORMATION AND REAL INTEREST RATES

CHART 5

Year-on-year rate and level (%)



SOURCE: National statistics.

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

For housing finance to be viable and sustainable, it must offer returns to the lenders who participate in the market and must be adapted to the ability to pay of potential debtors over the life of the mortgage. These two objectives did not seem compatible in Latin America before the 1990s, so that the housing financing system in the region consisted essentially of State mortgage banks financed by compulsory savings funds arising from payroll taxes, compulsory contributions from the rest of the financial system, transfers from other public-sector entities and credit directed to housing finance. In addition, many governments of the region used subsidies to make mortgage credit more accessible to borrowers with fewer resources. These programmes were often administered inefficiently and regressively.

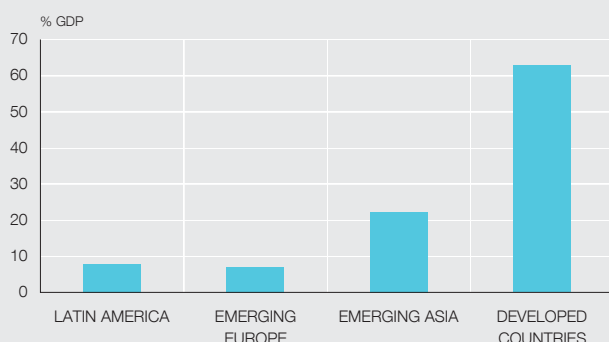
There is another set of reasons why housing finance has not developed sufficiently in Latin America in recent decades. First, macroeconomic and financial instability has prevented sufficient development of the long-term financial markets. In addition, as mortgage interest rates were officially determined (at a fixed, relatively low level), public-sector banks suffered a decline in their capacity to generate sufficient resources autonomously, sometimes without the possibility of recapitalisations given the fiscal restrictions on the governments. Second, inadequate regulation of property rights and creditors' rights (with legal protection favouring the debtor), as well as their interpretation

by the courts, increased the cost of recovering collateral and hampered the enforcement of loan security. Finally, the unequal distribution of income and the high degree of labour market informality meant that potential house purchasers have not had or have not been able to demonstrate having sufficient income to be granted a loan.

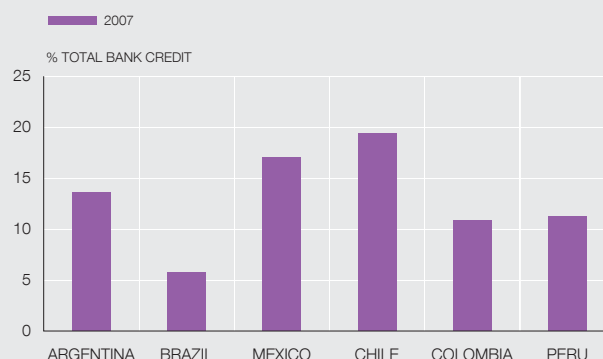
As a result, the volume of mortgage credit in Latin American countries has been much lower, relative to per-capita income, than in other regions (see panel 1). Moreover, as seen in panel 2, mortgage credit in most countries does not exceed 15% of total credit. The scant development of mortgage lending is highlighted by other indicators. Only one in four households in the region uses formal financing to acquire housing; most households build their homes informally and gradually over a period of five to 20 years, financing their construction using very different sources.

However, following the end of the economic and financial crises that beset almost all the countries of the region in the second half of the 1990s and in the early years of this decade, there has been a significant surge in credit in general, including mortgage credit. The key factors behind this surge include macroeconomic stability, the development of capital markets and the role of pension funds as suppliers of savings. In addition to these factors, other more structural, macro-

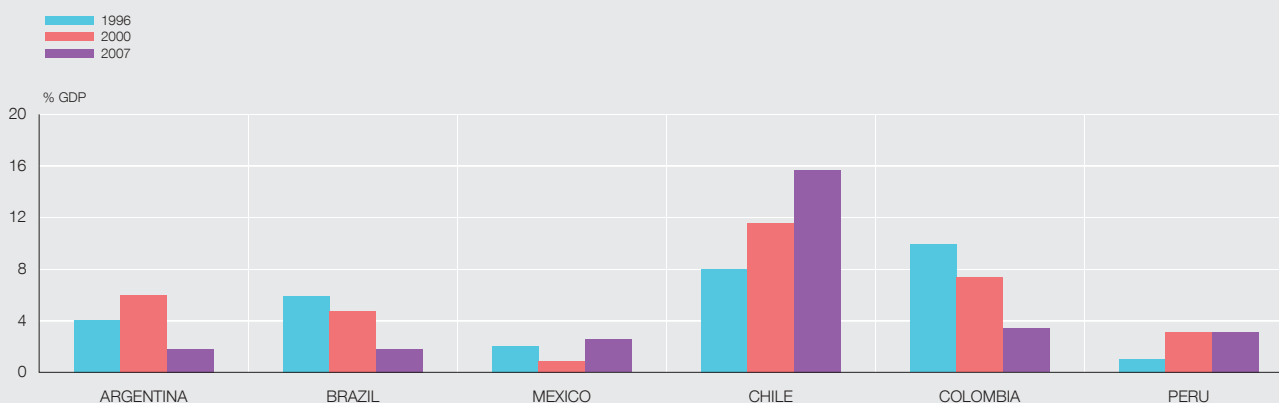
1 MORTGAGE CREDIT. INTERNATIONAL COMPARISON



2 MORTGAGE CREDIT



3 MORTGAGE CREDIT



SOURCES: Central banks and bank superintendence.

oeconomic-type factors have contributed, such as the liberalisation and privatisation of financial systems, the restructuring of financial institutions and the improvement in risk management, which are partly a consequence of the opening up of banking systems to foreign competition. At the same time, this development has also been assisted by the realisation that subsidy programmes should be transparent, progressive and conditional upon prior saving by the beneficiary households. As a consequence of all this, there has been a significant reduction in mortgage rates, an increase in loan maturities (to more than 25 years in some countries) and an increase in the availability of loans in local currency. However, given the region's past, inflation-indexed repayment arrangements are still very significant (Chile).

There are considerable differences in the degree of development of mortgage markets in the region. Countries that have had a sustained period of economic stability, such as Chile, have seen constant development of these markets and have higher mortgage-credit-to-GDP ratios than those that have suffered financial crises more recently (Colombia, Peru, Argentina), as seen in panel 3. However, these countries also have great possibilities for future development. Of great importance, in this respect, has been the lengthening in recent years of the government bond yield curve in some countries, since this is used as a benchmark for mortgage rates and, on the negative

side, the persistence of distorting taxes, such as those on financial transactions, which are an obstacle to lending growth.

Finally, new types of mortgage lending have emerged in recent years in the region, such as loans against collateral consisting of remittances received (Mexico and Peru) and microcredit (aimed at the most disadvantaged sectors of the population, whose access to credit is severely restricted), and mortgage securitisation has begun to take off in some countries of the region, especially Mexico and Colombia.¹ However, this market is still very undeveloped in comparison with other emerging regions, such as Asia. The factors that explain why securitisation is not more developed in the region include the lack of depth in the capital markets, problems in the legal system and limited development of the investor base.²

1. A large part of the development of mortgage securitisation in Mexico since 2003 stems from the political drive that involved the setting up of a public institution (Sociedad Hipotecaria Federal, SHF), which acts as a partial guarantor of loan payments, while in Colombia development has been led by Titulizadora Colombiana, a private entity set up in 2001 by the Colombian mortgage industry and the International Finance Corporation of the World Bank. 2. C. Tovar and M. Scatigna, "Securitization in Latin America", *BIS Quarterly Review*, September 2007, and J. Gyntelberg, J. E. Remolona and C. Tovar (2007), "Securitization in Asia and Latin America Compared", in L. Rob de Vries and P. Ali (eds.), *Innovations in Securitization*, Yearbook 2007, Kluwer Law international.

in the external balance. Both the buoyancy of domestic demand and the appreciation of exchange rates in effective terms, particularly in the cases of Brazil, Chile, Venezuela and Colombia (see Chart 7), explain the increase in imports in recent months, the recent trend in which opens up the possibility that the balance will reverse its sign in 2008 in a good number of countries. Capital inflows remained very robust in the second half of 2007, but the emergence of a current account deficit would mean that, in order to maintain the same growth rate, greater external financing would be needed; in a less favourable external environment, this need might set a limit on growth and even entail greater vulnerability in some economies.

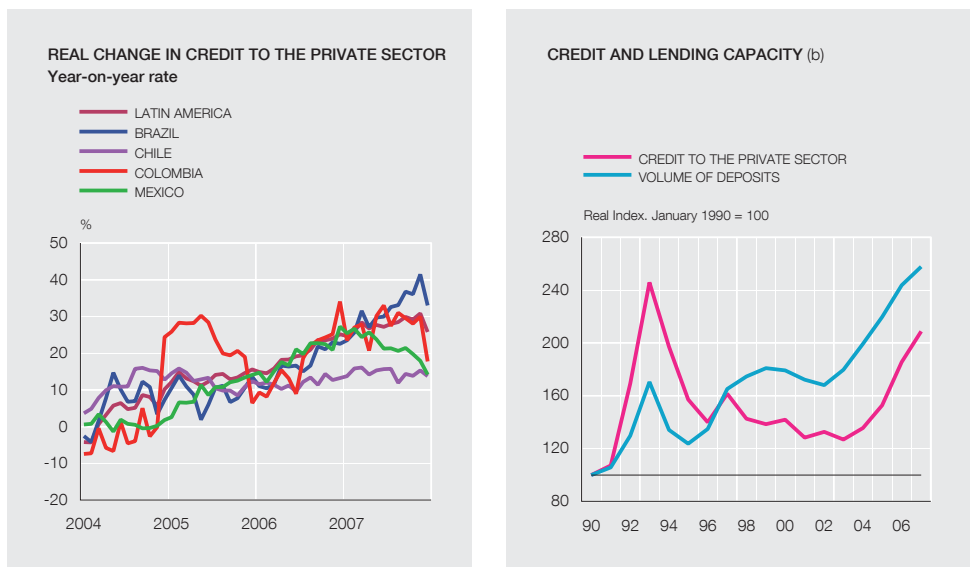
FINANCIAL MARKETS AND EXTERNAL FINANCING

In the past six months, regional financial market developments have shown notable resilience in the face of the turbulence on international markets, especially in comparison with past crises. Indicative of this resilience were the improved credit ratings of Mexico, Chile and Peru, the continued access to international markets for sovereign and corporate issuers with the best credit ratings, and the favourable behaviour, in relative stock market terms, of exchange rates and sovereign spreads. However, as can be seen in Chart 8, the last six-month period saw a sizeable decline in the volume of issues from the exceptionally high levels in early 2007. This decline was initially interpreted as a temporary supply-side retraction, given the deterioration in financial market conditions. Yet the scale and duration of the drawback mean that consideration must be given to the possibility that demand has declined in recent months, especially for those issuers with the worst credit ratings, and that access to alternative sources of financing, such as bank credit, might, by contrast, be increasing. That said, private capital inflows reached an all-time high, in the course of the year, of \$100 billion in net terms, and foreign direct investment flows, which are usually less procyclical, also stood at a high, or close to it, in countries such as Brazil, Colombia and Chile (see Chart 8). This favourable performance high-

CREDIT TO THE PRIVATE SECTOR

Year-on-year rate and real index

CHART 6



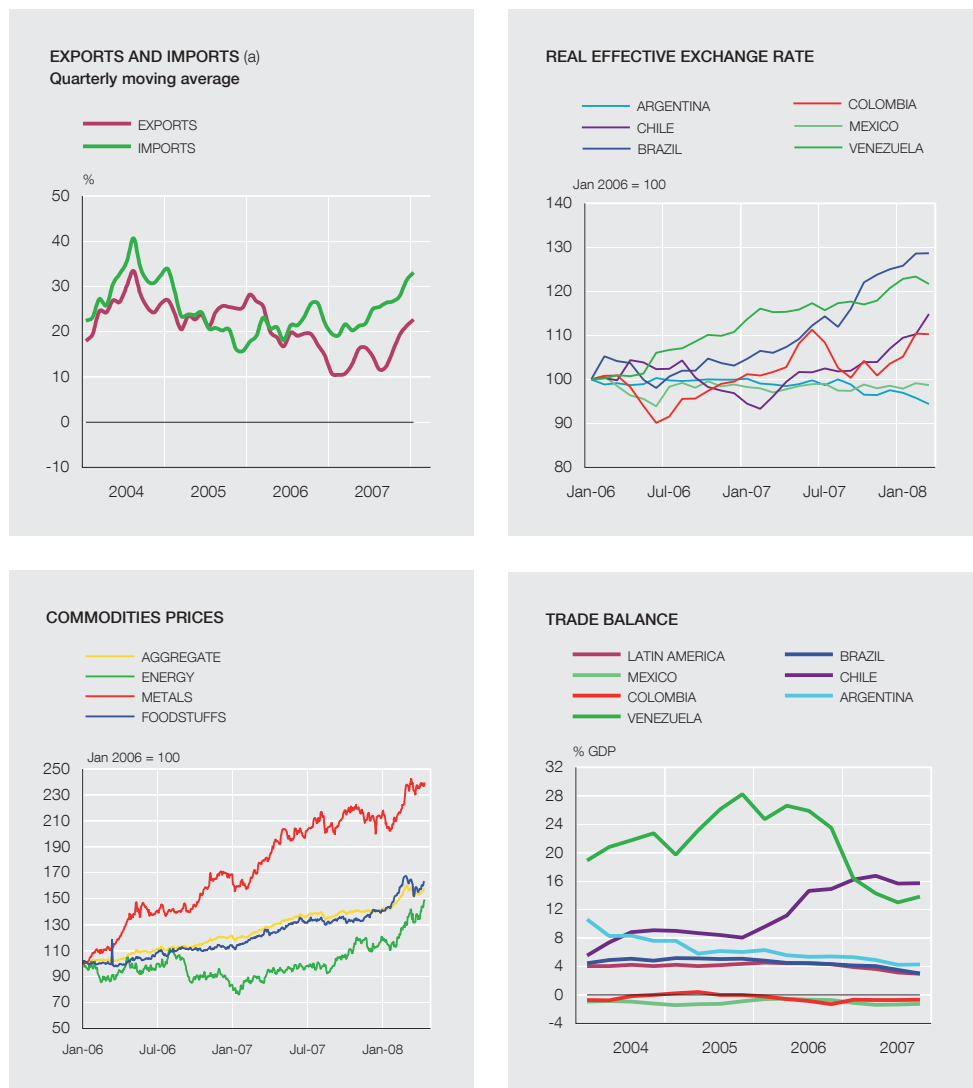
SOURCE: National statistics.

- a. Seven main economies
- b. Argentina, Brazil, Mexico and Chile.

lights the reduction in vulnerabilities that has taken place in recent years (see Box 1). But it is also probably indicative of the absence of any relevant exposure of the Latin American financial systems to the US subprime mortgage market, either directly or through structured products, against the background of the incipient growth of the local mortgage securitisation markets (see Box 2).

Sovereign spreads tended to widen moderately as from November. The EMBI index for Latin America stood in mid-April at a level of 310 bp, about 100 bp above the end-September figure and at its highest since October 2005. Spreads on Argentine and Venezuelan credit default swaps¹ (premiums demanded to ensure protection against the credit risk of an issue) posted the biggest increases (up to 600 and 700 bp, respectively), which highlights notable risk discrimination compared with countries such as Chile and Mexico, where the spreads widened much less (see Chart 9). Stock markets performed relatively favourably during the second half of the year, underpinned by the perception of the attendant stocks being decoupled to a certain degree from the prevailing background of global turbulence, and by the strength shown by commodities prices. However, January marked a turning point in this trend, meaning that it is the Brazilian stock market that has posted the most positive result over the six-month period, followed by the Venezuelan bourse, which picked up strongly in April. Conversely, some stock markets underwent fairly sizeable cuts (5% in Chile and 15% in Peru), while the Argentine and Mexican stock exchanges ended the period without significant losses or gains. In any event, Latin America has been the only region in which stock markets have posted gains since the start of the turbulence.

1. Certain developments in recent years have tended to detract from the relevance of the habitual sovereign risk reference, the EMBI index. These include most notably the decline in the outstanding balance of external debt, the growing resource to local-currency financing (which by definition is not part of the EMBI) and the very composition of the EMBI index, which in some countries, such as Chile, has become biased towards quasi-sovereign issues, the spreads on which may move owing to considerations other than those strictly relating to sovereign risk. For example, in Chile bonds issued by the State copper company (CODELCO) account for 45% of its EMBI. This is why we include in the chart the reference to credit default swaps, which are not affected by these types of considerations.



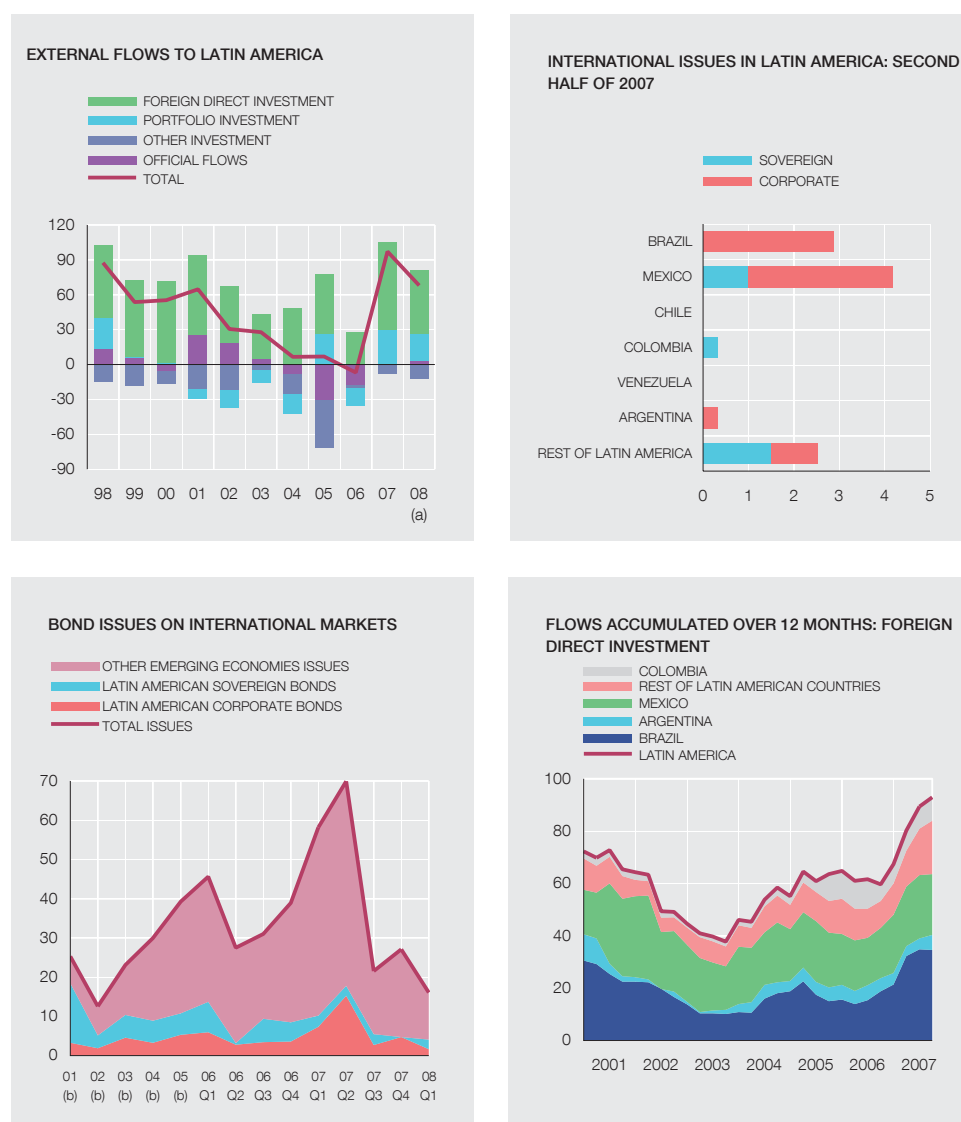
SOURCES: National statistics and Banco de España.

- a. Customs data in dollars.
b. Aggregate of the seven biggest economies.

PRICES AND MACROECONOMIC POLICIES

Inflation in the region rose from 5.3% in August 2007 to 6.4% in March 2008, meaning that the rising trend that began in the first half of 2007 intensified. The main driver here was the behaviour of food prices. Indeed, although several countries also experienced demand pressures pushing core inflation upwards² (to 6.5%), a portion of the rise in core inflation was due to the increase in unprocessed food prices. In all the countries, inflation, excluding all types of food (processed and unprocessed alike) and energy, posted a much smaller increase, and held at a relatively low and stable rate of around 4.5%. Yet it is interesting to note that for a good number of Latin American countries the rise in food prices is not only a negative supply-side shock that raises the prices of intermediate goods, but also a positive demand-side shock, owing to the improvement in the terms of trade it entails. In both these facets, the increase in food prices involves inflationary pressures.

2. The official measures of core inflation show some cross-country heterogeneity, and occasionally, therefore, they are not directly comparable.



SOURCES: JP Morgan IMF and national statistics.

Country by country, the highest inflation rates were recorded, as in previous periods, in Argentina and Venezuela, though prices were also on a particularly marked rising trend in Chile, Peru and Colombia. Brazil and Mexico were at the opposite end of the scale and, as they are the countries with the most economic weight, they skewed the weighted regional average downwards.

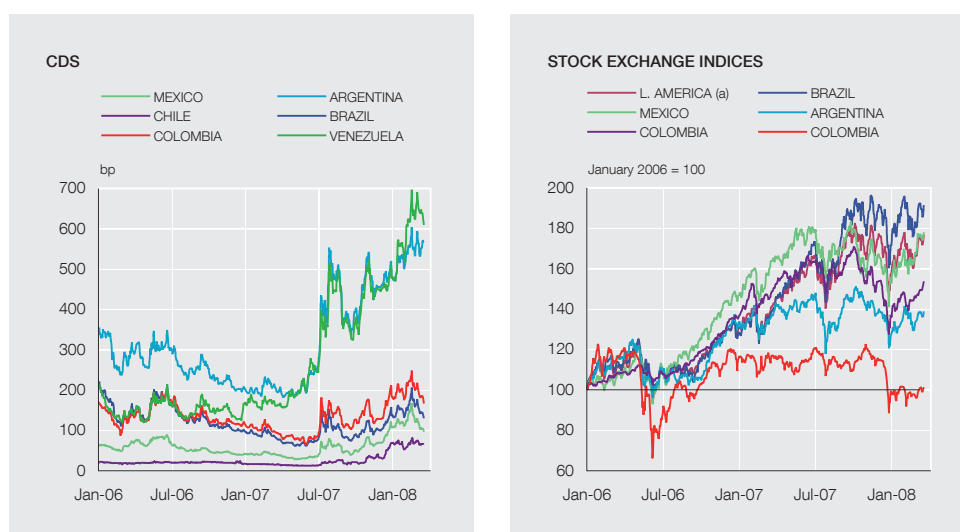
The adverse inflationary performance is hampering the task of central banks. In fact, inflation stood at end-2007 outside the respective central bank targets (except in Brazil and Mexico), and its recent behaviour might once again compromise the inflation objectives for 2008. Generally, this performance might be said to have exerted a relatively moderate influence on inflation expectations, which may be positively assessed as a sign of central bank credibility (see Box 3). However, an increase in expectations has been discernible in recent months, which is a cause for concern.

The central banks of Chile, Colombia, Mexico and Peru raised their official interest rates moderately, while the Brazilian central bank held its interest rates unchanged from October, but

CDS AND STOCK MARKETS

Basis points and indices

CHART 9



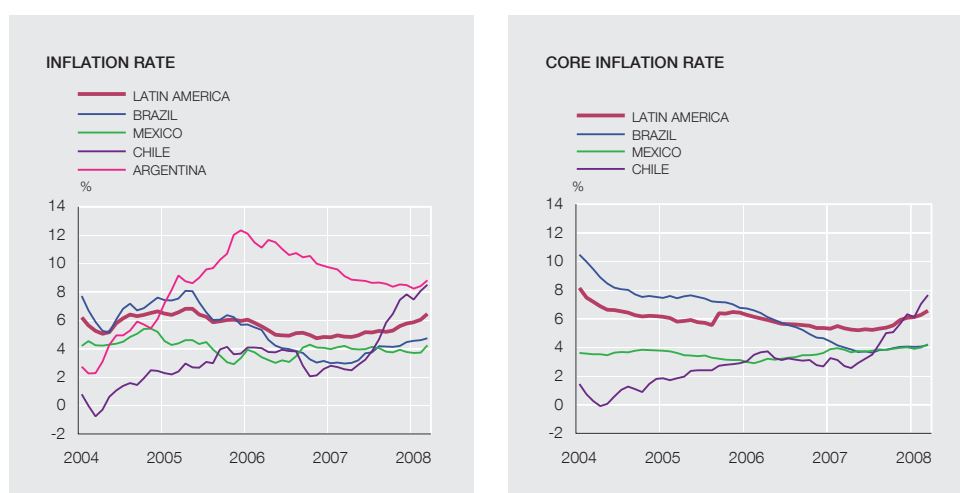
SOURCE: Datastream

a. MSCI Latin America Index, in local currency.

INFLATION

Year-on-year rate

CHART 10



SOURCE: National statistics.

raised its reference rate in April by 50 bp. These monetary policy decisions have come about against the background of growing downside risks to the international economic picture. That is a notable development, especially when compared with bouts of financial instability in the past, when official interest rate movements were subordinated by the need to avoid financial outflows and to stabilise the exchange rate.

During this episode, monetary policy conduct has also been influenced by the external environment, albeit in a different way. In 2008 Q1 in particular, there has been a notable widening of interest rate spreads vis-à-vis the dollar, mainly as a result of the official interest rate cuts in the United States, which has contributed to the appreciation of the currencies of countries

MODEL¹

Price stability is a fundamental goal of economic policy, and has become a priority in Latin America in recent years. Monetary policies based on explicit inflation targets (ITs) have become increasingly widespread, both in the region and globally: in 2005, 21 countries had adopted inflation targets, of which 13 were emerging countries and 5 in Latin America [see IMF (2005)], but the number continues to rise gradually. This type of monetary policy mechanism was adopted early in Latin America, Chile being the second country in the world (after New Zealand) to adopt an IT in September 1990, although it was not until 1999 that an explicit IT was set. Following this pioneering experience, Colombia and Brazil adopted explicit ITs in 1999. In the case of Mexico, in the wake of the 1995 financial crisis, the Bank of Mexico began to publish its IT in 1999, although it was not until 2001 that the central bank announced the formal adoption of this monetary policy mechanism. Peru, the only highly dollarised economy of the five, started to adopt explicit ITs in 2002, and other countries of the region have adopted explicit ITs very recently (Guatemala and Costa Rica) or are in the process of incorporating such mechanisms (Paraguay).

IT regimes are usually associated with greater monetary policy credibility, which is conducive to the anchoring of expectations and, ultimately,

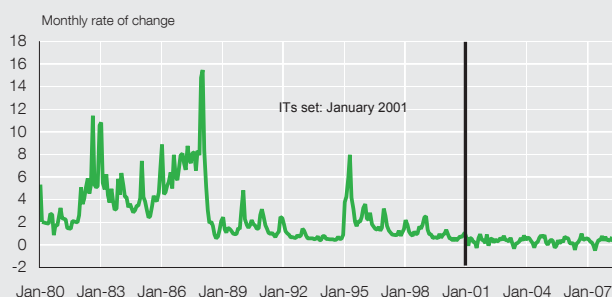
a reduction in the level and volatility of inflation. However, although the literature on ITs is very extensive, the empirical evidence (both for developed and emerging countries) is not entirely conclusive. On one hand, some authors have used diverse methodologies to confirm the usefulness of ITs in reducing the level and volatility of inflation; inter alia the IMF (2005) and Vega and Winkelried (2005). On the other hand, some authors, such as Ball and Sheridan (2003) conclude that the effect of introducing ITs is not significant, since the reduction in inflation and in its volatility has been a global phenomenon.

In the case of Latin America, the analysis of inflation and of the policies to reduce it is particularly important. During most of the past century this region experienced periods of high and volatile inflation (above two digits in some cases), along with periods of economic and financial crisis. Over the last five years, however, substantial progress has been made in reducing inflation, amid the adoption of IT strategies by numerous countries, under difficult circumstances (financial instability, strong downward exchange-rate movements and the abandonment of rigid exchange-rate regimes, which have served as nominal anchors for many Latin American countries in recent decades).

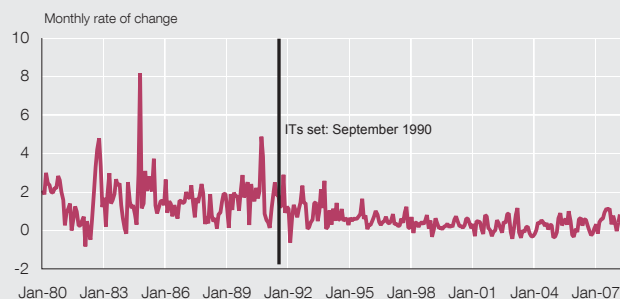
Nonetheless, this reduction was experienced in most Latin American countries, irrespective of the adoption of ITs. The adjoining table illustrates the decline in the means and standard deviations of month-

1. Based on C. Broto, (2008), *Inflation targets in Latin America. Empirical analysis using GARCH models*, a forthcoming Banco de España Working Paper.

1 MEXICO



2 CHILE



		Countries with ITs (a)					Countries without ITs		
		Brazil	Chile	Colombia	Mexico	Peru	Argentina	Ecuador	Uruguay
Since 1990	Average (b)	6.46	0.58	1.11	0.98	2.96	1.70	4.30	1.89
	SD (c)	12.10	0.69	0.91	0.99	12.98	6.20	33.69	2.05
Since 2000	Average	0.56	0.28	0.52	0.40	0.19	0.74	1.15	0.71
	SD	0.47	0.39	0.47	0.32	0.33	1.28	2.21	0.87
		Date IT adopted							
Period before IT	Average	11.98	1.68	1.63	1.39	11.96			
	SD	14.87	0.69	0.89	1.06	24.22			
Period after IT	Average	0.57	0.54	0.52	0.35	0.40			
	SD	0.47	0.66	0.47	0.31	0.48			

SOURCES: International Monetary Fund (WEO 2005) and Vega and Winkelried (2005).

a. IT = inflation target

b. Non-seasonally adjusted monthly inflation rates.

c. SD = standard deviation.

d. For consistency with the literature, in Chile and Peru the date of adoption of the IT is taken and not the date of adoption of the explicit IT.

MODEL¹ (cont'd)

ly inflation rates in recent years in all the selected countries. By way of example, panels 1 and 2 show the course of monthly inflation rates during recent years for the two countries that have adopted ITs (Chile and Mexico).

To evaluate the effectiveness of the implementation of ITs in Latin America a regression analysis has been performed, using a generalisation of the model proposed by Broto and Ruiz (2006). This GARCH-type model takes into consideration the variation of volatility over time and enables possible structural changes in the level and in the volatility of the series to be incorporated, so that the effect of the adoption of ITs in these countries can be quantified. This specification has a number of advantages for inflation analysis: (i) it captures the short and long-term dynamics of the inflation rate; (ii) it identifies the dynamics of its volatility, so that a rigorous evaluation can be made as to whether adoption of ITs has given rise to changes in inflation volatility and in its persistence, and (iii) it enables the relationship between the volatility and level of the inflation rate and, in particular, the question of whether volatility responds symmetrically to shocks with different signs to be analysed.

The proposed model is adjusted to the inflation series of the five Latin American countries that have already adopted ITs, as well as to Argentina, Ecuador and Uruguay. The model is estimated for the complete inflation series² and (in the case of the five countries with ITs) it is also estimated for the period prior to the adoption of ITs, the

subsequent period and, finally, to quantify the changeover to IT arrangements, a dummy variable has been incorporated into the estimation of both inflation and its volatility.

The conclusions of the empirical study of the impact of the adoption of ITs are as follows: (i) a reduction in the level of inflation is clearly identified in Chile, Colombia and Mexico, while in Brazil and Peru the result is not statistically significant (in the former case, owing to the effect of the 2002 crisis) (ii) there was a significant reduction in the persistence of volatility in all the countries except Colombia (where the statistical evidence is not conclusive). In the three countries that have not adopted ITs the persistence of volatility is greater, despite the decline in the level of inflation in recent years, and (iii) the reduction in inflation seems to have contributed to the entrenchment of low volatility in most of these countries. In short, the results obtained would support the usefulness of adopting ITs not only to anchor inflation levels, but also lower volatility.

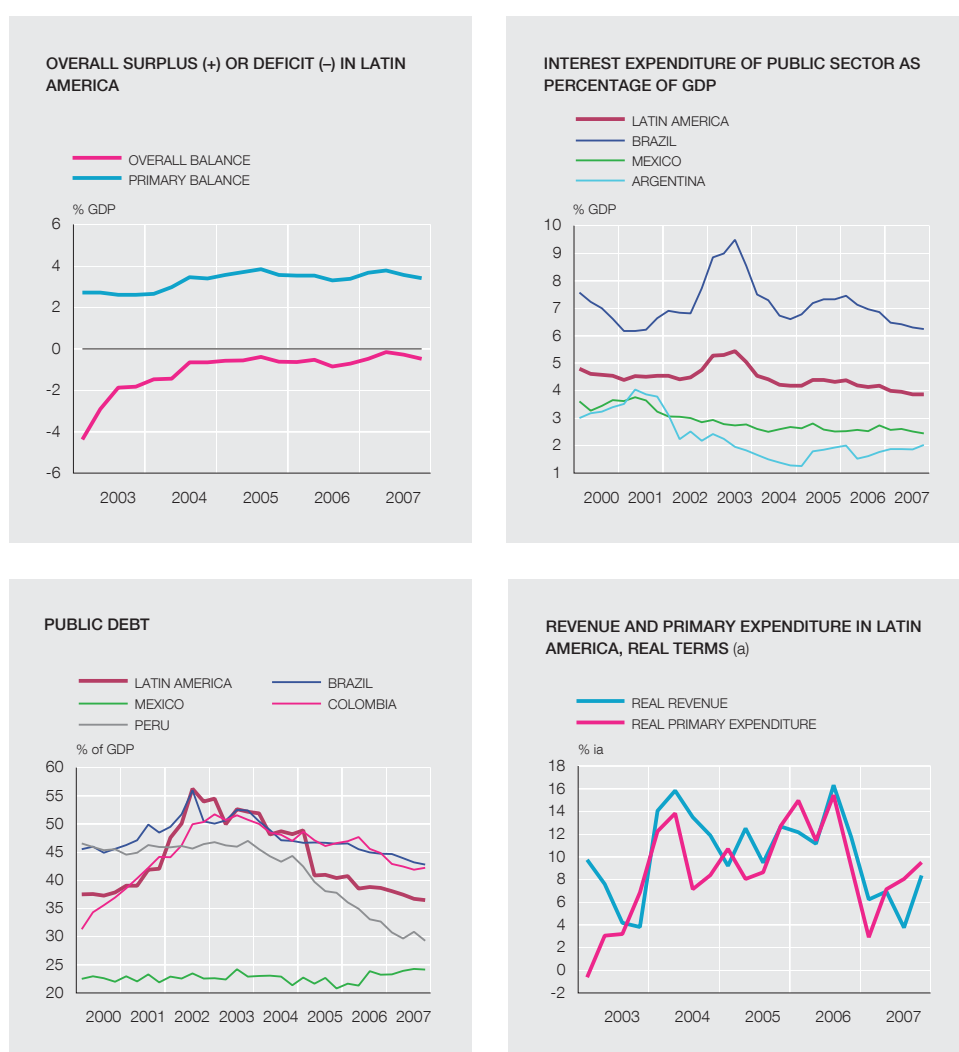
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2. The estimation procedure is pseudo maximum likelihood. The estimators are obtained after maximising the likelihood obtained using the relevant Kalman filter.

such as Brazil, Colombia, Peru and Chile. The scale of the appreciation has been insufficient to contain the rise in inflation. And that has generated a dilemma for the monetary authorities, between the need to make more aggressive interest rate rises and the potential rising pressures on their currencies that would ensue, against a background of concern over the risk of losses in external competitiveness.

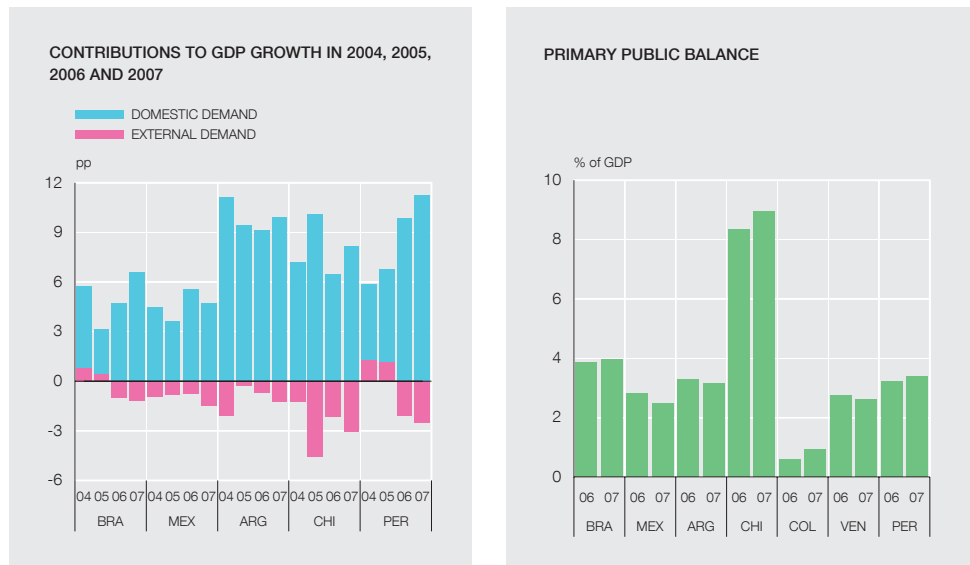
The response to this dilemma has differed from country to country. On occasions, monetary tightening measures complementing the interest rate rises have been tried, such as raising reserve requirements (Peru and, to a lesser extent, Brazil). Attempts have been made elsewhere to check inflation through measures outside the monetary sphere, such as setting relatively widespread price controls (Argentina and Venezuela), or controls confined to certain products (Mexico). Other, less heterodox measures have included the lowering of import tariffs in Peru, or implicit energy price subsidies in Chile. Likewise, measures have been implemented to pre-empt appreciation, including most notably the reactivation of international reserves purchases by various central banks (including Chile). In other cases, the authorities have adopted measures aimed at reducing the demand for local currency, by promoting exports and eliminating exemptions on specific financial assets (Brazil), or have amended legislation, as in the case of pension fund managers in Peru and in Chile. Finally, a plan was designed in Chile to try and compensate those in the export sector adversely affected by the appreciation of the currency.



SOURCE: National statistics.

a. Deflated by CPI.

In the fiscal arena, the primary surplus held very high at 3.4% of GDP, a similar level to that in 2006, while the overall budget balance remained moderately in deficit at around 0.5% of GDP. In any event, one of the main features of the six-month period was the favourable behaviour of revenue, across the region, boosted by cyclical growth and the positive contribution of commodities prices. However, in a good number of countries the fiscal balances worsened slightly relative to 2006 (see Chart 11), given that the increase in spending exceeded that in revenue. Should this trend continue, it might be a cause for concern (with exceptions such as Chile) in the event of a greater economic slowdown. In Argentina there was some worsening in public finances owing to the electoral cycle, despite the increase in revenue resulting from the higher taxation on certain exportable goods. Chile ran a central government surplus equivalent to 8.7% of GDP, although in the second half of the year the surplus eased off owing to the decline in revenue, partly due to lower copper production, which reduced exports and the associated revenue.



SOURCE: National statistics.

up in the 90s remained in a situation of stagnation, while bilateral trade agreements continue to prosper and proliferate. In this respect, in MERCOSUR, the European Union's consideration of Brazil as a "strategic partner", on a standing with the United States, Japan and India, might undermine to some extent the continuity of the customs union in its current form. Chile re-joined the Andean Community, and Brazil and Argentina contributed capital to the financial arm of the agreement, the CAF (Andean Development Corporation). Further, the free trade treaties between Peru and Panama with the United States were approved. Running counter to this, the US Congress suspended the vote on the free-trade treaty signed by the United States and Colombia, which may in practice postpone its approval indefinitely. However, the United States extended to late 2008 its preferential tariff agreements for Colombia, Ecuador and Bolivia, the latter two countries having no intention of negotiating trade agreements. Finally, on 1 January agricultural imports were fully liberalised under the North American Free Trade Agreement, the consequences of which for the agricultural sector in Mexico have yet to become clear.

There has been no major headway either in the past six months in structural reform. Nonetheless, three initiatives stand out: the reform of the pension system in Chile; the presentation in Brazil of a proposed tax reform; and the proposed reform of the energy sector in Mexico. The first initiative is the biggest change to the funded pension system since it was created in 1980, as it ensures a minimum non-contributory pension and encourages greater market competition. In the opposite direction, Venezuela took further steps in nationalising the oil sector, although it encountered legal problems stemming from claims from a US company which have not yet been resolved. The proposed reform of the Constitution, which would increase State intervention in the economy, was rejected in a referendum in early December.

Developments in the main countries

In *Brazil*, GDP accelerated significantly during the year, posting year-on-year growth rates of 5.6% and 6.2% in Q3 and Q4, compared with 3.7% in 2006. This acceleration was due to the greater dynamism of domestic demand, driven by private consumption (which grew notably by 8.6% in Q4) and by investment, while government consumption slowed. The contribution of external demand turned more negative in the second half of the year, subtracting 1.1 pp from growth in 2007 (see Chart 12). In the external sector, there was a rapid reduction in the trade

and current account surplus during the second half of the year. That placed the cumulative balance over the past 12 months in deficit in early 2008. Factors underlying this deterioration have been the strong increase in imports, driven by the strength of domestic demand and by the exchange rate (which has continued to appreciate). Financial inflows and purchases of reserves held up in the second half of 2007 and in the first two months of 2008, albeit at more moderate levels. The inflation rate increased from 4.2% in August to 4.5% in December, driven mainly by food prices, but also by demand pressures. Subsequently, inflation held constant at around 4.5%, in a setting in which the central bank held interest rates at 11.25% as from October, although it revealed an increasingly restrictive bias in its inflation report and in the published minutes of the monetary policy committee which culminated in a rise in rates in April. As regards fiscal policy, the budget targets were met for 2007 as a whole (a primary surplus of 4% of GDP, see Chart 12) and there was a series of changes in the tax system, such as the rise in the tax on credit, as a means of partially offsetting the non-approval of the tax on financial transactions, which generated an increase in the cost of credit. The most notable initiative was the presentation, in late February, of an ambitious draft tax reform, aimed at reducing the complexity of the system, improving its fairness and doing away with competition among regional government tax regimes. The main measures are the simplification of the federal indirect tax system, the re-design of the ICMS (the widest ranging State tax, essentially levied on commercial transactions), and the reduction of the tax burden, particularly on salaried income. The proposal is a very ambitious one that merits a favourable assessment, though there are doubts over its viability.

In *Mexico*, GDP also quickened in the second half of 2007, growing by 3.7% and 3.8% year-on-year in Q3 and Q4, respectively, compared with 2.9% in Q2. The acceleration came about despite the deterioration in the economic situation in the United States, Mexico's main trading partner and the destination of Mexican emigration, highlighting significant differences in relation to other past cycles. Firstly, the weight of domestic demand has increased, underpinned by macroeconomic stability, the greater supply of credit, and the dynamism of the services and house-building sectors. Secondly, a portion of Mexican exports to the United States are intermediate goods used in turn in the production of US exports to the rest of the world and, since the weak dollar has boosted US sales abroad, that may explain the greater strength of Mexican foreign trade in the second half of the year. Further, the US industrial production cycle, to which Mexico is most closely correlated, has not slowed down at the same rate as the rest of the economy. Thirdly, there is room to apply counter-cyclical measures, both on the monetary side (although here the concern over inflation developments has not dissipated) and, above all, on the fiscal front (the oil surpluses allow the momentum of public investment to be maintained and the primary surplus is holding at 2.4% of GDP, see Chart 12). In this respect, the government presented a series of measures in early 2008 to address the foreseeable slowdown in activity: cuts in certain taxes, the elimination of import restrictions, higher PEMEX spending, the financing of small companies through official institutions, and the reduction of electricity charges to companies. Another differential factor (this time of a negative nature) compared with previous slowdowns in the US economy, is the reduction in the remittances of Mexican immigrants in the United States, especially those previously employed in the construction sector, the effect of which on consumption may prove not to be negligible. Inflation dynamics were somewhat more benign than in other countries in the region, as inflation eased to 3.7% in February 2008, following the application of certain measures in respect of import quotas and price controls on specific products; however, in March inflation once again rose above 4%, the upper boundary of the target band. The central bank raised interest rates by 25 bp, in a move considered as pre-emptive and aimed at increasing the central bank's inflation-fighting credibility and at preventing contagion to inflation expectations.

In *Argentina*, the growth rate in 2007 (8.7%) stood above 8.5% for the fifth year running. Moreover, activity progressively quickened during the year, reaching a growth rate of 9.1% in Q4. Behind this dynamism was the increase in domestic demand, due essentially to the greater strength of private consumption. Conversely, the dynamism of the investment slackened in relation to 2006 (it increased by 14.4% in 2007, compared with 18.2% in 2006), although for the year as a whole the investment/GDP ratio stood at 22.7%, thereby regaining the highest figures since convertibility, and with a positive change towards a greater weight of investment in capital goods. The contribution of the external sector progressively deteriorated, subtracting 1.2 pp from GDP growth (see Chart 12), mainly as a result of the strong growth of imports. From the supply standpoint, there was a significant turnaround in 2007 as the services producing sectors outgrew the goods producing sectors for the first time since 2002. The higher frequency indicators currently available show that the strength of activity has held up in early 2008. Part of the economy's high growth can be attributed, for yet another year, to the improvement in the terms of trade which, in addition to contributing to sustaining the strong expansion in domestic demand, provided for greater fiscal solvency. The primary surplus stood at 3.1% in 2007, although it is biased upwards by the recording of transfers from pension fund management companies, following their reform in May 2007, as current revenue. Recently, export withholdings have increased. The comfortable current account balance position is also notable. Nonetheless, the dependence on the terms of trade is one of the chief vulnerabilities of the Argentine economy. To increase the economy's growth potential, which is notably lower than the growth recorded in recent years, it would appear essential to pursue a diversification drive, to overcome the constraints of the energy sector (which became patent at certain times in 2007) and to raise FDI, which stood at 2.4% of GDP in 2007, far below the levels attained during the years of convertibility and of those posted by other countries in the region. Official inflation held at over 8% (8.5% in March), although this figure probably underestimates actual inflation considerably. Furthermore, unlike in other countries, the official increase in food prices has remained relatively contained, but this is also the outcome of multiple price controls, and of the application of export restrictions and of cross-subsidies.

In *Chile*, GDP slowed significantly in the second half of 2007, standing at year-on-year rates of 3.9% and 4% in Q3 and Q4, respectively, down from 6.2% in the first half of 2007. This lower growth may be attributed to the growing negative contribution of external demand (–5.1 pp in Q4, see Chart 12), since domestic demand quickened to the extent of contributing 9.1 pp to growth. Behind the increase in domestic demand is the greater dynamism of investment (which, in terms of GDP, stood at a historical high, following the strong deceleration in 2006), since private consumption, though it remained strong, slowed slightly. This external demand drag can be explained by both the reduction in exports (due to the effect of the reduction in copper exports, owing to energy problems and the deterioration of mine quality, and to lower industrial goods exports, owing to energy and currency appreciation problems) and the increase in imports. The high price of copper has enabled the government to save more than 15 points of GDP in the past three years, using the mechanism of the structural surplus rule, which provides ample room to undertake counter-cyclical policies, and to keep the trade surplus close to 15% of GDP over the past two years. In both public finances and in the trade balance, the situation has been turning somewhat less positive in recent months. Conversely, the FDI/GDP ratio stood at 8.5% during 2007. Inflation climbed from 4.7% in August to 8.5% in March, accelerating the trend initiated in 2007 Q1 when it was at around 2%. This strong rise may have a significant cyclical component, but it is a challenge for the central bank, which raised interest rates by 25 bp on two occasions, placing the official rate at 6.25%. To alleviate the rising pressures associated with high interest rate levels, interventions have been made on the foreign exchange markets.

The pace of activity remained strong in *Colombia* in the second half of the year, with year-on-year growth of 6.8% and 8.2% in Q3 and Q4. This growth was boosted by domestic demand and, in particular, by investment, and government consumption could be seen to quicken. Inflation trended unfavourably, gradually rising from 5% in September to 6.3% in February, although it eased off in March (5.8%). Against this background, the central bank raised interest rates on two occasions, by 25 bp in each instance, taking them to 9.75%, while the Colombian peso continued appreciating notably. The current account deficit fell in the second half of the year, but widened by more than 1 pp on 2006, standing at 3.6% of GDP. The deficit was more than covered with long-term financial inflows, though there were net financial outflows in the short term, in clear contrast to the previous six-month period. The primary surplus held at around 1% (see Chart 12).

In *Peru*, activity was very buoyant in the second half of the year, and even quickened in Q4, up to a year-on-year growth rate of 9.7%. Surprisingly, domestic demand continued on an upward course (see Chart 12), owing especially to the highly favourable performance of investment. Inflation, after having eased notably during the first six months, posted a significant increase to 5.5% in March. In order to tackle the rise in inflation, the government reduced the tariffs on certain imports, and the central bank increased the official interest rate by 50 bp to 5.5%, and raised the reserve requirement. The intensification of rising pressures on the Peruvian sol in recent months, and especially from early 2008, led the central bank to intervene on the markets. The primary surplus held at above 3% of GDP.

Growth in *Venezuela* stood at around 8.5% in the second half of the year, a high rate but clearly down on 2005 and 2006. On the supply side, the oil sector, although it posted negative rates throughout 2007, performed better in the second period, while under non-oil activity, construction slowed and manufacturing accelerated. The contribution of domestic demand to GDP growth was below 25 pp and the negative contribution of external demand was around 15 pp, owing to the strong growth of imports and the year-on-year decline in real exports. These developments continued to show the extreme dependence of the growth model on oil prices. Inflation increased notably, standing in February at a year-on-year rate of over 26%. The most favourable feature in the period was, unlike in previous years, the moderation of public spending, which fell in real terms and which, therefore, accompanied the sluggishness of revenue, where the dependence on oil revenue once again increased. The primary surplus stood at 2.6% of GDP.

15.4.2008.

A MODEL FOR THE REAL-TIME FORECASTING OF GDP IN THE EURO AREA
(EURO-STING)

The authors of this article are Máximo Camacho, of the University of Murcia, and Gabriel Pérez Quirós, of the Directorate General Economic, Statistics and Research.¹

Introduction

The assessment in real time of economic developments in the very short term is a complex task. Primarily, because the macroeconomic variables needed to characterise the situation are released with a substantial lag and, occasionally, the data available are incomplete or insufficient. But also, moreover, because despite the greater abundance and more frequent availability of indicators of economic sentiment or of activity providing preliminary information on the behaviour of relevant macroeconomic aggregates, it is not immediately clear how to integrate in a structured form the occasionally contradictory information provided by these indicators.

To facilitate this integration, significant progress is being made in the development of real-time forecasting models that allow the different pieces of information of relevance for forecasting economic variables to be incorporated, as and when this information is available. This article presents such a model, designed for the real-time forecasting of the GDP growth rate in the euro area: the EURO-STING (Euro Area Short Term Indicator of Growth).²

A description of this model is first given. Next, the main results of its estimation are described, and its forecasting power set against some of the most commonly used alternatives on the European economic forecasting scene is assessed. Finally, some brief conclusions are drawn.

The forecasting model

Real-time forecasting models use various economic indicators to forecast relevant variables.³ In the EURO-STING, the variable subject to forecasting is the quarter-on-quarter growth rate of GDP in the euro area for the current quarter and the following two quarters. The official data on this rate are provided by EUROSTAT in three waves: i) a preliminary announcement (a “flash” estimate), released six weeks after the end of the related quarter; ii) a “first” estimate, released around a fortnight later, and iii) a “second” estimate, out around 14 weeks after the end of the reference quarter. It is this second estimate which is subject to real-time forecasting by the EURO-STING.

Forecasting is based on indicators which refer either to economic agents’ sentiment or to the actual behaviour of different sectors. More specifically, the model uses monthly indicators of economic activities such as the Industrial Production Index (IPI), the retail sales index, the index of new industrial orders (INO), and exports, whose release lags the reference month by between four and eight weeks. It also uses employment, as an indicator of quarterly economic activity, the lag in which is about six weeks. In addition, (monthly) survey-based indicators such as the indicator of Belgian economic activity (BNB), the indicator of euro area economic sentiment (ESI), the German economic climate indicator (IFO) and the indicators of manufacturing industry purchases (PMIM) and of services industry purchases (PMIS) are in-

1. We are grateful to Camilo Alonso Ulloa and Carlos Vacas for their most valuable assistance in preparing this article and for the maintenance of the databases in real time. Without their work the real-time assessment of the model would not have been feasible, and nor would it be possible to update the forecasts on an ongoing basis. 2. See Camacho and Pérez Quirós (2008) for a detailed description of the design, estimation and results of the EURO-STING. 3. The design of the EURO-STING draws on Stock and Watson (1991), Mariano and Murasawa (2003) and Giannone, Reichlin and Small (2006), all designed for the US economy. A parallel model to ours, for the euro area, can be found in Angelini et al. (2008), where around 90 indicators are used.

cluded. In the case of survey-based indicators, there is no lag in the publication of the data as they appear in the closing days of each month to which they refer. Also forming part of the set of indicators in the model are the flash and first estimates of Eurostat, from the very first moment they are available.

The combining of different frequencies, different release dates, different sample periods and series revisions is carried out using dynamic factor models in which each of the series is decomposed into a common component and an idiosyncratic component. The model also allows for forecasting of the future behaviour of each of the indicators, meaning it is possible to analyse the effect on the GDP forecasts of the unexpected changes in the economic indicators.

In non-technical terms, the idea of the model is that there is first a common dynamic component (the business cycle) which helps simultaneously explain the behaviour of GDP and of all the indicators, and further an idiosyncratic component which determines the movements that do not respond to the dynamic of this common factor. Under these conditions, the movements of each indicator help anticipate, in part, the trend of the common component and, therefore, of GDP. Moreover, the more indicators tend to coincide in anticipating the same behaviour of the common factor, the greater will be the likelihood that this common factor is actually moving in the direction anticipated individually by each of them. The technical details on the workings of the model can be found in Camacho and Pérez Quirós (2008).

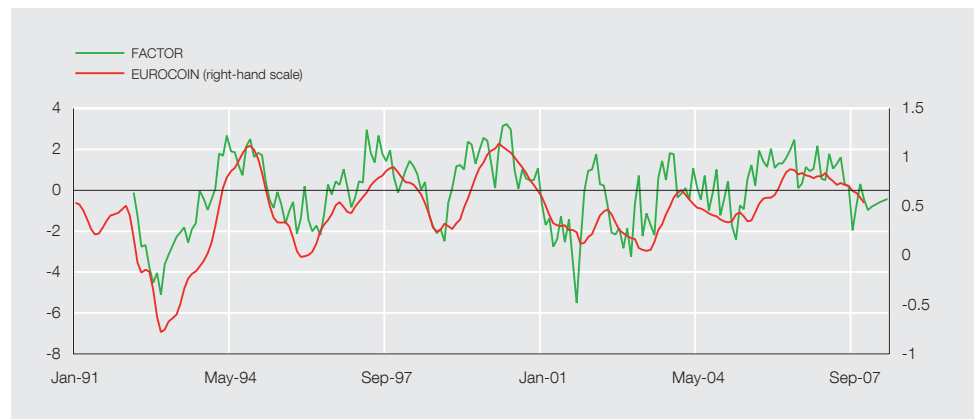
Empirical results

MODEL FUNCTIONING

EURO-STING allows a daily update of the forecasts. On each occasion the GDP figure is forecast for the latest as-yet-unreleased quarter and the two following ones. For example, on the latest information available to 9 January 2008, i.e. shortly after the end of 2007 Q4 and just after the release of the revised ("second") estimates for 2007 Q3, a forecast was made for GDP growth in 2007 Q4 and, with a greater degree of uncertainty, in the first two quarters of 2008. Later, once the revised GDP figure for 2007 Q4 has been released and incorporated into the model, the forecasting window shifts and covers the first three quarters of 2008. At each update of the model a forecast is made, moreover, of the forthcoming figure for each of the indicators. In this way, when each indicator is released, it is possible to identify which part of the released figure has been as expected and which unexpected, and to assess the impact of this on growth forecasting.

One initial and interesting result of the estimation of the model is that it does tend to corroborate the fact that the economic indicators used share a common factor that moves in step with what is traditionally considered "the European cycle". Chart 1 shows the common factor estimated by the model (in the left-hand scale) together with the Eurocoin (right-hand scale), an indicator published by the CEPR which is probably that most used by the literature on the European business cycle. As the chart shows, EURO-STING provides a common factor whose cyclical dynamic is similar to that of the Eurocoin, suggesting that it suitably reflects the cyclical behaviour of the euro area.

Table 1 sets out estimates of the impact of this common factor on each of the indicators used in the model, along with their standard deviations. In all instances, the estimates are positive and statistically significant, suggesting that the behaviour of the indicators used is procyclical. However, notable differences can be seen in the magnitude of the coefficients. The indicators of economic activities such as IPI, INO and GDP itself exhibit the highest estimates (0.21; 0.19 and 0.12, respectively). Yet the impact of the common factor on the survey-based indicators is constantly below 0.07. Nonetheless, this result cannot be interpreted as a symptom of the limited predictive power of these latter indicators; in a real-time forecasting setting, it is not only the predictive power of each variable that is important, but also the immediacy with which it is



SOURCE: Banco de España.

a. Estimated factor (April 1992 - June 2008) and Eurocoin (January 1991 - December 2007). The latter is measured on the right-hand scale.

IMPACT OF THE COMMON FACTOR ON THE INDICATORS (a) (b)

TABLE 1

Second	IPI	Sales	INO	Exports	ESI	BNB	IFO	PMIM	PMIS	Employment
0.15	0.21	0.06	0.19	0.12	0.05	0.06	0.05	0.07	0.07	0.10
(0.03)	(0.04)	(0.03)	(0.04)	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)	(0.02)	(0.04)

SOURCE: Banco de España.

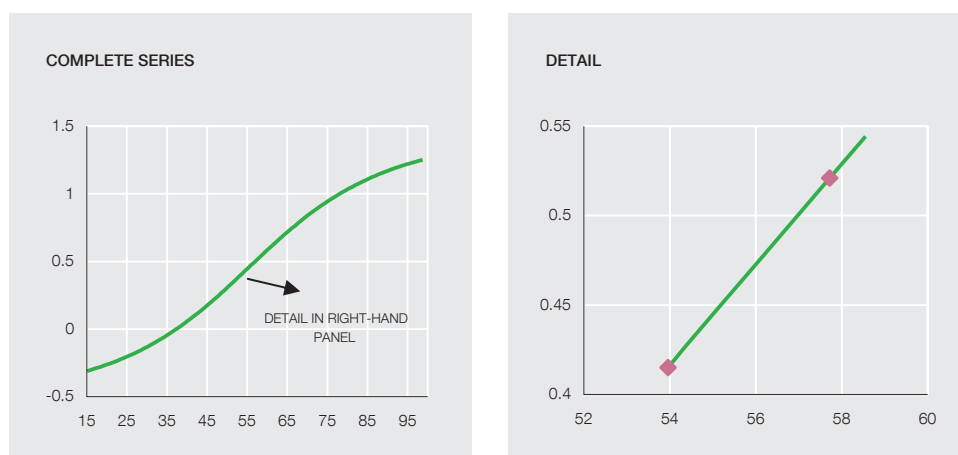
a. The values in brackets are the standard deviations.

b. The database used for the estimate relates to 9 January 2008.

available. It is the survey-based indicators that are first available and, therefore, even though they provide less information content than others, they do so at a time in which they are practically the sole source of information available. Indeed, their relative weight in the forecasting of GDP is very high at the beginning of each quarter, diminishing thereafter as more indicators of real activity containing more accurate information on developments in the common component become available.⁴

Chart 2 depicts an example of how the model functions when faced with the input of a new piece of information. More specifically, this chart illustrates how the forecasting of GDP changed in the face of a major surprise: the PMI services index of 21 September 2007. The expected value for this series was, according to the model, 57.7, and the forecast for growth in 2007 Q4 associated with this value was 0.52%. The chart firstly shows how the forecast for a broad range of possible PMI services outturns would have varied. The value the indicator finally took was 54, considerably below the forecast value. As a result, the EURO-STING interpreted the surprise in the indicator as relevant information on a negative performance of the common factor and consequently revised downwards the forecast of quarterly GDP growth to 0.41%.⁵ This analysis, which can be conducted for all indicators included in the model, shows how EURO-STING provides an integrated framework for interpreting the novelty and relevance of each new figure, translating it directly into consequences in terms of more or fewer percentage points of GDP.

4. Baríbura and Runstler (2007) show that survey-based indicators have little predictive power in respect of European output other than that which is already included in the economic activity indicators. 5. That same day the forecast fell by 0.1 pp more owing to the negative surprise in the PMIM.



SOURCE: Banco de España.

a. Forecasts made as at 17 September 2008.

Table 2 summarises the main output obtained from the EURO-STING, once again taking the forecasts made on 9 January 2008 as a reference. This table provides readers with an overall view of the current economic situation and of its expected future course in the short term. Further, analysis of the changes over time in these “snapshots” of the situation at a given time allows for an alternative illustration of the functioning, in real time, of the model. More specifically, Chart 3 shows the forecasts that were made for 2007 Q4 on the basis of information emerging at each point in time. The chart enables the impact of the information associated with the financial turbulence that affected international markets in the summer of 2007 to be analysed. The first day the model provided forecasts of Q4 was on 12 June 2007, when the GDP figure for 2007 Q1 was released. Then, the forecasts were for growth of 0.63%. The first information referring to the financial turbulence was in the PMI services and manufacturing indices released in September, with values denoting declines of 3.83 and 1.13 points, respectively, not anticipated by the model. Moreover, the values of the other survey-based indicators such as BNB, IFO and ESI also depicted unanticipated declines of 1.8, 1.6 and 3.1 points, respectively. As the chart shows, the negative response of the growth forecast was immediate, falling to 0.3%. Subsequently, the survey-based indicators improved and the emergence of the initial data on economic activity were positive (especially the IPI, with growth of 0.5% in August), meaning that the forecast reached 0.4% at the end of the sample.

PREDICTIVE POWER

To assess how EURO-STING functions compare with alternative tools, a database has been constructed in which the information that was available at the time is used to make the forecast on each of the days between 2 January 2004 and 9 January 2008. Using the first of these 411 dates, a forecast of growth in the euro area in the following nine months is made. The model is re-estimated and the forecasts repeated until the last date in the database.⁶

Naturally, as in all real-time forecasting models, the degree of uncertainty of each forecast diminishes as the information set available to make it increases. For instance, Chart 3 shows how the confidence bands around the anticipated growth rate progressively narrow as new data from the indicators emerge. Chart 4 is based on a repetition of the example in Chart 3 for each of the quarters forecast by EURO-STING since the start of the sample period. Specifically, the chart

6. The model is re-estimated only for the first database of each quarter, making the forecast in real time with the parameters estimated in the first estimate for the quarter.

GDP				Indicators		
SECOND	2007Q4	2008Q1	2008Q2	Series	Latest (b)	Forecast
	0.37	0.43	0.43	IPI	0.44	-0.06
	(-0.102)	(0.122)	(0.143)	Sales	-0.50	0.52
				INO	2.54	-1.40
				Exports	0.26	0.02
				ESI	104.70	104.21
				BNB	-1.90	-2.15
				IFO	103.00	102.57
				PMI Man.	52.55	52.49
				PMI Serv.	53.14	53.38
				Employment	0.28	0.18
				Flash	0.71	0.37
				First	0.71	0.36

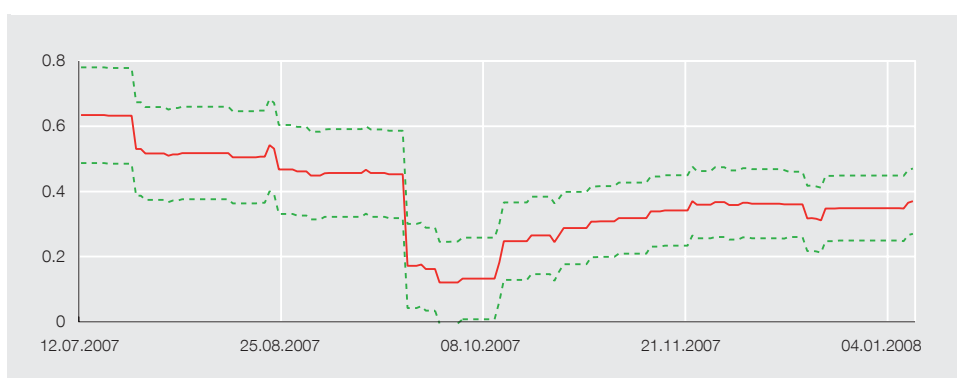
SOURCE: Banco de España.

a. The values in brackets are the standard deviations.

b. Refers to the latest known data for the indicator.

FORECASTS IN REAL TIME FOR 2007 Q4 (a) (b)

CHART 3



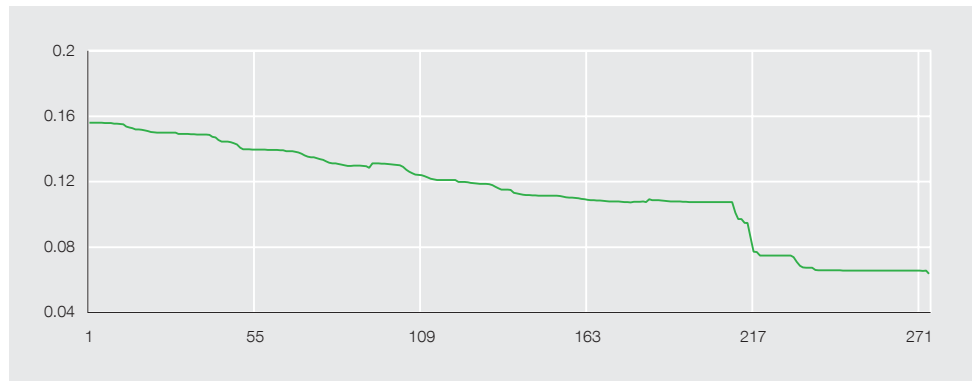
SOURCE: Banco de España.

a. Forecasts from 12 June 2007 to 9 January 2008.

b. The dotted lines plot the confidence bands of a standard deviation.

plots the average standard deviation of the growth forecast for each of the 275 days on which, on average, forecasts are made for a particular quarter. As can be seen, uncertainty about the forecast progressively diminishes thanks to the release of indicators. For the first 200 days of forecasting, volatility diminishes by approximately one-third. Around the day on which the flash estimate is released there is a sharp reduction in uncertainty. However, the decline in volatility associated with the release of the first estimate is much less, indicating that part of the information supplied by this estimate was already contained in the indicators released previously.

In addition, Table 3 analyses the predictive power of EURO-STING relative to that of other models which forecast short-run growth in the euro area. These include those of Eurocoin, IFO-INSEE-INSAE, the European Commission, the OECD and the DG ECFIN. It should be borne in mind that the forecasts of EURO-STING are updated daily while those of other models may go several months without being updated. However, for the purposes of this com-



SOURCE: Banco de España.

a. The average is calculated for the sample in which the real-time forecasts are calculated.

parison, the EURO-STING forecasts for the same day and with the same information as that used in other models are taken.

In terms of the mean square error of the forecast, EURO-STING almost always produces the forecast with a lesser deviation from the figure actually released by Eurostat. Specifically, at any of the horizons considered, it is an improvement on the forecasts of Eurocoin, IFO-INSEE-INSAE and the European Commission. It also marks an improvement on the projections of DG ECFIN as the forecasting horizon increases, and its forecasts are even comparable with those of the OECD. It should be recalled that this comparison does not assess the main advantage of EURO-STING, namely the fact that its forecasts can be updated daily and that it is possible to quantify the impact that each new piece of information has on the forecasts.

Finally, it is worth comparing the EURO-STING forecast with that estimated by Eurostat when it releases its flash and first estimates. The flash estimate has a mean square error (relative to the figure published with the second estimate) of 0.024. With the flash estimate information incorporated, EURO-STING makes a forecast with a mean square error of 0.022. That is to say, although the flash estimate offers a very reliable lead on the final figure, if it is considered as one more indicator of activity and is complemented with the information from other indicators, as is the case with EURO-STING, the resulting forecast is ultimately even closer to the final result. The outcome is similar for the first estimate. The mean square error of the first estimate is 0.022, and the EURO-STING forecast once it incorporates the first estimate into its information set yields a lower mean square error of 0.014.

Conclusions

This article proposes a model, the EURO-STING, for the real-time, short-term forecasting of euro area GDP. The model is flexible enough to use indicators of economic activity and survey-based indicators, which may evidence different frequencies, lags in the publication of information, short samples and even incomplete data. It is also straightforward enough to allow a real-time assessment of its predictive power to be made. This approach further permits the efficient harnessing of the comparative advantages of indicators - such as survey-based indicators - which appear relatively early, and of those - such as leading indicators - which have greater information content but are released with a greater lag.

EURO-STING yields forecasts that are almost always closer to the final figure produced than other habitually used models. It also offers two further advantages. First, its forecasts are updated daily. And second, it makes forecasts not only of GDP but also of all the indicators

	Q1 FORECAST	Q2 FORECAST	Q3 FORECAST	TOTAL (b)
Eurocoin	0.083	0.046	0.042	0.057
EURO-STING	0.075	0.030	0.016	0.040
IFO-INSEE-ISAE	0.060	0.071	0.069	0.067
EURO-STING	0.044	0.048	0.037	0.043
European Commission	0.055	0.086	0.068	0.070
EURO-STING	0.028	0.071	0.033	0.044
OECD	0.019	0.049	0.036	0.035
EURO-STING	0.019	0.048	0.037	0.034
DG ECFIN	0.045	0.044	0.107	0.065
EURO-STING	0.046	0.033	0.052	0.044

SOURCE: Banco de España.

a. The values in the table are mean square errors for the forecasting period April 2003 - March 2007.

b. The last column is the average of the three forecast quarters.

useful for forecasting this variable. That makes it possible to assess the true information content of each piece of new information and to analyse quantitatively the extent to which this alters short-term forecasts of euro area GDP.

15.4.2008.

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Introduction

In March 2000, as part of the Lisbon Agenda, the European Council outlined a broad set of economic policy measures designed to help raise the potential growth rate of the European Union. The contribution that public finances can make to the attainment of this strategic objective is twofold. First, the achievement of balanced budgets and improvements in the sustainability of public finances promote long-term economic growth, by helping to maintain a stable macroeconomic environment, which facilitates expectations formation and decision making by private agents. Second, for a given level of public surplus or deficit, factors such as the composition of revenues and expenses, efficiency in the use of public resources and even the specific size of general government may affect long-term growth, to the extent that they help improve the allocation of resources in the economy.

This second channel through which fiscal policy may affect economic growth is the subject of this article. More specifically, budget headings such as infrastructure investment and spending on education, health and research and development tend, a priori, to increase the productive potential of the economy. Also, the greater the efficiency of government activity (i.e. the smaller the volume of resources needed to achieve the target level of provision of goods and services), the higher the contribution of fiscal policy to long-term growth will be.

The rest of the article is organised as follows: the second section outlines the main features of the theoretical framework within which fiscal policy may affect long-term growth and discusses the difficulties involved in its empirical validation. The third section explains the main channels through which public spending may influence long-term growth from a macroeconomic viewpoint. The fourth section considers the role of the institutional environment in which the spending decisions of fiscal authorities are made and, finally, the conclusions are set out in the last section.

The theoretical framework and its limitations for empirical validation

At the theoretical level, the assumptions underlying the different models of economic growth are crucial in determining whether the composition and size of public finances can affect the long-term rate of expansion of an economy. In neoclassical type models, the long-term growth rate of output is constant and depends on population growth and the growth rate of technical progress, both exogenous factors. Accordingly, fiscal policy has no impact on the long-term growth rate, although it may, through policies that raise saving and investment rates, affect both the long-term level of output and its growth rate during the transition thereto. This requirement for fiscal policy to be able to affect economic growth is not irrelevant, since convergence periods may be very long, typically lasting several decades.

In contrast, the analytical framework of so-called endogenous growth models does allow fiscal policy variables the possibility of affecting the economy's long-term growth rate. In these models, the growth rate of the economy also depends, apart from on the relevant variables in neoclassical models, on the capital stock, defined broadly to include both physical and human capital. Within this framework, productivity increases as a consequence of the accumulation of physical and human capital, as firms learn to use capital more efficiently or benefit from their own innovation or that of their competitors, but also as the skills of the labour force increase. As a result, endogenous growth models are a useful conceptual framework for analysing the chan-

nels identified in the introduction to this article through which public spending may influence an economy's potential growth rate.

The literature has identified as productive spending (in the sense that it has a positive impact on the productivity of private factors), investment in transport and communications infrastructure, R&D, education and health. Fiscal measures to promote private investment, business activity and the dissemination of technical know-how potentially have the same effect.

However, the empirical evidence is not capable of conclusively confirming these theoretical predictions. Contradictory results are often found in the literature, due to the different types of samples used, the shortness of the time series available, the difficulty in identifying productive expenditure and the econometric problems that arise in the estimation of growth equations.

Public spending and economic growth

The first difficulty for the analysis of the contribution of public spending to long-term economic growth is the identification, from a theoretical viewpoint, of the components that are productive, in the sense of giving rise to a more efficient allocation of resources than when provision is private.

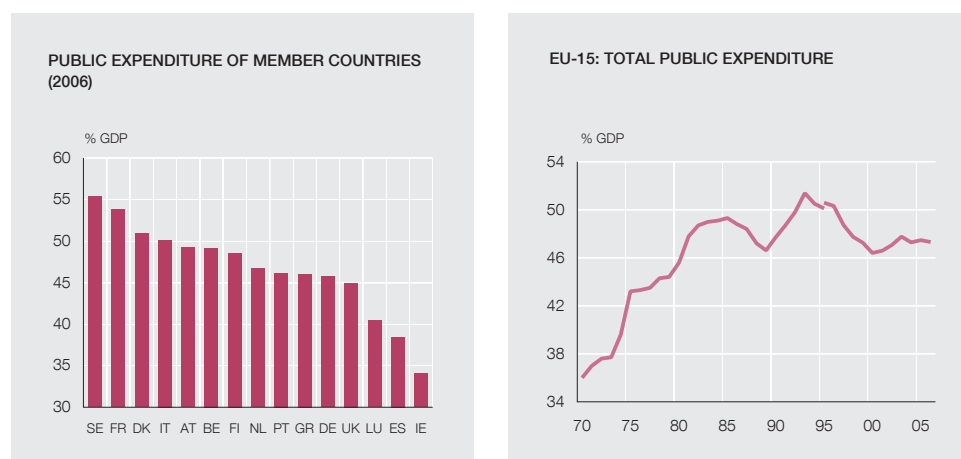
In particular, the supply of pure public goods may be considered productive. These are goods consumed simultaneously by a large number of agents for which there is no price setting mechanism to enable provision through market mechanisms. These goods include spending on items such as the general functioning of the government, defence and internal security. Other spending programmes aim to correct market failures originating in the existence of externalities, which mean that market provision tends to be sub-optimal from a social viewpoint. This is the case of transport infrastructure, goods subject to increasing returns associated with network externalities (such as telecommunications and energy infrastructure, giving rise to public intervention in the form of direct provision or market regulation)¹ and public spending on R&D, education and even health care. All these goods constitute additional factors of production for the private sector, so that they have a positive impact on total factor productivity.

The level of spending as a percentage of GDP varies significantly across the EU-15 Member States, ranging in 2006 from 55.4% in Sweden to 34.1% in Ireland (left-hand panel of Chart 1). Public spending in these countries increased sharply after the oil price shocks of the 1970s, although after peaking in the mid-1990s it has tended to decline moderately (see right-hand panel of the same chart).

An important question that should be raised is to what extent such growth in public spending has been concomitant with an increase in the weight of productive spending. However, the classifications available for spending do not offer the ideally desired breakdown between that which may be considered productive and that which may not, hampering in practice the isolation of productive spending. In fact, there are two classifications: the economic one (which contains the major aggregates of the National Accounts for general government, in accordance with ESA 95) and the functional one (where the different categories reflect the different functions performed by general government).

The advantages of the economic classification are the greater length of the series and their more rapid availability. Moreover, it distinguishes between current and capital expenditure, so that the

1. Admittedly, however, technical progress in recent decades has weakened the arguments for direct public provision of this type of goods.

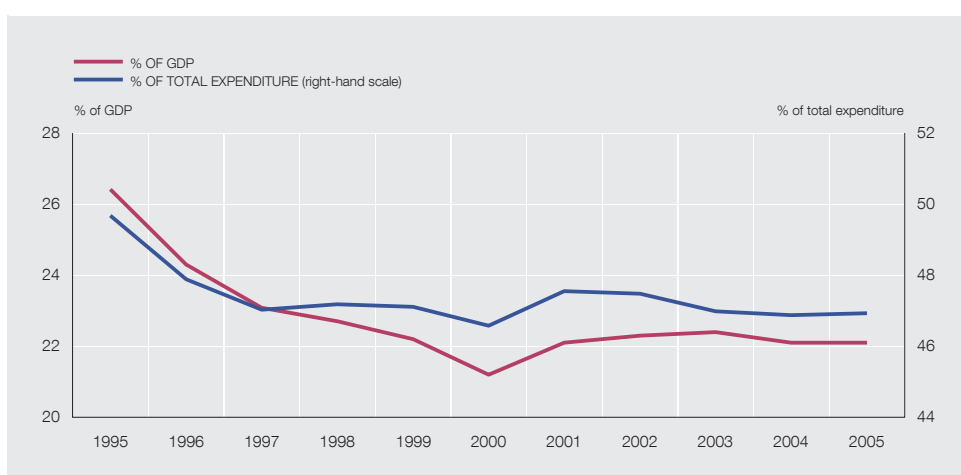


SOURCE: European Commission.

a. There is a break in the series in 1995. Until 1995 the series was based on ESA 79 and excluded Luxembourg. Since 1995 it has been based on ESA 95 and Luxembourg is included.

EU-15: PRODUCTIVE PUBLIC EXPENDITURE INDICATOR

CHART 2



SOURCE: Eurostat.

latter may approximate expenditure on infrastructure, there being no functional category that represents it on its own. However, the greatest disadvantage of the economic classification is the fact that it does not provide information on the types of goods and services supplied.

The functional classification is, a priori, better suited to distinguishing more growth-oriented expenditure. In particular, ten different categories are considered, among which the most notable (in terms of their importance in total spending) are social insurance, general public services (including, inter alia, expenditure on the functioning of government), health care, education and economic affairs (which includes public expenditure on infrastructure, along with sectoral subsidies). Against these advantages, this classification also has some shortcomings, in that the existing series are short (particularly for some countries), only available with significant delays and lack the sufficient degree of detail.

Chart 2 shows a measure of productive public expenditure, which comprises general public services, economic affairs, education and health care headings of the functional classification.

For the EU-15 as a whole, the level of productive spending, so defined, has remained virtually unchanged since 1998, both in relation to total expenditure and GDP. However, it should be taken into account that the composition of public spending in terms of resources employed may partly be the result of exogenous factors (such as demographic developments and the level of unemployment) and not of deliberate policies.

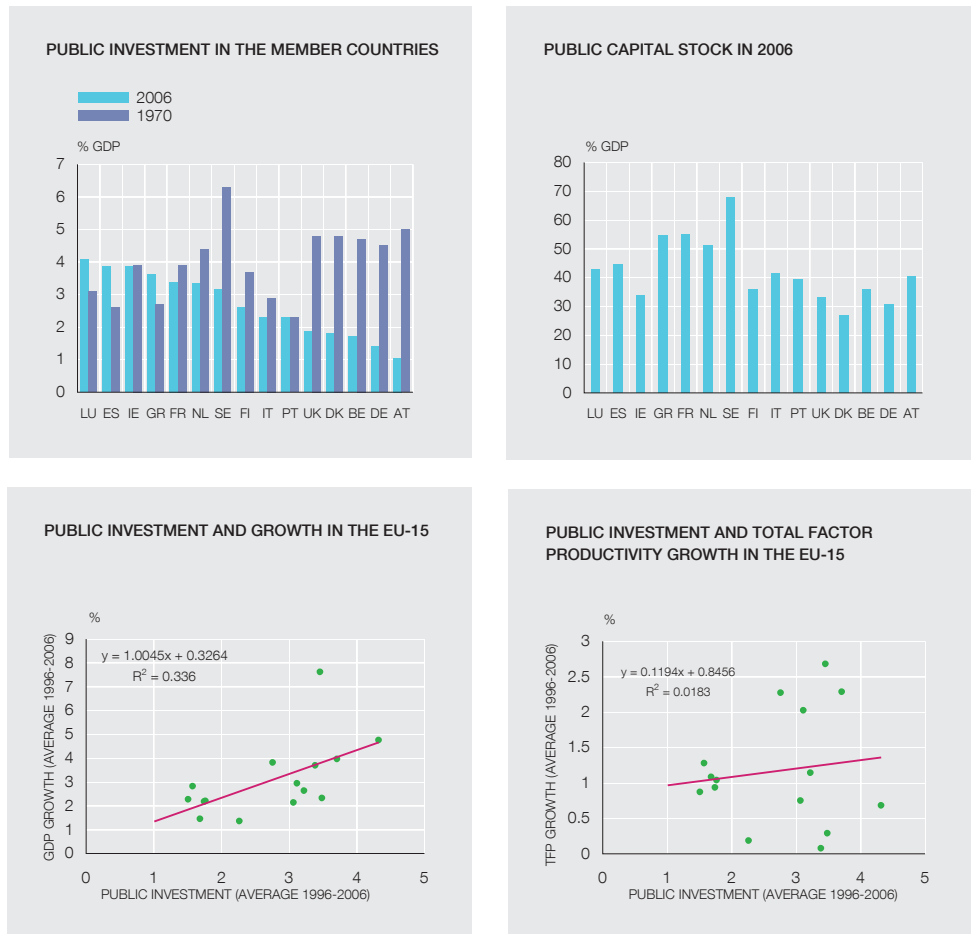
At the same time, the volume of funds assigned to each expenditure heading provides no information on the efficiency of public programmes in achieving their objectives. In this respect, the analysis of efficiency in the different headings of public expenditure is becoming increasingly important in European economic policy discussion fora and also in the literature. Hence, some recent studies have tried to construct efficiency indicators for various public spending items [see for example, Afonso et al. (2005)]. Unfortunately, the analytical tools available for this purpose are not sufficiently developed yet and suffer from numerous problems. The latter relate, firstly, to the measurement and definition of the “output” obtained for each expenditure heading, so that the efficiency of the “inputs” (i.e. the resources) used can be assessed and, secondly, to a failure to consider exogenous factors that may have a significant influence on the results.² In consequence, the cross-country comparisons in the literature must be interpreted with great caution. Also, these deficiencies warrant the call by the ECOFIN Council for improvement of the analytical tools that permit the efficiency of different public spending programmes to be appraised.

PUBLIC INVESTMENT SPENDING

A priori, this heading of the economic classification of public spending is part of the productive component and thus a source of economic growth, since the accumulation of public capital can be expected to boost private capital productivity [Aschauer (1989a)]. The effects of public investment on long-term output growth have been studied on many occasions. However, the empirical evidence available is not conclusive, as the results obtained are sensitive to the methodologies and data used. Firstly, there are studies whose purpose is to estimate the parameters of an aggregate production function in which public capital is one of the factors of production. The seminal study of this branch of the literature [Aschauer (1989b)] concluded that, in the case of the United States, a 1% increase in the stock of public capital leads to a 0.4 pp increase in the level of output, by helping to reduce production costs and thereby stimulating private investment.³ However, the numerous subsequent studies conducted for other countries and time periods have generally found much smaller (or even non-significant) effects.⁴

Secondly, there are studies that have examined whether public investment (or some of its components) is capable of explaining the cross-country differences observed in the growth rates of per-capita output. The results of such studies tend to differ according to the dependent variable used. Thus, Barro (1991) and Easterly and Rebelo (1993) find non-significant effects of overall public investment on per-capita economic growth. However, in the second of these studies, the impact was significant when only public investment by the central government was considered (excluding that of public enterprises). As for the components of public investment, spending on transport and communications infrastructure and on telecommunications seems to have a positive impact on economic growth [see, for example, Easterly and Rebelo (1993), Calderón and Servén (2004) and Röller and Waverman (2001)].

2. As an illustration of these problems, the efficiency index for health care expenditure calculated by Afonso et al (2005) is based on taking life expectancy and infant mortality as indicators of results. However, these variables also depend on factors exogenous to health care expenditure (such as climate and diet), whose efficiency it is sought to measure. 3. On the basis of these results, Aschauer attributed the slowdown in productivity growth in the United States in the 1980s to the decline in public investment as a percentage of GDP. It should be noted, however, that although this variable continued to fall during the following decade, productivity growth rose significantly. 4. For example, Ford and Porret (1991), in a sample of 11 OECD countries, only find effects for three of them.



SOURCES: European Commission and Banco de España.

Thirdly, studies that use private firms' cost or profit functions usually find that public capital reduces the former or increases the latter, although the effects are small. In this respect, Lynde and Richmond (1993) and Morrison and Schwartz (1996) find that public investment in infrastructure reduces firms' costs.

Finally, studies that, instead of being based on economic theory, rely on VAR methodology usually find a positive relationship too, although they are frequently not capable of determining the direction of causality. That is the case, *inter alia*, of Clarida (1993) and of Sturm *et al.* (1999).

The difficulty in finding a positive impact on economic growth for public investment may arise for various reasons. In particular, a significant part of the expenditure under this heading is not justified on the basis of a more efficient allocation of resources, but of other economic policy objectives, which weakens the link between public investment as a whole and output growth. This is the reason why several of the aforementioned studies focus on spending on transport infrastructure or on telecommunications, rather than on public investment as a whole. However, the scarcity of disaggregated data for these specific headings often means that estimations must be based on total public investment, so that components are included whose relationship with economic growth is more tenuous.

In the EU-15, public investment spending fell from 4.1% of GDP at the beginning of the 1960s to 2.5% in 2006 (see Chart 3). This decline was seen in most of the EU-15 countries,

Spain being one of the few exceptions (Chart 3). Thus, as far as the EU-15 is concerned, there appears to have been a sharp slowdown in public capital accumulation which, notwithstanding the non-conclusive evidence in this respect, might entail negative consequences for long-term growth. It has been suggested that the decline is a consequence of public investment being a natural candidate for fiscal consolidation. Unlike other budget headings, it is a discretionary component of spending which can be reduced, without being subject to inertia or resistance from the groups affected by cuts in other headings. However, other factors may also have contributed to the decline, such as the widespread privatisation programmes, the declining need for public infrastructure as the degree of development of European countries has increased and the emergence of new forms of financing (such as public-private partnerships), which enable investment projects to be undertaken without any immediate impact on general government accounts. That said, it is not clear that higher levels of public investment occur in countries with greater infrastructure needs. Indeed, the upper right-hand panel of Chart 3 shows that, in many cases, the highest levels of investment are seen precisely in those countries with larger public capital endowments.⁵

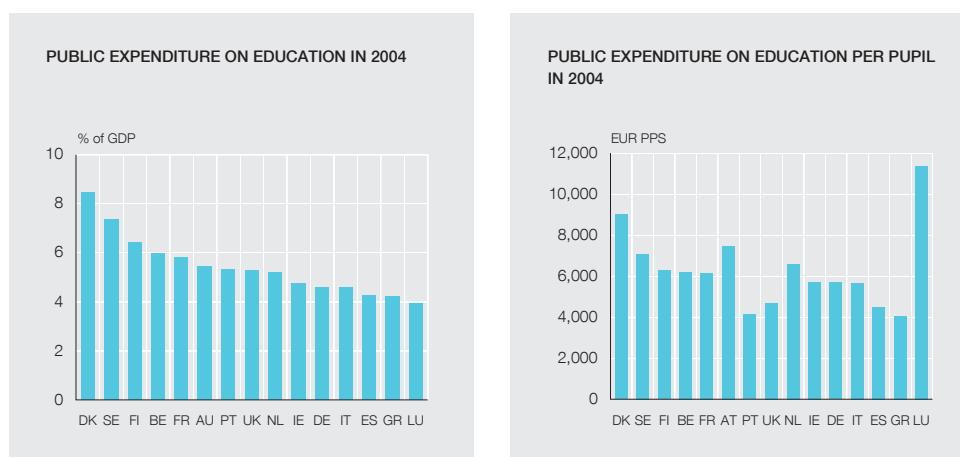
The significant positive correlation between public investment and output growth for the EU-15 countries on average during the period 1996-2005 (lower left-hand panel of Chart 3) seems to be in line with the hypothesis that additions to the stock of public capital may have a positive impact on economic growth. However, the relationship between public investment and average growth in total factor productivity (TFP) is not significant. Apart from the inclusion in public investment of spending that is not capable of affecting private-sector productivity, as discussed above, this result may arise for a number of reasons. First, total factor productivity is not measured for the private sector only (as it should be) but for the economy as a whole. In addition, the estimators of this regression may be biased, owing to the likely endogeneity of the regressors and the possible omission of relevant variables in the analysis. Finally, the possible effects of public investment on TFP may depend upon the efficiency of spending under this heading.

SPENDING ON EDUCATION

This heading of the functional classification of spending, by contributing to the accumulation of human capital and so boosting labour and capital productivity, is one of the driving forces for output expansion in endogenous growth models. Public provision of education is warranted by the presence of market failures that would lead to sub-optimal provision of this good by the private sector. When deciding how much to invest in education, individuals only consider their private return. Moreover, when provision is exclusively private, individuals may not invest sufficiently in their education, even if they have the incentive to do so, if they lack the necessary resources (i.e. they do not have enough of their own and are unable to make up the shortfall on credit markets).

The empirical evidence regarding the impact of public spending on education on growth does not appear to leave much room for doubt. Among others, de la Fuente and Doménech (2000) and Bassanini and Scarpetta (2001) find significant positive effects. Chart 4 shows notable differences in public spending under this heading as a percentage of GDP across the EU-15 countries. While the Nordic countries allocate more than 6% of GDP to this heading, Luxembourg, Greece, Spain, Germany and Italy allocate no more than 4%. Also, apart from certain exceptions, the countries with the highest level of public spending on education tend to be those that allocate a larger volume of resources per pupil.

5. In any case, given the difficulties associated with the construction of measures of public capital endowment, the lack of any observed correlation between this variable and public investment should be interpreted with caution.



SOURCE: Eurostat.

SPENDING ON R&D

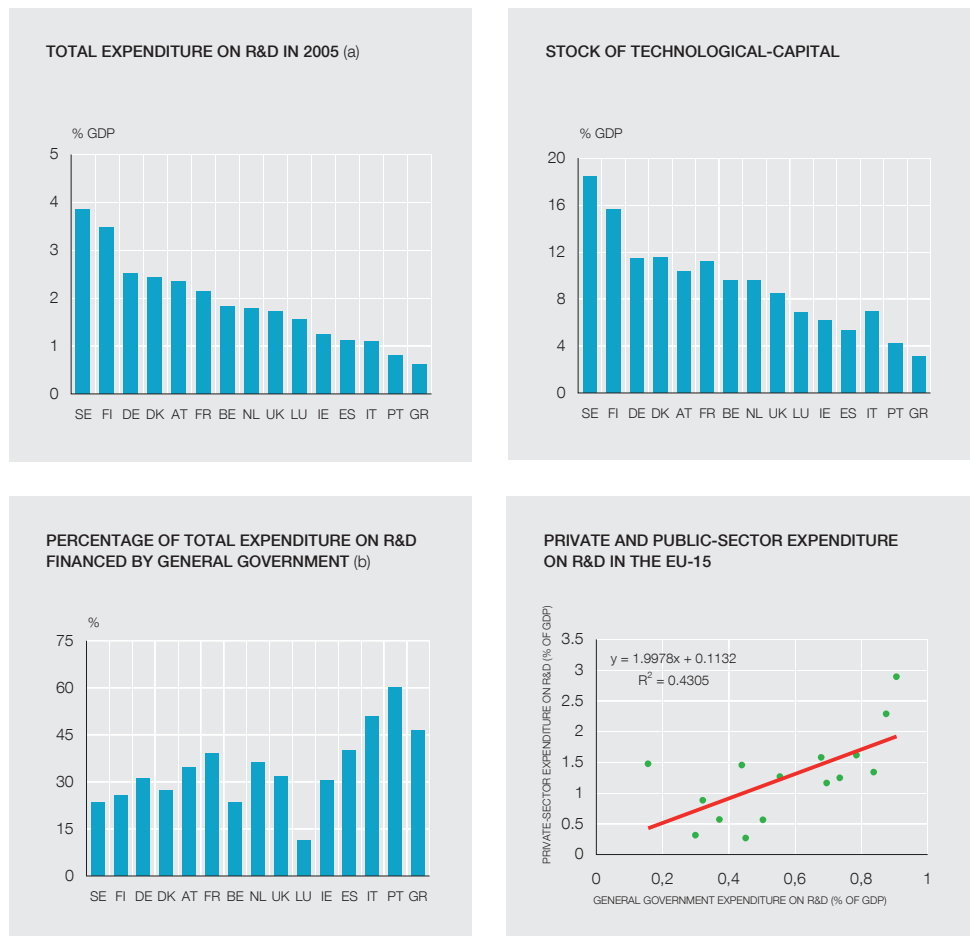
Investment in R&D is a fundamental determinant of innovation and technological change which, in theoretical models, is an engine of endogenous growth. The rationale for public intervention is, once again, the fact that the social return arising from this heading exceeds that obtained by firms that perform these activities, so that provision would be sub-optimal if left solely to private initiative. In this case, the externality arises from the fact that the authors of the innovation are unable to fully appropriate the benefits of their research activity.

However, net positive effects would only arise from public spending on R&D if it were complementary to and more efficiently executed than private spending. With regard to the first of these two issues, the empirical evidence is not conclusive. The results of Park (1995) and Diamond (1999) support the complementarity hypothesis, while Wallsten (2000) and Bassanini *et al.* (2001) find that public spending on R&D crowds out private spending on this activity.

Public spending on R&D as a percentage of GDP varies significantly across the EU-15 countries (Chart 5). While the Nordic countries record the highest levels, the Mediterranean countries are at the bottom of the EU-15 table. This situation is all the more notable insofar as it is precisely these latter countries that have the lowest levels of technological capital. Chart 5 also shows notable differences across EU-15 countries as to the percentage of R&D spending financed by general government. The data show a significant positive correlation between the R&D expenditure financed by the private sector and that financed by the public sector, which would appear to point to possible complementarity between these two types of spending, more than to a crowding out of the private component by the public one. However, a more precise assessment of the nature of this relationship would require a more detailed study of the specific policies applied.

SPENDING ON HEALTH CARE

The influence on growth of this item of the functional classification of spending is manifest in its contribution to the increase in the economy's human capital, as it has a positive impact on labour productivity (by improving the quality of current workers) and enhances the use of this factor (by prolonging the duration of working lives). In the case of the OECD countries, empirical studies have been carried out with conflicting results. While Bleaney *et al.* (2001) confirm the positive effect of health care spending on growth, for Rivera and Currais (1999) it would be precisely the increase in per capita income that would have prompted the increase in the demand for public health care spending.



SOURCES: Eurostat and Banco de España.

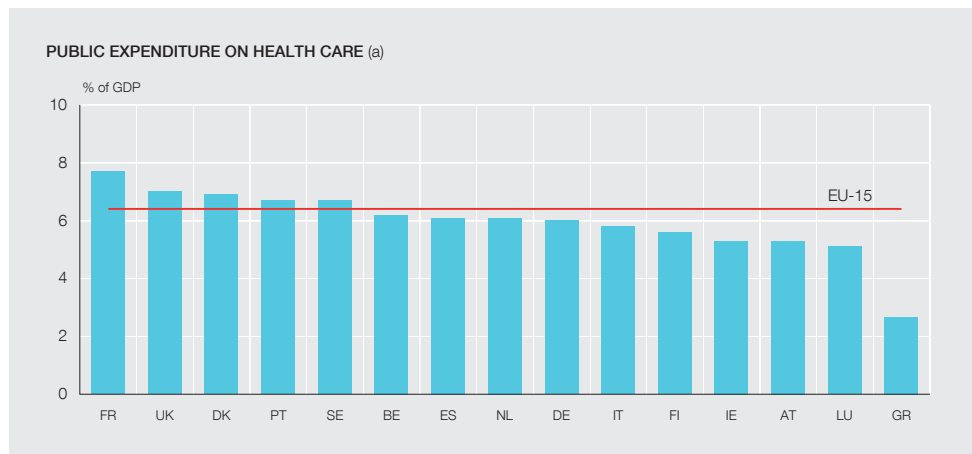
a. Data for Italy, the Netherlands and the UK refer to 2004.
b. Average 1996-2006

Chart 6 shows a relatively moderate dispersion of health care spending in Europe, with most countries coming within the range of 5-7% of GDP and Spain situated slightly below average. Efficiency improvements in this item are especially important in view of the strong upward pressure that population ageing will exert on this type of spending.

The institutional environment

The endogenous growth model framework described in the second section of this article allows productive public spending to affect the economy's long-term growth rate through its positive impact on the productivity of private factors. The third section highlights the importance of public spending efficiency, in the sense of targets being achieved at the lowest possible cost, given that the taxes necessary to finance spending by their very nature distort the decisions of economic agents and are therefore damaging to economic growth.

This section considers the elements of the institutional framework underlying public activity that enhance spending programme productivity. From a general perspective, sustained long-term growth in an economy requires the existence of an overall regulatory framework that reduces the degree of uncertainty underlying private agents' decisions. Public finances may contribute to the proper functioning of that institutional framework by providing sufficient resources for general government in areas such as justice and security. In addition, the guaranteeing of property rights is a prerequisite for public spending to boost private productivity growth.



SOURCES: Economic Policy Committee and OECD.

a. Expenditure in 2004 except in the case of Greece, the United States and Japan, whose data are for 2003.

More specifically, the budgetary institutions that favour better control of spending and a reallocation of available resources towards their most productive uses are a crucial determinant of the efficacy of government actions. In turn, the instruments that contribute to spending efficiency encompass performance budgeting, cost benefit analysis and medium-term budgetary strategies. Performance budgeting aims to relate the spending employed to achieve an economic policy goal with the specific benefits achieved as a consequence of government intervention. In practice, this assumes that budgets specify what each department expects to do with the resources assigned and, sometimes, link the amount of the appropriation to the degree of fulfilment of the objectives set the previous year. In general, the experience in other countries in the use of these techniques has failed to fulfil the expectations created, for various reasons, including the difficulty of defining variables that properly measure the results and the possibility that the latter are affected by exogenous factors beyond the authorities' control.

Cost-benefit analysis aims to assess all the social costs and benefits entailed by a specific project (for example, the construction of a specific piece of infrastructure), in order to determine the advisability of carrying it out. In practice, the greatest obstacle to this analysis is the difficulty of measuring these costs and benefits in the absence of market prices, given that the goods and services resulting from government intervention are not provided by private initiative.

Medium-term spending strategies, which complement performance budgeting and cost-benefit analysis, seek to set ceilings over a number of years to the resources allocated to the various headings of the public finances. The logic underlying the extension of budget planning horizons is twofold. First, it helps to reassign the total volume of spending between the various programmes more efficiently. Second, it enables future costs associated with current spending programmes to be factored in. In addition, these strategies are useful to facilitate expenditure-oriented fiscal consolidation.⁶ The application of these strategies has also encountered difficulties in practice. In particular, macroeconomic forecasting errors may make it necessary to review the pre-set spending paths. Furthermore, the effectiveness of multi-year planning has in practice been weakened by the existence of spending areas that remain outside it, such as

6. In this respect, the empirical evidence suggests that budget adjustment based on spending retrenchment has a more favourable impact on economic growth than that based on rises in distortionary taxes.

agencies that are not consolidated within general government, and by recourse to tax expenditure [Journard et al (2004)].

Conclusions

The analysis of the possible contribution of the composition of public spending to the long-term growth of the European economies has received increasing attention in the economic policy debate in recent years. This is a consequence of the efforts to increase potential output growth within the framework of the Lisbon strategy and the tighter budget constraint of European fiscal policies as a result of the provisions of the SGP and the effects on public finances of population ageing.

From the viewpoint of economic theory, endogenous growth models provide an appropriate conceptual framework for understanding the channels through which fiscal policy (and, in particular, public spending) may affect an economy's long-term growth. Thus, economic theory has provided theoretical arguments for the existence of a positive relationship between long-term economic growth and certain expenditure items. In particular, the existence of a number of market failures suggests that the resources allocated to public investment and to spending on R&D have a positive impact on the accumulation and productivity of physical capital, while spending on education and on health care contributes to increasing human capital and labour productivity. However, empirical confirmation of these theoretical propositions and their translation into more precise economic policy recommendations have encountered notable difficulties, partly attributable to the problems involved in isolating productive spending. While these links tend to be confirmed by the empirical evidence relating to transport and telecommunications infrastructure and education, the evidence is less conclusive in relation to the R&D (owing to the possibility that public spending partially crowds out private spending) and health care headings.

Finally, apart from the volume of public funds allocated to the different spending programmes, it is essential that such allocation be carried out on the basis of efficiency criteria. In this respect, the implementation of budgetary techniques conducive to the fulfilment of general government objectives at the lowest possible cost, such as performance budgeting, cost-benefit analysis and medium-term spending objectives seems advisable. The analytical tools available to measure spending efficiency are not sufficiently developed yet, partly due to the difficulties arising from the absence of reference market prices. Improvement at both the macro and microeconomic levels of the indicators necessary to calculate efficiency indices should therefore be a primary objective. Meanwhile, the conclusions that may be reached on the basis of the information available, which must obviously be treated with a high degree of caution, suggest that the progress made in this area has been only moderately satisfactory.

14.5.2008.

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Introduction

In 2008 Q1 the amount of new financial legislation was relatively large in comparison with the same period of the previous year.

In the area of payment systems, the general clauses applicable to the Interbank Deposit Settlement Service (SLDI), which will take on the functions of the Banco de España Settlement Service (SLBE) in TARGET2-BE, were approved. Likewise, as a result of this new platform coming into operation, the clearing system for participant institutions in cases of TARGET2 malfunction was updated.

The legal system for the accounting and financial reporting of the European System of Central Banks (ESCB) was modified in order to regulate the accounting for synthetic indicators.

As for financial institutions, the list of multilateral development banks was updated for the purposes of the application of rules on the determination and control of the minimum capital of credit institutions. Also, rules on the equity of financial institutions were modified in order to make progress with the transposition of EU directives aimed at strengthening the solvency of credit institutions and investment firms. The implementing regulations on investment firms were amended to include, among other things, the new internal organisation requirements and rules of conduct applicable to them. Also, the legal system for electronic money institutions was published, which completes the process of including EU rules on these institutions in Spanish law.

Within the securities markets, the terms of issue of public debt for 2008 and January 2009 were published, the periodic reporting forms for issuers of securities admitted to trading were prepared, liquidity contracts were regulated as market practice in order to promote the liquidity of transactions and the regular trading of the issuer's shares, and the forms for notifying significant holdings of directors and executives were approved as were forms for the issuer's transactions in treasury shares. The format for the annual corporate governance report of listed public limited companies was updated, and rules on pension schemes and funds covering financial and actuarial matters, the investment system and registration procedures were prepared, in view of the amendments introduced in the regulations governing these institutions.

As for collective investment institutions (CIIs), the rules on the determination of their assets and liabilities, on the calculation of risk diversification ratios and on certain aspects of these institutions were updated. Also, the form, content and deadlines for notifying salient events regarding CIIs to the National Securities Market Commission (CNMV) were regulated.

At EU level several directives were published which attribute certain powers to the European Commission for preparing technical adaptations, extending or completing provisions and guaranteeing the uniform application of such directives within the European Union. The most important directives in the financial sphere are highlighted in this article.

Lastly, other rules of interest discussed in the article are the obligations of notaries public in the sphere of the prevention of money laundering and the regulations on competition and the

statutes of the National Competition Commission (Comisión Nacional de la Competencia – “CNC” by its Spanish acronym).

Interbank Deposit Settlement Service

The TARGET2 system which came into operation on 18 February is legally structured as a multiplicity of payment systems which operate on the basis of a single technical platform through which the same services are provided in uniform conditions to all institutions. Although TARGET2 offers wide-ranging and advanced payment services, it does not include some of the functions which were traditionally offered by the SLBE. For this reason, these functions have been maintained as additional services separate from those offered within TARGET2. To do so, the SLDI was created and will take on these functions in the new platform.

Accordingly, the *Resolution of 25 January 2008* (BOE of 13 February 2008), of the Banco de España Governing Council was published, whereby the general clauses applicable to the SLDI were approved.

The SLDI will be responsible for the recording and settlement of interbank market transactions involving deposits between credit institutions in accordance with the clauses and the technical applications implementing them. The cash positions resulting from deposit transactions recorded through the SLDI will be settled through the TARGET2 system.

The clauses include, among other matters, the methods for gaining access to the SLDI, and the procedures for the communication, matching and recording of orders and their subsequent settlement process, which are similar to those established in the SLBE.

The credit institutions which are direct or indirect participants in the TARGET2 system and which, in the Banco de España's opinion, have sufficient solvency and legal and technical capacity may be accepted as members of the SLDI. Member institutions will assume on their own account (and by themselves) credit, interest rate and settlement risks and any other risk which they might incur in the trading, clearing and settlement of the deposit transactions recorded by this Service.

Should any unusual external event or other occurrence affect the operation of the SLDI, the contingency and business continuity procedures established in the related technical applications issued by the Banco de España shall apply at any given time.

Update of TARGET2 regulations

In accordance with the provisions of the Guideline of the European Central Bank (ECB/2007/2) of 26 April 2007 (TARGET2 Guideline), on the Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2), *Banco de España Circular 1/2008 of 25 January 2008* (BOE of 13 February 2008) on the clearing system in cases of TARGET system malfunction was published and the circulars regulating the SLBE were repealed.

The Circular partially amends Banco de España Circular 2/2003 of 24 June 2003 on the clearing system in case of malfunctioning of the TARGET system, in order to adapt its wording to the amendments of Guideline ECB/2005/16 of 30 December 2005 on TARGET, implemented in Article 15.8 and 15.9 of the TARGET2 Guideline.

In particular, the cases of malfunctioning of TARGET were extended to include those in which, prior to the migration to TARGET2, the malfunctioning occurs in TARGET2's technical infrastructure. Similarly, the deadline for submitting complaints increased from two to four weeks from the date on which the malfunctioning occurred and the deadline for the Governing Council of the ECB to assess the complaints and decide whether to make a compensation offer increased from twelve to fourteen weeks from the date on which the system malfunctioned.

Banco de España Circular 1/2008 repeals, effective from 18 February 2008 (date of the demise of the SLBE and the entry into force of TARGET2-BE), the Banco de España circulars regulating the operation of the SLBE.

***The legal framework for
accounting and financial
reporting in the European
System of Central Banks***

Guideline ECB/2007/20 of 17 December 2007 (OJEU of 16 February 2007) amending Guideline ECB/2006/16 on the legal framework for accounting and financial reporting in the ESCB was published in order to regulate the accounting for synthetic instruments which are increasingly used in the financial markets and, in particular, to develop generic accounting rules for such instruments and provide a clear framework for the Eurosystem external auditors. Also, references made to TARGET were replaced by TARGET2 and the corresponding definitions were updated in Guideline ECB/2006/16.

The Guideline explains the nature of these instruments in detail and establishes an alternative treatment for valuing them and a series of requirements which must be met before it can be applied.

***Amendment of the rules
on the capital of financial
institutions***

The 2004 Basel II Capital Accord issued by the Basel Committee on Banking Supervision on 26 June 2004 (known as Basel II) established a set of structured measures based on three mutually reinforcing pillars: the adoption of uniform rules to determine minimum capital requirements on the basis of the risks assumed (Pillar 1); supervisory review to foster improved internal risk management by institutions (Pillar 2); and market disclosure of the key features of their business profile, risk exposure and risk management practices (Pillar 3). These measures must be taken into account simultaneously so that the level of own funds held by institutions is in keeping with their overall risk profile.

Subsequently, in the EU this Accord took the form of two directives: 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) and Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast). These two directives were partially included in Spanish law through two different laws: Law 36/2007 of 16 November 2007 amending Law 13/1985 of 25 May 1985 on the investment ratios, own funds and reporting obligations of financial intermediaries and other financial system rules, in the area of credit institutions and Law 47/2007 of 19 December 2007 amending Law 24/1988, of 28 July 1988, on the securities market, in the area of investment firms.

In this setting, *Royal Decree 216/2008 of 15 February 2008* (BOE of 16 February 2008) on the own funds of financial institutions was published, to provide for the partial transposition of the above-mentioned directives. Upon its entry into force on 17 February 2008, except for certain final provisions, Royal Decree 1343/1992 of 6 November 1992 implementing Law 13/1992 of 1 June 1992 on own funds and supervision of financial institutions on a consolidated basis was repealed, among other stipulations.

**PROVISIONS ON THE OWN FUNDS
OF CREDIT INSTITUTIONS**

Within the scope of application of these provisions, the obligations which credit institutions must fulfil are established and, in particular, the level at which the various obligations and requirements are applied is specified, be it individual, consolidated or sub-consolidated.

The items which make up credit institutions' own funds are established; the items which are deducted from the calculation of these own funds are detailed; certain conditions for the eligibility of specific items are included; and, lastly, the items which are tier 1 capital, tier 2 capital and ancillary capital and their limits are determined.

Turning to the treatment of risks for capital requirement purposes, firstly credit risk is addressed, specifying in quantitative terms the capital requirement for this risk and, secondly, institutions are given the option to choose the calculation method most suited to their size or the level of sophistication of the standardised approach in comparison with the internal ratings-based approach. The purpose of the two approaches is to obtain the denominator of the solvency ratio applicable due to the credit risk of the transactions of the financial institution in question. This denominator is the sum of the value of each of the exposures weighted by the risk.

In the standardised approach, the risk weightings of the various exposures will be calculated – provided that there are credit ratings performed by eligible external rating agencies, or, in certain cases, by export credit agencies – based on the credit quality level determined by the Banco de España. The internal ratings-based approach, which will be subject to the prior authorisation of the Banco de España, means that, for the purpose of determining their minimum capital requirements, the institutions use credit ratings of their exposures that they themselves have calculated in-house with internal risk models based on data of their past experience with each type of exposure. Also, the rule addresses the credit risk mitigation techniques that are acceptable for minimising the requirements for the various risk exposures, calculated in accordance with the two above-mentioned approaches.

The treatment of counterparty risk incurred by credit institutions is broached, for the purposes of calculating exposures weighted by credit risk, be they calculated using the standardised approach or in accordance with the internal ratings-based approach, both of which are described above.

Other types of risk considered by the Royal Decree are: those which credit institutions incur due to possible unfavourable changes in interest rates, the price of gold and commodities prices; the risk arising from their positions in the financial instruments which make up their trading book; and, finally, the risk of loss due to events which might occur in an institution's internal processes (operational risk).

As for limits on large exposures, the ceiling for credit institutions on this type of exposure is set at 25% of their capital and it is stipulated that the aggregate total of large exposures must not exceed 800% of the credit institution's capital under any circumstances.

A series of organisational requirements were established for institutions in order to guarantee fulfilment of the regulatory obligations established in the Royal Decree. These requirements include a suitable organisational structure, internal audit functions and an internal capital adequacy assessment process. Also specified are the requirements which credit institutions must fulfil in order to use internal models to calculate capital requirements for position, exchange rate or commodity risk and to be able to apply the treatment to the trading book. Further, the basic regime governing the delegation of the provision of services or the exercise of functions of those institutions is included.

Another important section refers to the disclosure of information to the market by credit institutions and, in this way, the third pillar of the Basel II Accord is included. In this connection, credit institutions, as provided by Law 36/2007, have to publish a document entitled "information of prudential significance" at least once a year and as soon as it is feasible to do so. Where information is omitted because it is confidential, this must be indicated and justified. Additionally, credit institutions shall assess the need to publish some or all information more frequently according to the nature and characteristics of their activities.

Finally, the measures are established which groups of credit institutions or credit institutions individually must take, as appropriate, should they fail to meet the capital requirements in the Royal Decree or should they exceed the large exposure limits set thereby, along with the obligations arising from such situations. Thus an institution will immediately inform the Banco de España of this and submit, within one month, a programme specifying its plans for returning to compliance, unless the situation was corrected within that period. This programme must be approved by the Banco de España, which may include the changes or additional measures it deems necessary to ensure that the institution returns to compliance with minimum capital requirements.

Table 1 compares the system applicable to credit institutions under Royal Decree 216/2008 with the previous regulations.

PROVISIONS ON THE CAPITAL OF INVESTMENT FIRMS

The Royal Decree sets out the obligations which investment firms (IFs) must comply with and whether this must be done at individual or consolidated level. As with credit institutions, the way to calculate capital under the general definition of IFs is established and the items of the consolidated balance sheet which must be added to calculate the capital of a consolidable group are specified. Also included are the alternative definition of own funds and the limits on eligibility, which apply to IFs and groups of IFs that must meet the capital requirements for risks linked to the trading book.

It is established that the capital requirements of IFs must be equal to or higher than the largest of the following four items: the sum of capital requirements linked to various risks (trading-book, exchange-rate, credit and operational risks); a quarter of the overheads of the previous year; two-thirds of the minimum capital required to set up the type of IF in question or 5% of the volume of the portfolios managed.

A series of organisational requirements and risk assessment techniques are established which are necessary so that the risks to which the IFs are, or might be, exposed do not increase unduly, and the obligation for them to have an internal capital adequacy assessment mechanism is included. Likewise, under the Royal Decree all these policies and procedures must be summarised in a yearly internal capital adequacy assessment report which must be submitted to the CNMV.

As for the information which must be disclosed to the market, IFs will prepare a document called "information on solvency" and establish how frequently it must be published and the possibility that the CNMV may require certain data or information to be disclosed more frequently.

The Royal Decree includes the measures which IFs must take individually or on a consolidated basis, should they fail to meet the regulatory capital requirements or should they exceed the limits on large exposures established by the Royal Decree. It also contains the obligations arising from such situations.

Table 2 compares the system applicable to IFs under Royal Decree 216/2008 with the previous regulations.

AMENDMENT OF REGULATIONS ON MUTUAL GUARANTEE COMPANIES AND REGUARANTEE COMPANIES

The first and second final provisions of the Royal Decree amend Royal Decree 2345/1996 of 8 November 1996 on administrative authorisation rules and solvency requirements for mutual guarantee companies and Royal Decree 1644/1997 of 31 October 1997 on administrative authorisation rules and solvency requirements for reguarantee companies. Both of them establish a specific own funds and risk diversification regime for these types of companies, which were previously subject to the same regime as credit institutions, albeit with certain excep-

Royal Decree of 1343/1992 of 6 November 1992	Royal Decree 216/2008 of 15 February 2008
Definition of capital	
The most significant items of Tier 1 capital are: share capital, disclosed reserves, provisions for general banking risks, preference shares and non-voting shares which do not carry cumulative rights to receive dividends.	No significant changes.
The most significant items of Tier 2 capital are: regularisation reserves, the book value of the general loan loss provisions, the savings banks' welfare funds, subordinated debt and financing with undefined maturity which establishes the use of debt and interest to absorb losses.	No significant changes.
Not envisaged.	Ancillary capital: subordinated debt with an original maturity of at least two years in which neither the principal nor the interest can be paid if there is a capital shortfall.
Deductions from own funds: losses, own shares, financing to third parties for the purchase of shares, a certain volume of holdings in financial institutions and insurance companies, the shortfall in provisions or specific allowances, etc.	No significant changes.
Solvency ratio	
Credit risk: minimum capital requirements will be 8% of the sum of the weightings of the various risk items.	Credit risk: the minimum capital requirements will be 8% of the institution's total risk-weighted exposures calculated using the standardised approach or, if so authorised by the Banco de España, using the internal ratings-based approach.
Counterparty risk: risk of counterparty default in derivatives transactions.	No significant changes.
Risks linked to the securities trading portfolio: in order to calculate capital requirements, the credit risk and market risk of the aforementioned trading portfolios will be taken into account. The positions risk relating to the securities trading portfolio will comprise a general risk, arising from a change in the price of the institution's own positions due to general market fluctuations, and a specific risk, arising from a change in the price of an institution's own position for reasons related to the issuer of the security or the issuer of its underlying, in the case of derivatives.	Risks linked to the trading portfolio: capital requirements will be determined as the sum of the requirements of certain items. These include the price risk of fixed-income positions, price risk on positions in shares and other equity, price risk of commodities positions, clearing and delivery risk, counterparty credit risk linked to the trading portfolio and exchange rate and gold position risks. The Banco de España shall determine the calculation methods of the above-mentioned requirements. Some special features will be established for certain exposures.
Exchange rate risk and gold positions must be covered by supplementary own funds. They will not be less than the sum of 8% of the net overall currency position and 8% of the net gold position. However, the Banco de España may set a ratio of less than 8% for positions in closely related currencies which are of opposite sign and for positions of opposite sign in currencies subject to legally binding intergovernmental agreements.	Exchange and gold position risks: must be covered, at any given time, by supplementary own funds calculated in accordance with the standardised approach established in the Royal Decree, although the Banco de España may authorise institutions to use their own internal risk management models alone or together with the standardised approach.
Not envisaged.	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events including legal risk. The approaches used to calculate capital requirements for operational risk are the basic indicator approach, the standardised approach and its variant known as the alternative standardised approach, and the advanced approaches based on the internal measurement systems of each institution.
Limits on large exposures: the value of all the exposures of a credit institution to one individual, institution or external economic group shall not exceed 25% of its own funds. The total large exposures shall not exceed 800% of the credit institution's own funds.	No significant changes.
Adoption of measures to return to compliance with solvency regulations: if the credit institution or group has a capital shortfall, it shall notify the Banco de España immediately and shall submit a programme setting out the plans for it to return to compliance.	It is specified that this programme shall be submitted within one month. Also, it is envisaged that the Banco de España can compel a credit institution or a group or subgroup to hold own funds in addition to the required minimum. In this case, a programme will be submitted within one month which specifies the plans for compliance with the additional requirement.
Profit appropriation due to non-compliance with solvency regulations: if the capital shortfall is more than 20% of the minimum capital required, or Tier 1 capital falls below 50%, the credit institution must allocate its net profit or surplus in full to reserves. If the shortfall is 20% or less, the distribution of net profit or surplus will be subject to prior authorisation by the Banco de España. In both cases, these provisions shall apply unless an alternative measure is authorised in view of the programme for returning to compliance submitted by the institution.	No significant changes.

SOURCES: BOE and Banco de España.

Royal Decree of 1343/1992 of 6 November 1992	Royal Decree 216/2008 of 15 February 2008
Governance procedures, organisational structure, risk management and internal control	
Not envisaged.	Organisational structure. They must have the following: an organisational structure suited to the nature of their activities, with well defined, transparent and consistent lines of responsibility; an internal audit function which oversees the proper functioning of information and internal control systems; a unit which undertakes the regulatory compliance function; and suitable internal control mechanisms including appropriate administrative and accounting procedures.
Not envisaged.	Risk management policy: they must have strategies and policies for assuming, managing, controlling and mitigating the risks to which the credit institution is or may be exposed.
Not envisaged.	Internal capital adequacy assessment process: they will specifically have sound, effective and exhaustive strategies and procedures to assess and maintain at all times the amounts, types and allocation of internal capital and of own funds which they consider suitable to cover the nature and level of the risks to which they are or may be exposed.
Disclosures	
Not envisaged.	Credit institutions must publish a document entitled "information of prudential significance" at least once a year and as soon as it is feasible to do so.
Not envisaged.	Additionally, they shall assess the need to publish some or all information more frequently according to the nature and characteristics of their activities.

SOURCES: BOE and Banco de España.

tions. In particular, it is recognised that guaranttees, if they meet certain conditions, are an instrument that reduces credit risk and should therefore carry the consequent reduction of capital requirements for the commitments backed by general guaranttee contracts.

Minimum own funds requirements of credit institutions: amendment of the list of multilateral development banks

Directive 2007/18/EC of the Commission of 27 March 2007 amended 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) as regards the definition of multilateral development banks, including for the first time within the list of these banks the International Finance Facility for Immunisation and the Islamic Development Bank.

For this same purpose, the Banco de España published *CBE 2/2008 of 25 January 2008* (BOE of 7 February 2008) changing the list of multilateral development banks contained in Circular 5/1993 of 26 March 1993 on determination and control of minimum own funds of credit institutions. It also took the opportunity to update the list of multilateral development banks in order to make it the same as that included in Directive 2006/48/EC when it was recast. In short, this update entails, along with other minor adjustments to the name of some organisations, the exclusion of the Inter-American Investment Corporation and the inclusion of the European Investment Bank, the International Finance Facility for Immunisation and the Islamic Development Bank.

Changes to the legal regime of investment firms and of other entities providing investment services

Law 47/2007 of 19 December 2007 amending Law 24/1988 of 28 July 1988 on the securities market incorporated into Spanish law, inter alia, Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments. This Directive has been fleshed out in certain respects by two other pieces of EU legislation: Commission Directive 2006/73/EC of 10 August 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for

Royal Decree 1343/1992 of 6 November 1992	Royal Decree 216/2008 of 15 February 2008
Scope of application	
The provisions apply to securities-dealer companies and securities agencies and their groups.	The provisions apply to IFs (securities-dealer companies, securities agencies and portfolio management companies). They do not apply to financial advice firms.
Definition of own funds	
Share capital, disclosed reserves, regularisation reserves, provisions for general IF risks, non-voting shares which do not carry cumulative rights to receive dividends, subordinated debt and debt with undefined maturity which establishes the use of debt and interest to absorb losses.	No significant changes.
Deductions from own funds: losses, own shares, financing to third parties for the purchase of shares, a certain volume of holdings in financial institutions and insurance companies, the shortfall in provisions or specific allowances, etc.	No significant changes.
Alternative definition of own funds: securities-dealer companies and securities agencies and their groups which must cover the risks linked to the securities trading portfolio may use the alternative definition of own funds, established in the Royal Decree.	No significant changes but applied to IFs.
Solvency ratio	
The own funds of securities-dealer companies and securities agencies may not at any given time be lower than the highest of the following amounts: two thirds of the minimum share capital set in Royal Decree 276/1989 of 22 March 1989 (€4.5 million for dealers and €0.9 million for agencies); the sum of the amounts recorded to cover credit, exchange rate and gold position risks, in accordance with the amounts calculated under their risk management models and, if appropriate, the risks linked to their trading portfolio and the limits on large exposures; the amount resulting from the capital requirement due to level of activity (not less than 25% of the previous year's overheads).	The own funds of IFs will at all times be equal to or exceed the largest of the following items: the sum of capital requirements linked to various risks (securities portfolio risk, exchange rate risk, credit risk and operational risk); one quarter of the previous year's overheads; two thirds of the minimum capital required to form the type of IF in question or 5% of the volume of the portfolios managed.
Credit risk: minimum capital requirements will be 8% of the sum of the weightings of the various risk items. Only assets and commitments which are not part of the securities trading portfolio or have not been deducted from own funds will be included.	Credit risk: capital requirements for this type of risks will be calculated in a similar way as for credit institutions (see Table 1).
Risks linked to the securities trading portfolio: the calculation of capital requirements to cover these risks is similar to that for credit institutions (see Table 1).	Risk linked to the securities portfolio: capital requirements for this type of risks will be calculated in a similar way as for credit institutions (see Table 1).
Exchange rate risk and gold positions: the calculation of capital requirements to cover these risks is similar to that for credit institutions (see Table 1).	Exchange rate risk and gold positions: the calculation of capital requirements to cover these risks is similar to that for credit institutions (see Table 1).
Commodities position risk and financial instruments based on commodities: securities-dealer companies and securities agencies and their groups must cover this type of risks with additional capital which will be set by the Ministry of Economy or, with the latter's specific authorisation, by the CNMV. The capital requirements of the entity or group for commodities position risk and the financial instruments based on commodities will be calculated as the sum of the requirements for each commodity.	Capital requirements for commodities risk: IFs will calculate the capital requirements for commodities positions and financial instruments arranged on them in accordance with the methods determined by the CNMV.
Not envisaged.	Operational risk similar to that established for credit institutions (see Table 1).
Governance procedures, organisational structure, risk management and internal control	
Not envisaged.	Organisational requirements: the establishment of effective risk assessment techniques and compulsory measures to ensure that services are provided continuously and regularly. Risk management policy: the strategies and policies for assuming, managing, supervising and mitigating the risks which IFs are or may be exposed to will be reviewed regularly.
Not envisaged.	Internal capital adequacy assessment process of IFs: they will specifically have sound, effective and exhaustive strategies and procedures to assess and maintain at all times the amounts, types and allocation of internal capital which they consider suitable to cover the nature and level of the risks to which they are or may be exposed.

SOURCES: BOE and Banco de España.

Royal Decree 1343/1992 of 6 November 1992	Royal Decree 216/2008 of 15 February 2008
	Disclosures
Not envisaged.	IFs must publish a document entitled "information of prudential significance", at least once a year. Additionally, they shall assess the need to publish some or all information more frequently than once a year taking into account the characteristics of their business activities, such as scope and type of activities, etc.

SOURCES: BOE and Banco de España.

investment firms and Commission Regulation (EC) No 1287/2006 of 10 August 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards record-keeping obligations for investment firms, transaction reporting, market transparency and admission of financial instruments to trading.

To transpose Directive 2006/73/EC into Spanish law and set in place the related implementing regulations, *Royal Decree 217/2008 of 15 February 2008* (BOE of 16 February 2008) on the legal regime of IFs and of other investment services entities was published.

The Royal Decree partially amends the regulations implementing Law 35/2003 of 4 November 2003 on CII approved by Royal Decree 1309/2005 of 4 November 2005 and, in addition, consolidates two previous royal decrees (Royal Decree 867/2001 of 20 July 2001 on the legal regime of investment firms and Royal Decree 629/1993 of 3 May 1993 on securities market rules and regulations and compulsory records) in a single legal text. This brought together all parts of the legal regime applicable to investment firms and to entities providing investment services (credit institutions and CII management companies), referred to hereafter as "investment and similar firms", in a single overarching piece of legislation.

Within its scope of application, a distinction is made between, on the one hand, investment firms to which the entire Royal Decree is applicable, and on the other, credit institutions providing investment services and other financial institutions (particularly CII management companies), to which are applicable those articles relevant to the provision of investment services (mainly certain internal organisation rules and rules of conduct).

Regarding the general regime for investment firms, the Royal Decree includes the new developments introduced by Law 47/2007 and certain precepts of Directive 2006/73/EC. Specifically, investment firms are deemed to include the foregoing (securities-dealer companies and securities agencies, and portfolio management companies), to which are added financial advice firms (whose services are specifically defined), and a special authorisation regime is established.

The section on investment services specifies the concept of investment advice, distinguishing it from other kinds of recommendations that remain beyond its scope, and the management of multilateral trading facilities (MTFs). It also distinguishes certain ancillary services (previously defined as supplementary activities) that can be carried out by certain investment firms under their specific legal regime. Among them may be highlighted the preparation of investment reports and other recommendations of a general nature on financial instruments.

The authorisation regime and requirements for performing the activity of IFs are similar to those established in RD 867/2001, with some exceptions. The new development is the special au-

thorisation regime for financial advice firms, given the special features and nature of the functions they perform. These firms are required to have initial capital of €50,000 or professional indemnity cover, bond or other comparable guarantee, representing at least €1,000,000 applying to each claim and in aggregate €1,500,000 per year for all claims, or a combination of both in a form resulting in an equivalent level of coverage.

In accordance with European regulations, the existence of a special type of securities agency with lower capital requirements is recognised. In comparison with the initial capital of €500,000 required for a full-fledged securities agency, this amount is reduced to €300,000 if the agency does not intend to acquire the status of secondary market member or to join the clearing and settlement systems and its programme of activities does not include the custodianship of financial instruments or the receipt of funds from the public. Capital is reduced to €120,000 for securities agencies which are only authorised to receive and transfer orders without holding funds or financial instruments which belong to their clients. In this type of securities agencies, capital can be replaced by liability insurance representing at least €2.5 million to each claim and in aggregate €3.5 million for all claims or a combination of both.

One of the most important new features of the regulation is that it specifies a broad range of organisational requirements which must be fulfilled by IFs and, to a large extent, by credit institutions which provide investment services, in order to include many of the articles of Directive 2006/73/EC. Although some of these requirements had already been included in Spanish law, the Royal Decree regulates them in great detail. Thus, it comprises, among others, general organisational requirements, procedures for handling the risk of non-compliance with the law, risk management and internal audit procedures and policies and the keeping of all records, including those of clients and transaction orders.

Another matter addressed in this section is the policy on managing conflicts of interest according to the size and organisation of the firm and the nature, scale and complexity of its activity. Also, firms are required to keep and regularly update a register of the types of investment and ancillary services provided by them or on their behalf in which conflicts of interest have arisen or, in the case of current services, in which they could arise. Finally, additional organisational requirements are set out for institutions which provide investment services and disseminate investment reports.

The financial regime of IFs, the regime governing their cross-border activities and the capacity of IFs other than securities-dealer companies to act for their own account is changed in certain respects to complete the modifications required under Law 24/1988 of 28 July 1988 on the securities market, although, in short, the regime in force under current regulations is maintained.

The most numerous group of new developments refers to rules of conduct applicable to institutions providing investment services and, therefore includes the bulk of the articles of Directive 2006/73/EC. Accordingly, a full set of rules which must be followed in the provision of investment services is established and the conditions are listed for information to be impartial, clear and not misleading; this information refers to the classification of clients (retail, professional and eligible counterparties). Similarly, the information which IFs must provide to retail clients is established with regard to: contractual conditions, financial instruments, associated costs and expenses, the execution of orders not related to the portfolio management service, statements of financial instruments or customer funds, and the regime of fees and expenses charged for their activities.

In this section, reference is made to the suitability and/or appropriateness assessment which institutions must make of clients based on their profile (retail or professional), prior to the provision of services. It may be assumed that their professional clients will have the experience and knowledge required to understand the risks inherent to these investment services and specific products or to the types of services and transactions for which they are classified as professional clients.

It is worth noting that the requirement for a report by the CNMV's Consultative Committee has been eliminated in IF authorisation procedures to make them more flexible.

Lastly, among other aspects, the rules for reporting the identity of clients to the CNMV are specified in the additional and transitional provisions of the Royal Decree, as regards the reporting of transactions established in Law 24/1988 on the securities market, and certain amendments are made to the regulations implementing Law 35/2003 of 4 November 2003 on CILs to clarify the regime on rules of conduct applicable in this area.

Table 3 compares the regime applicable to IFs in Royal Decree 217/2008 with the previous regulations.

**Legal regime governing
electronic money
institutions**

Directive 2000/46/EC of the European Parliament and of the Council of 18 September 2000 on the taking up, pursuit of and prudential supervision of the business of electronic money institutions (ELMIs), was partially incorporated into Spanish law by Law 44/2002 of 22 November 2002 on financial system reform measures. This Law accorded them the nature of credit institutions whose principal activity consists of issuing means of payment in the form of electronic money and the same sanctioning regime as that envisaged in Law 26/1988 of 29 of July 1988 on the discipline and intervention of credit institutions.

Royal Decree 322/2008 of 29 February 2008 on the legal regime of ELMIs, which completes the incorporation into Spanish law of Directive 2000/46/EC, was published recently (BOE of 3 March 2008).

Following the model envisaged in the Directive, the regime for creating ELMIs is of the same type as for other credit institutions: name restrictions, activities, requirements for the incorporation of the entity and documents to be included in the incorporation applications, especially all those referring to the suitability and repute of the managers and mechanisms for sound internal management and the prevention of money laundering.

The activity of ELMIs, like other credit institutions, is subject to supervision and monitoring by the Banco de España. Accordingly, ELMIs must report to the Banco de España their capital structure and, especially, share ownership by other financial institutions and shareholders holding more than 2.5% of their share capital.

However, the Royal Decree also takes into account the special characteristics of ELMIs, making allowance for them in the regime. On the one hand, different requirements are established with regard to prudential supervision and ELMIs are not subject to certain provisions of banking regulations, while, on the other hand, the activities which these institutions can pursue are restricted and a regime of compulsory investment in certain assets is imposed. These institutions are required to have initial capital of at least €1,000,000 and to hold at all times own funds which are equal to or above 2% of the current amount or the average of the preceding six month's total amount of their financial liabilities related to outstanding e-money. If the electronic money is to a named payee or if the receipt of the funds exchanged for electronic

RD 867/2001 of 20 July 2001 and RD 629/1993 of 3 of May 1993	Royal Decree 217/2008 of 15 February 2008
Characteristics and Services of IFs	
Securities-dealer companies, securities agencies and portfolio management companies are considered IFs.	Financial advice firms, which have a special authorisation regime, are added to the above-mentioned firms. Mention is made of the other entities which provide investment services (credit institutions and CII management companies), to which certain rules on internal organisation and conduct apply.
Investment services and ancillary services mean, inter alia, the following: the reception, transmission and execution of orders on behalf of third parties; dealing for own account; management of investment portfolios; mediation, directly or indirectly on behalf of the issuer, in the placement and underwriting of new issues and public offers of securities; safekeeping and administration of financial instruments; rental of safe-deposit boxes; granting credits or loans to investors to allow them to carry out a transaction in financial instruments provided this transaction involves the firm granting the credits or loans; advice to undertakings on capital structure and advisory and other services relating to mergers and the purchase of undertakings; and acting as registered dealers to carry out foreign exchange transactions where these are connected with the provision of investment services.	Essentially, investment advice is added meaning the provision of recommendations tailored to a client at the latter's request or on the initiative of the IF with respect to one or more transactions relating to financial instruments, the management of multilateral trading facilities (MTFs) and the performance of certain ancillary services for specific IFs in accordance with their specific legal regime.
General regime	
The Minister of Finance, on a proposal by the CNMV, will be responsible for authorising the creation of investment firms or the conversion of a firm in that category.	Unchanged.
The Board of Directors shall be composed of at least five members (securities-dealer companies) and at least three members (securities agencies and portfolio management companies) who will be individuals of recognised commercial and professional standing.	The Board of Directors shall be composed of at least three members, who will be individuals of recognised commercial and professional standing.
IFs shall have a good administrative and accounting structure, adequate technical and human resources to implement their programme of operations and internal control and security procedures in the IT area which ensure the healthy and prudent management of the entity. In particular, the Board of Directors shall establish operating rules and suitable procedures to make it easier for all its members to comply with their obligations and assume their related responsibilities at any given time.	No significant changes.
Securities-dealer companies and securities agencies shall join an investment guarantee fund in the conditions set forth in its specific rules and portfolio management companies shall take out liability insurance with a legally authorised financial institution.	Join the Investment Guarantee Fund in the terms established by its specific regulation. This requirement shall not apply to financial advice firms.
IFs must keep with the CNMV a current programme of operations which specifies their investment and ancillary services and supplementary activities, also detailing which instruments they refer to and the organisation and resources at their disposal.	No significant changes.
Initial share capital and own funds	
Securities-dealer companies: €2,000,000. Securities agencies, if they intend to become members of secondary markets or of securities clearing and settlement systems, or if they include securities custody in their programme of operations and may keep special temporary credit-balance accounts: €500,000. Otherwise, if their programme of operations does not include securities custody or reception of funds from the public: €300,000. Portfolio management companies: €100,000. If the IF provides a discretionary portfolio management service, its own funds may not fall below 5% of the volume of the portfolio managed under any circumstances.	Securities-dealer companies: unchanged. Securities agencies: unchanged. As a new feature, if they are only authorised for the reception and transmission of orders without holding funds or financial instruments belonging to their clients: €120,000; or a professional indemnity cover, bond or other comparable guarantee representing at least €2.5 million applying to each claim and in aggregate €3.5 million per year for all claims; or a combination of both. Portfolio management companies: unchanged. Financial advice companies: €50,000; or a professional indemnity cover, bond or other comparable guarantee representing at least €1 million applying to each claim and in aggregate €1.5 million per year for all claims; or a combination of both.
Liquidity ratio	
IFs, other than portfolio management companies, shall ensure at all times that the percentage of investments in highly liquid low-risk assets to total current liabilities with residual maturity of less than one year (excluding credit-balance accounts) is at least 10%.	It remains the same, however, financial advice firms and securities agencies only authorised to receive and transmit orders without holding funds or financial instruments belonging to their clients are excluded.

SOURCES: BOE and Banco de España.

RD 867/2001 of 20 July 2001 and RD 629/1993 of 3 of May 1993		Royal Decree 217/2008 of 15 February 2008
Cross-border activity of IFs		
The establishment of branches in Spain by foreign IFs of non-EU Member States will require the authorisation of the Minister of Finance, on a proposal by the CNMV. IFs of EU Member States will not require authorisation, only notification to the CNMV from the supervisory authority.	Unchanged.	
The establishment of branches abroad by Spanish IFs in non-EU Member States will require authorisation from the CNMV. For EU Member States, the CNMV will notify the competent authority of said State.	Unchanged.	
Organisational and risk management requirements		
Not envisaged.	General organisational requirements: employ staff with the qualifications, knowledge and experience required; keep orderly and suitable records of its activity and internal organisation; ensure that individuals perform their tasks in an appropriate, honest and professional manner, and be equipped with systems and procedures to safeguard the security, integrity and confidentiality of information.	
Not envisaged.	Risk management: risk management policies which make it possible to determine the risks arising from its activities, processes and systems and, if appropriate, establish the level of risk tolerated by the entity; effective processes and mechanisms for managing risks related to activities, processes and systems of the entity based on its risk tolerance level; check that the risk management policies and procedures are suitable and effective.	
Not envisaged.	Compulsory records: keeping registers, register of customers' orders on financial instruments and register of transactions, protection of customers' assets, policy for managing conflicts of interests, etc.	
Rules of conduct applicable to investment service providers		
Not envisaged.	IFs must notify their existing and new clients about client classification as retail, professional and eligible counterparty clients. They must also notify their clients of their right, if they should so desire, to demand to be classified under a different category, and the potential limitations of this new classification as regards client protection must be pointed out.	
Not envisaged.	The general requirements for information on IFs and their services to retail clients, including potential retail clients, are established. Also, information requirements on financial instruments and their risks are established, taking especially into account the client classification of retail or professional and information on associated costs and expenses.	
Not envisaged.	Charges: IFs have the freedom to establish their maximum commissions and out-of-pocket expenses. The rates must be included in a brochure whose contents will be determined by the Minister of Finance. The formats for these brochures will be prepared by the CNMV and the Banco de España. The latter relates to the public debt book-entry market and must be written clearly and precisely and be easy for clients to understand.	

SOURCES: BOE and Banco de España.

money is linked to an account representing a deposit set up by their owner, they would have to be covered by a deposit guarantee system.

As for investment restrictions, ELMIs must make a series of compulsory investments in certain assets. They must invest an amount of no less than their financial liabilities related to e-money in circulation, in assets with a credit risk weighting of 0% and which are sufficiently liquid, either sight deposits of credit institutions of certain countries, provided that said countries do not reschedule their external public debt (i.e. they do not establish new payment schedules), or certain debt instruments which comply with the requirements established in the Royal Decree. The latter two groups of investment may not exceed 20 times the volume of the institution's own funds and are subject to the same restrictions as those of other credit institutions. The regime governing the use of derivatives to hedge market risk is also laid down.

The waiver regime is included in another section of the Royal Decree. It should be pointed out that of the three waivers included in Directive 2000/46, both Law 44/2002 and this Royal De-

cree only include one. Thus, those institutions which issue e-money that is accepted as a means of payment only by any subsidiaries of the institution which perform operational or other ancillary functions related to e-money issued or distributed by the institution, any parent undertaking of the institution or any other subsidiaries of that parent undertaking, may be exempted from certain of their provisions. This will be reflected in the Banco de España's Special Register of Electronic Money Institutions, and only excludes institutions exempt from the restrictions on activity envisaged in the Royal Decree, from the initial minimum capital requirements, from the level of own funds and from the investment limitations.

Lastly, the sanctioning regime of these institutions is established by reference to that of other credit institutions. It envisages the possibility of an EMLI becoming a bank through the procedure already envisaged for credit co-operatives and specialised credit institutions.

**State debt: terms
of issuance for 2008
and January 2009**

Law 51/2007 of 26 December 2007 on the State Budget for 2008 authorised the Minister of Economy and Finance to increase State debt in 2008, with the limitation that the outstanding balance thereof at 31 December 2008 should not exceed the related balance as at 1 January 2008 by more than €7,694.4 million.

As usual at this time of year, *Order EHA/15/2008 of 10 January 2008* (BOE of 17 January 2008), providing for the creation of State debt during 2008 and January 2009, and two *Resolutions of 21 January 2008* of the Directorate-General of the Treasury and Financial Policy (BOE of 28 January 2008), providing for specific issues of Treasury bills and of medium- and long-term government bonds and announcing the schedule of tenders for 2008 and for January 2009, have been published.

Broadly, the issuance instruments and techniques of previous years have been maintained. As in 2007, the Ministry of Economy may provide for the creation of debt through issues of securities or credit operations, in euro or in other currencies.

The main new development in the Order refers to the cash management operations which can be performed by the Treasury. This time, these operations were limited to the transfer of the Treasury's balance at the Banco de España to credit institutions through "liquidity tenders" and lending to other European Union Member States or to institutions with the latter's specific guarantee. In particular, the range of repo transactions has been extended provided that the underlying securities have a high credit rating and are traded on regulated markets. These transactions will be with the market makers of Treasury bills that made the successful bids in the tenders.

The arrangements for State debt issuance of previous years have been retained, namely through tenders (competitive and non-competitive bids), and any technique whatsoever which is considered suitable for the type of transaction in question. In particular, a portion or the full amount of an issue could be transferred at an agreed price to one or several financial institutions which can underwrite its placement. Similarly, outright sales or the sale under repos of newly issued securities or expanded existing issues that the Treasury might have in its securities account may be performed.

As in previous years, public debt will be in the form of Treasury bills and medium- and long-term debt, in all cases exclusively in book-entry form.

TREASURY BILLS

The issuance criteria and procedures are basically maintained for 2008, as is the obligation to prepare an annual schedule of tenders which is included in the Resolution. Twelve-month issues are retained. A new development is that three-month bills will once again be issued from

October to compensate for the seasonal fluctuations in the State treasury. The latter, which were discontinued in 2005, replace the six-month bills used in 2007. However, for reasons of demand or due to issuance policies, the Treasury could not undertake more tenders than those called.

The tenders shall take place on the third Wednesday of each month (the periodicity with which three-month and twelve-month bills are auctioned) and the maturity periods may differ from those announced by the number of days necessary to facilitate the grouping of maturity dates, which are also monthly, coinciding with the issuance dates to facilitate reinvestment by holders. In this way, the grouping together of Treasury bill issues is maintained, so as to guarantee the liquidity of this instrument and to consolidate its market.

The manner of submitting bids at tenders remains the same, i.e. in terms of interest rate and is the same as that by which bills are quoted on the secondary markets, so that this makes submission easier. The procedures, minimum amounts and conditions are the same as in previous years.

Finally, as in previous years, tenders will be followed by a second round reserved for those financial institutions that have acquired market-maker status in respect of Treasury bills. This will unfold in accordance with the rules regulating market-makers.

MEDIUM AND LONG-TERM GOVERNMENT BONDS

The issuance criteria and procedures established for medium- and long-term government bonds are essentially those prevailing in 2007, and the annual schedule of tenders is included in the Resolution, specifying the term of the bonds that will be auctioned quarterly, depending on market conditions and on issuance developments during the year. However, if market conditions or financing requirements make it advisable, the Treasury may, in the monthly resolution providing for issues of bonds for the following month, decide not to issue at any of the terms which, for information purposes, were set in the aforementioned quarterly schedule.

The maturities for both types of bond will be unchanged, i.e. 3 and 5 years for medium-term bonds, and 10 and 30 years for long-term bonds, although without ruling out the option of resuming the 15-year issue and it will also still be possible to offer issues that are extensions of other previous issues, in order to ensure their liquidity on the secondary markets and to meet investor demand.

Tender arrangements remain as at present. Competitive and non-competitive bids may be submitted, with the same characteristics as in the previous section. As in the case of bills, there will be a second round reserved for those financial institutions that have acquired market maker status in respect of medium and long-term government bonds.

Issuers with securities admitted to trading on regulated markets: periodic reporting

CNMV Circular 1/2008 of 30 January 2008 (BOE of 15 February 2008) on periodic reporting by issuers with securities admitted to trading on regulated markets ("the issuers"), in the form of six-monthly financial reports, interim management statements and, if appropriate, quarterly financial reports, was published.

The Circular sets out the periodic reporting formats for six-monthly abridged, individual and consolidated annual accounts and interim management statements and, if appropriate, the content of quarterly financial reports.

Issuers of listed shares or debt securities must send the following to the CNMV: a six-monthly financial report on the first six months of the financial year and, in the case of issuers of listed

shares, a second six-monthly report on the twelve months of the financial year. This second obligation will not be applicable if the annual financial report has been made public in the two months following the end of the financial year to which it refers. Additionally, issuers of listed shares must submit certain quarterly information.

Given the different nature of the issuers and of the applicable accounting regulations, there are three reporting formats: the general format, the format for credit institutions and the format for insurance companies, respectively.

The deadline for publication and dissemination of the six-monthly financial reports will be two months after the end of the period to which they refer. These reports will comprise the abridged individual annual accounts and, if appropriate, the consolidated accounts, and the interim management report and, as a new feature, the statements of responsibility for their content. This responsibility must be assumed by the issuer's directors, whose names and posts will be clearly indicated in the specific section of the six-monthly formats. If the issuer must file abridged consolidated annual accounts, it will not be necessary to prepare abridged individual annual accounts, and for these purposes it will be sufficient to fill in certain statistical information.

The issuer will also publish two interim statements (formerly quarterly reports), within 45 days from the end of the first and third quarters of the financial year, which will contain information for the period from the beginning of the financial year to the end of each quarter. The interim statements will include, at least, an explanation of the salient events and transactions in the corresponding period and their effect on the financial position of the issuer and of the firms it controls and a general description of the financial position and results of the issuer and the firms it controls during the related period. These statements will not be required if the issuer voluntarily publishes, within the same deadline, quarterly financial reports for the period from the beginning of the financial year to the date of the end of the first and third quarters.

Similarly, the content of the abridged individual and, if appropriate, consolidated annual accounts is specified. A distinction is drawn in the former between issuers domiciled in Spain and those from other European Union Member States, although in both cases the compulsory financial statements must be adapted to the abridged format established in Royal Decree 1362/2007.

The information shall be submitted through the CIFRADO/CNMV system of the Electronic Register of the CNMV or on any other similar system which might replace it and shall conform to such format and technical requirements established for these purposes at any given time.

Lastly, the Circular, which came into force on 6 March 2008, will be applicable to six-monthly financial reports and interim statements referring to periods commencing from 1 January 2008.

Regulation of securities market liquidity contracts

Recently, *CNMV Circular 3/2007 of 19 December 2007* (BOE of 12 January 2008) has been published, regulating the conditions to be met by liquidity contracts for the purposes of their recognition as an accepted market practice.

The purpose of these contracts shall be the provision of liquidity by an investment firm or a credit institution (hereafter, a financial intermediary) which, acting on behalf of the issuer, buys and sells the issuer's shares on the official secondary market, with the sole purpose of promoting the liquidity of and regular trading in the share. These transactions shall be conducted,

within the limits established in the authorisation granted by the issuer's shareholders' meeting, for the acquisition of own shares.

Under the provisions of the Circular, the contracts shall meet certain requirements, including most notably that of independence of action of the financial intermediary (of which there shall be only one for each class of share), continuity, use of funds and availability.

Regarding its activity under the liquidity contract, the financial intermediary shall operate on the official Spanish secondary markets, through the orders market, in accordance with trading rules and within the habitual trading hours for these markets. Further, it shall abstain from buying or selling shares through block trades where the counterparty is unwinding a previously established position by means of trades on the orders market, offering it at the average weighted price of such transactions.

Moreover, it shall not occupy a dominant position in the trading of the issuer's shares, whereby it shall not account for more than 25% of the average daily trades in the orders market in the official secondary market in the previous 30 sessions. During auction periods, and particularly during the closing auction, the financial intermediary shall take every precaution to prevent its actions from decisively influencing the share price. In any event, its transactions shall not give rise artificially to share price shifts with respect to the market trend, hamper normal market workings or mislead third parties. To this end, the price of buy orders shall not exceed the higher of that of the last trade or the highest bid in the market order book. Sell orders may not be made at a price lower than that of the last trade, or lower than the lowest price in the sale market order book, if the latter were lower.

The issuer shall not directly or indirectly enter into any additional transaction involving its own shares during the time a liquidity contract is in force, with the exception of those it may make under the cases envisaged in the Circular where the contract is suspended. Nor may it use the securities account for the purchase of shares with the aim of increasing its stock of own shares.

The Circular further lays down minimum information requirements between the issuer and intermediary, and in particular the rules on privileged information established in the Spanish Securities Market Law shall be observed. Regarding public information, the issuer shall notify the CNMV of the signing of the liquidity contract, as relevant information, identifying the financial intermediary, the securities, the market in which the trades are to be transacted and the term of the contract, along with the number of shares and the cash intended for the securities account and the cash account, respectively. When the liquidity contract is terminated, the issuer shall report on the trades with its own shares transacted under the contract, and on the outstanding balance of the securities account and the cash account, as at the date of the reporting period and at the signing of the contract in question.

Finally, without prejudice to the foregoing, it should be clarified that transactions carried out under a liquidity contract that does not meet the conditions laid down in the Circular shall not per se be considered as constituting market abuse.

***Forms for notifying
the CNMV of significant
holdings***

CNMV Circular 2/2007 of 19 December 2007 (BOE dated 10 January 2008) has been published, approving the forms for notification of significant holdings of directors and managers and for notification of issuers' trades in own shares, and other forms.

The aim of the Circular is to establish the notification forms that are to be used for sending to the CNMV the information relating to issuers whose shares are traded on a regulated market.

These forms have been devised specifically for the subject persons obliged to provide notification, namely: significant shareholders who are not directors, directors, managers, the issuers themselves who have to disclose trades in own shares, and market makers that wish to avail themselves of the exemption from notifying significant holdings. Forms have likewise been adapted to the various instruments about which notifications have to be made. These include shares with attributed voting rights, voting rights and equity-linked financial instruments. Along with the notification forms, subject persons shall send supplementary information which, though it will not be public, will provide the CNMV with various pieces of data identifying the subject person and the reporting party, data that are vital for the agency's supervisory function.

Finally, the Circular stipulates how notification is to be made and the maximum terms that shall be observed for transmission thereof to the CNMV.

Amendment of the standard annual corporate governance report of listed public limited companies

Both Law 26/2003 of 17 July 2003 amending Law 24/1988 of 28 July 1988 on the Securities Market and the consolidated text of the Spanish Companies Law, and Ministerial Order ECO/3722/2003 of 26 December 2003 on the annual corporate governance report and other informative instruments of listed public limited companies and other entities, empowered the CNMV, inter alia, to detail the content and structure of listed companies' annual corporate governance reports (ACGR). This detail was introduced by CNMV Circular 1/2004 of 17 March 2004 on the ACGR of listed public limited companies and other entities that issue securities traded on official secondary securities markets, and other informative instruments of listed public limited companies.

Subsequently, the Council of the CNMV approved the Unified Corporate Governance Code (prepared by an ad hoc Working Group created by the Council of Ministers), which contains the corporate governance principles to be followed by all listed companies. Since these principles must be taken as a reference when the ACGR for 2007 and subsequent years is submitted, it was necessary to introduce some amendments and new sections in the existing format of the report.

To this end *CNMV Circular 4/2007 of 27 December 2007* (BOE of 14 January 2008) was published. It modifies the ACGR format for listed public limited companies and includes the recommendations of the Unified Corporate Governance Code in the Annex to the Circular.

Under the basic principles of the Unified Code, which include most notably the voluntary nature of compliance with the recommendations, companies are free to comply with these recommendations fully, partially or not at all, with the sole condition that they offer the appropriate explanations. Consequently, companies are not compelled to fill in all the new sections included in the report, although if they do not, they must complete the section for providing the related explanations. In any event, the ACGR must be disseminated as a significant event.

Amendment of pension fund and pension scheme legislation on financial and actuarial matters. Calculation of returns on pension schemes.

Order EHA/407/2008, of 7 February 2008 (BOE of 21 February 2008) was published. It implements the legislation on pension schemes and funds in the financial and actuarial areas, on the investment regime and on registration procedures, in response to the amendments to Royal Decree 304/2004, of 20 February 2004 approving the pension scheme and fund regulations. This Order also includes specific implementations of regulations on administrative procedures for authorisation and registration, and on the inclusion of occupational schemes in pension funds in the arena of cross-border activity.

Firstly, the legislation on the professional activity of actuaries regarding pension schemes is updated and the functions of actuaries in this respect are delimited.

Secondly, in the definition of general criteria governing the demographic, financial and economic assumptions, technically proven procedures and methods are accepted, with the prudence required by long-term calculations and the many items of risk which can affect defined-benefit and mixed schemes.

The sector's experience in recent years and the interest rates more in keeping with the returns actually obtained are taken into account in formulating the economic and financial assumptions. As for demographic assumptions, the requirements which must be met by the mortality, survival and disability tables which will apply to the pension schemes were defined in order to avoid any lag due to using demographic tables based on past experience dating from some time ago.

Certain aspects relating to the quantification and definition of actuarial aggregates are clarified by differentiating between ordinary contributions and extraordinary contributions, by establishing the general rules applicable to the calculation of mathematical provisions and other actuarial aggregates or by specifically regulating certain aspects of guaranteed pension schemes.

The Order delimits the applicable methods by standardising and limiting the content of the technical basis as against the diverse array of terminology and concepts, given the importance of using one actuarial valuation method or another to determine the annual cost of the scheme. The applicable actuarial valuation methods are based on allocating either profit or costs.

The requirements and measures which must be adopted in the allocation of a surplus or the treatment of a deficit in a pension scheme are made more systematic and as a new feature the requirements which must be met by the deficit reduction plan are set out. Lastly, certain aspects of the quantification and mobility of vested rights of members in relation to the general non-penalisation criterion and exceptions thereto are clarified.

Another important section of the Order refers to the legal regime governing pension fund investments. It defines the meaning of financial agents for regulatory purposes; implements the regime applicable to derivatives and determines the requirements applicable to them, according to whether or not they are tradable on regulated markets within the OECD; and sets out the concept of structured financial asset, the types, the conditions they must meet and the applicable credit rating criteria.

The Order implements certain aspects of the administrative procedures of authorisation and registration which are necessary for taking up the business of pension funds and their management companies and custodians, for certain modifications of pension funds and for the merger and spin-off of their management companies. It also lays down rules on how to comply with the obligation to notify changes to the information contained in the special registers of pension funds, management companies and custodians.

Lastly, it details some aspects of the administrative procedures for incorporating occupational pension schemes in occupational pension funds in the area of cross-border activity and of keeping a register of occupational pension funds of other Member States which operate in Spain and it sets out the questionnaires which must be filled in by senior officers and by shareholders with a significant holding in management companies.

Noteworthy is the recent *Resolution of 26 February 2008* (BOE of 1 March 2008) of the Directorate General of Insurance and Pension Funds, on the method for calculating returns on pension schemes, as empowered for this purpose by Royal Decree 304/2004. The return as de-

fined in this Resolution will be included in the advertising offering pension schemes or disseminating information about them, whatever medium or support may be used to this end, including circulars, calls and personalised letters forming part of a marketing campaign.

Rules on accounting for collective investment institutions

Royal Decree 1309/2005 of 4 November 2005 implemented Collective Investment Institutions Law 35/2003 of 4 November 2003 and, among other aspects, empowered the Minister of the Economy and Finance and the CNMV to develop certain aspects of the legal regime of these institutions.

By virtue of this empowerment, *Order EHA/35/2008 of 14 January 2008* (BOE of January 22 2008) was published. It implements certain aspects on: accounting for CII and determination of their total assets; the calculation of risk diversification ratios; the CII whose investment policy consists of reproducing, replicating or taking as a reference a stock market or fixed-income index; and the requirements of the internal control and risk management and control systems of CII management companies.

As for specific accounting rules, the Order empowers the CNMV to issue the necessary provisions on aspects such as valuation methods, annual accounts, determination of results, determination of supplementary confidential returns to be submitted by CII, and the detail of and frequency with which the data must be supplied to the CNMV. For this purpose, the specific nature of CII will be taken into account and their form as open-ended financial institutions, which requires adapting the accounting rules and asset valuation and classification methods to these circumstances. In any event, establishing or modifying accounting forms and the development of specific rules relating to them (especially altering valuation methods), will require a prior favourable report from the Accounting and Audit Institute.

For the purposes of calculating the risk diversification ratios and determining CII's total assets, the rule is restricted to defining the effective value of these institutions' total assets and the estimated realisable value of the assets and financial instruments which make up their portfolios. Also, the CNMV is empowered to establish the necessary provisions for determining CII's total assets and to monitor compliance with the risk diversification ratios established in the regulations. In the case of CII which are divided into compartments, the diversification ratios considered will be measured at compartment level.

The Order defines CII whose investment policy consists of replicating or reproducing a specific stock market or fixed-income index as those whose returns do not deviate significantly from the benchmark index. To this end, the CNMV will establish the maximum deviation permitted in the returns of CII with respect to the benchmark index and how to calculate them.

For CII whose investment policy consists of taking a stock market or fixed-income index as a reference, the limit on risk diversification in certain assets is extended from 10% to 20% of total assets, in order to give them the same capacity to invest in cash as CII which replicate an index.

Lastly, the Order lists the requirements of internal control and risk management and control systems of CII management companies and indicates, among other aspects, that those companies must have the appropriate administrative and accounting organisation as well as technical and human resources and control procedures and mechanisms in keeping with the investment objectives of the CII that they manage; once again the CNMV is empowered to extend this list.

**Significant events of
collective investment
institutions**

The regulations implementing Collective Investment Institutions Law 35/2003 of 4 November 2003, approved by Royal Decree 1309/2005, of 4 November 2005, empowered the CNMV to determine the form, content and deadlines of notifications of these institutions' significant events and to require from foreign CII's marketed in Spain any information necessary to fulfil its supervisory obligations.

In the exercise of this empowerment, *CNMV Circular 5/2007 of 27 December 2007* (BOE of 17 January 2008) on significant events of CII's was published with the intention of compiling the significant events which CII's domiciled in Spain must report, of expediting their dissemination and of specifying the information which must be submitted by foreign CII's marketed in Spain.

For these purposes, the Circular establishes several significant events which the CNMV, once the related administrative proceedings have been processed, will publish ex officio on its website without the need for notification from the institution affected. These significant events are as follows: a) the replacement of the management company or custodian of mutual funds, and changes in control of the management company; b) those decisions which give rise to the compulsory update of essential items in the information brochure; c) authorisation of a merger in which a mutual fund takes part; and d) any amendment to a mutual fund's rules which requires prior authorisation from the CNMV. The significant events arising from a decision of the CNMV will also be published ex officio.

Notification of the other significant events established in the Circular and, where applicable, of the significant events above will be by electronic means to the CNMV, once they have occurred.

Foreign CII's authorised to operate in other EU Member States which are marketed in Spain must also report to the CNMV electronically, in the same conditions and within the same deadlines established in the legislation of their home country, all the information identified in said legislation additional to that which must be obligatorily provided to Spanish investors.

**EU directives: powers
assigned to the European
Commission in the
financial arena**

In order to make the application of EU legislation more efficient, several European directives were published. These directives confer certain powers on the European Commission to make technical adjustments and to extend or complete provisions. This action must take into account, among other things, the technological developments in financial markets and ensure the uniform application of said directives within the European Union.

Noteworthy in the financial arena is the publication of the following directives:

Directive 2008/24/EC of the European Parliament and of the Council of 11 March 2008 (OJEU of 20 March 2008) amending 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. The Directive empowers the Commission to adopt certain technical adjustments and implementing measures relating to the determination of own funds and to the organisation, calculation and evaluation of risks and exposures.

Directive 2008/25/EC of the European Parliament and of the Council of 11 March 2008 (OJEU of 20 March 2008) amending Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate. The Directive grants powers to the Commission to clarify the technical aspects of some of the definitions provided for

in that Directive in order to take into account developments in financial markets and prudential supervision techniques.

Directive 2008/26/EC of the European Parliament and of the Council of 11 March 2008 (OJEU of 20 March 2008) amending Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003, on insider dealing and market manipulation (market abuse). The Directive empowers the Commission to adopt the measures necessary for the implementation of Directive 2003/6/EC, especially, to elaborate upon or supplement the provisions of that Directive by technical modalities for disclosure of inside information, insider lists, reporting of managerial and suspicious transactions to competent authorities, and present the investigations.

Directive 2008/23/EC of the European Parliament and of the Council of 11 March 2008 (OJEU of 19 March 2008) amending Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions. The Directive empowers the Commission so that, among other things, it adjusts the provisions of Directive 2006/49/EC related to the determination of own funds, the organisation, calculation and evaluation of risks and exposures, and to the categories of investment firms which are subject to that Directive.

Directive 2008/22/EC of the European Parliament and of the Council of 11 March 2008 (OJEU of 19 March 2008) amending 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, as regards the powers granted to the Commission. In particular, in order to clarify the technical aspects of some of the definitions provided under Directive 2004/109/EC, notably the maximum length of the usual short settlement cycle, the calendar of trading days, the circumstances under which a person should have learnt of the acquisition or disposal of voting rights, the conditions of independence to be respected by market makers and management companies; the nature of the auditor's review, the minimum content of the condensed set of solo financial statements; the procedures for the notification and disclosure of major holdings as well as the procedures for filing regulated information with the competent authority of the issuer's home Member State; and defining minimum standards for the setting up of storage mechanisms.

Directive 2008/20/EC, of the European Parliament and of the Council of 11 March 2008 (OJEU of 19 March 2008) amending Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2006 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. The Directive confers powers on the Commission so that it clarifies the technical aspects of some of the definitions provided for under Directive 2005/60/EC, establishes technical criteria for assessing whether situations present a low or high risk of money laundering or terrorist financing, whether or not it is justified to apply that Directive to persons carrying out a financial activity on an occasional or very limited basis, and adapts the amounts provided for in that Directive, taking account of economic developments and changes in international standards.

Directive 2008/18/EC of the European Parliament and of the Council of 11 March 2008 (OJEU of 19 March 2008) amending Directive 85/611/EEC of the Council of the European Communities of 20 December 1985 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS). Its purpose is to grant powers to the Commission so that it adopts the measures necessary for

the implementation of Directive 85/611/EEC by aligning terminology and framing definitions in accordance with subsequent acts on UCITS and related matters, as regards the implementing powers conferred on the Commission.

Directive 2008/11/EC of the European Parliament and of the Council of 11 March 2008 (OJEU of 19 March 2008) amending Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading, as regards the implementing powers conferred on the Commission so that it adapts definitions and elaborates upon or supplements the provisions of Directive 2003/71/EC by detailed specification of the form and contents of a prospectus.

Before 31 December 2010 and, subsequently, at least every three years, the Commission will review the provisions on its implementing powers conferred by the above-mentioned directives and will submit a report to the European Parliament and Council about the use of these powers.

***Public notaries’
obligations in the
prevention of money
laundering***

Law 19/1993 of 28 December 1993 on certain measures to prevent money laundering, amended by Law 19/2003 of 4 July 2003 and implemented by Royal Decree 925/1995 of 9 June 1995, includes the basic regulations on the prevention of money laundering. Subsequently, Order EHA/2963/2005 of 20 September 2005, which regulates the Centralised Body for the Prevention of Money Laundering in the General Council of Public Notaries, included measures aimed at preventing the use of public authenticating officials in money laundering processes.

Along these same lines, *Order EHA/114/2008, of 29 January 2008* (BOE of 31 January 2008), which regulates compliance of public notaries with certain obligations in the area of prevention of money laundering, was published.

In the Order certain obligations are established for public notaries as regards the identification of their clients (both individuals and legal entities), keeping the documents used to identify clients (for a period of six years), and internal control and communication procedures aimed at preventing money laundering.

It should be noted that public notaries must request that they be shown, for inclusion in the protocol, the declaration of movements of means of payment if the transaction which they are authorising is or was performed in cash, banknotes or bank bearer cheques denominated in national or any other currency, or any physical — including electronic — means conceived as a means of payment, for an amount equal to or higher than €100,000, in accordance with the provisions of Order EHA/1439/2006 of 3 May 2006 regulating the declaration of movements of means of payment within the context of the prevention of money laundering. They must also notify the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences (a body regulated in Law 19/1993) of the transactions in which they were not shown the declaration of movements of means of payment. The Executive Service of the Commission will be notified of transactions electronically and the requirements of this body will be met by the same means, without prejudice to the use of other media where required. In any event, the notification system used must ensure full confidentiality and integrity of the information sent.

***Competition regulations
and National Competition
Commission Statutes***

Competition Law 15/2007 of 3 July 2007, which repealed the previous law in this area, aims to reinforce the mechanisms already in place, equipping them with certain instruments and an institutional structure to protect effective competition in the markets, taking into account the new EU legal system and the powers of the regional governments in this area.

Royal Decree 261/2008 of 22 February 2008 (BOE of 27 February 2008) has recently been published. Pursuant to the authority granted by Law 15/2007 this Royal Decree approves the Competition Regulations implementing said law in relation to procedures, the treatment of conduct of minor importance and the system of clemency or exemption and reduction in fines for firms that collaborate in combating cartels. *Royal Decree 331/2008 of 29 February 2008* (BOE of 3 March 2008) has also been published. This approves the Statutes of the National Competition Commission (CNC), provided for in the above-mentioned law, in which matters relating to the workings and operating regime of the CNC are dealt with.

The Regulations have two titles: the first, "Competition Protection", implements substantive aspects of the Law, specifically those relating to conduct of minor importance, economic concentrations, government aid and competition promotion. The second, "Competition Protection Procedures" implements various procedures regulated in the above-mentioned Law.

The provisions on conduct of minor importance set out the criteria for defining such conduct. With respect to economic concentrations, the provisions implementing Law 15/2007 in regard to notification thresholds, the calculation of market share and turnover and the valuation of economic efficiencies arising from concentration operations are laid down.

As regards government aid, provision is made for information and communication mechanisms, taking into account EU law in this respect. For this purpose, an electronic information centre has been created for national government aid.

As for competition protection procedures, the various procedures regulated in Law 15/2007 are developed. Together with the calculation of deadlines and requirements relating to notifications, the Regulations set out inspection powers and provide for collaboration with the competent agencies regarding powers of investigation, on the one hand, with regional governments and, on the other hand, with the European Commission and other national competition authorities in other Member States.

Another important section deals with the disciplinary procedure for prohibited conduct, which develops in this area the instruments included in Law 15/2007, maintaining a balance between the principles of legal certainty and administrative effectiveness.

As for the Statutes of the CNC, matters regarding its nature and legal regime are implemented. The CNC is considered to be an institution under public law with its own legal personality and full public and private legal capacity which is attached to the Ministry of Finance. Its special organic and functional autonomy is acknowledged in the pursuit of its activity and the accomplishment of its aims, as well as full independence from general government; it is subject to Law 15/2007 and the rest of the legal system.

11.4.2008.

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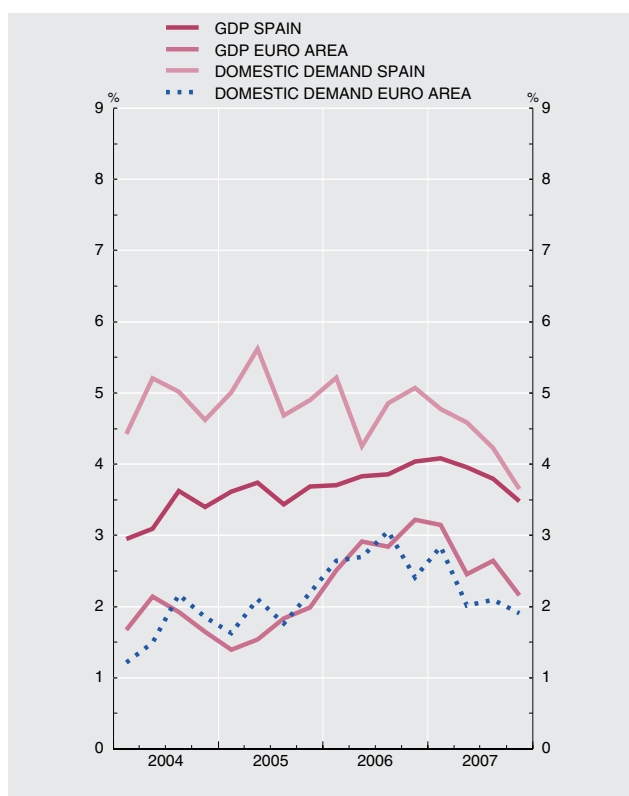
1.1. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES, REFERENCE YEAR 2000=100.DEMAND COMPONENTS. SPAIN AND EURO AREA (a)

■ Series depicted in chart.

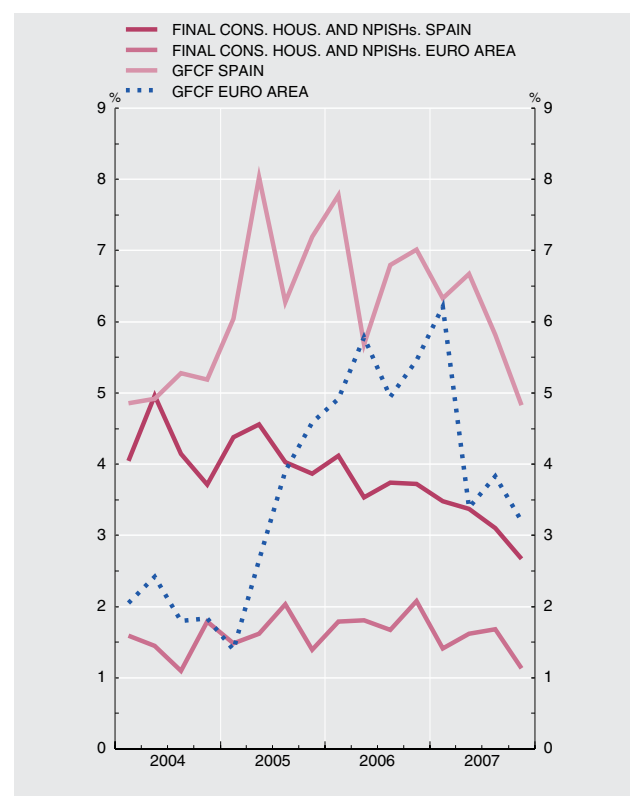
Annual percentage changes

		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
05	P	3.6	1.7	4.2	1.6	5.5	1.4	6.9	3.1	5.1	1.9	2.6	4.9	7.7	5.7	908	8 047
06	P	3.9	2.9	3.8	1.8	4.8	2.0	6.8	5.3	4.9	2.7	5.1	8.1	8.3	7.8	981	8 433
07	P	3.8	2.6	3.2	1.5	5.1	2.2	5.9	4.2	4.3	2.2	5.3	6.0	6.6	5.1	1 050	8 873
05	Q1	P	3.6	1.4	4.4	1.5	5.6	1.2	6.0	1.4	5.0	1.4	0.2	4.4	5.4	220	1 980
	Q2	P	3.7	1.5	4.6	1.6	5.9	1.6	8.0	2.6	5.6	1.5	3.1	4.0	9.7	225	2 002
	Q3	P	3.4	1.8	4.0	2.0	5.1	1.5	6.3	3.9	4.7	1.8	3.7	5.7	8.0	229	2 021
	Q4	P	3.7	2.0	3.9	1.4	5.4	1.6	7.2	4.6	4.9	2.0	3.4	5.5	7.7	234	2 044
06	Q1	P	3.7	2.5	4.1	1.8	4.9	2.3	7.8	4.9	5.2	2.5	5.7	8.7	10.6	238	2 067
	Q2	P	3.8	2.9	3.5	1.8	4.0	1.7	5.7	5.8	4.3	2.9	4.9	7.9	6.1	243	2 099
	Q3	P	3.9	2.8	3.7	1.7	4.8	1.9	6.8	4.9	2.8	4.2	6.6	7.5	7.4	247	2 120
	Q4	P	4.0	3.2	3.7	2.1	5.7	2.3	7.0	5.5	5.1	3.2	5.7	9.0	8.9	252	2 147
07	Q1	P	4.1	3.1	3.5	1.4	6.1	2.2	6.3	6.2	4.8	3.1	3.6	6.6	6.0	257	2 185
	Q2	P	4.0	2.5	3.4	1.6	5.0	2.2	6.7	3.4	4.6	2.5	4.7	5.9	6.7	261	2 207
	Q3	P	3.8	2.6	3.1	1.7	5.1	2.4	5.8	3.8	4.2	2.6	7.7	7.1	8.4	264	2 231
	Q4	P	3.5	2.2	2.7	1.1	4.4	1.8	4.8	3.2	3.6	2.2	5.1	4.4	5.4	268	2 250

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.

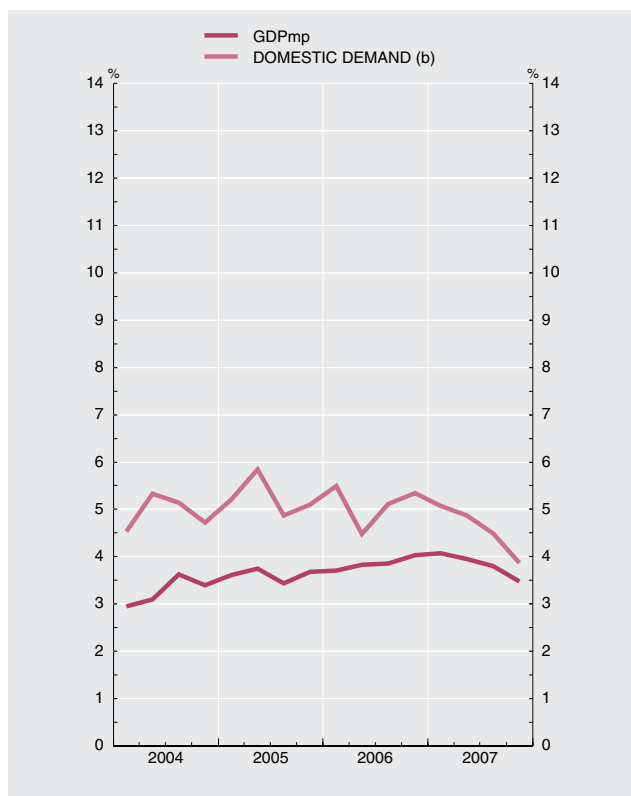
1.2. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES. REFERENCE YEAR 2000=100. DEMAND COMPONENTS. SPAIN: BREAKDOWN (a)

■ Series depicted in chart.

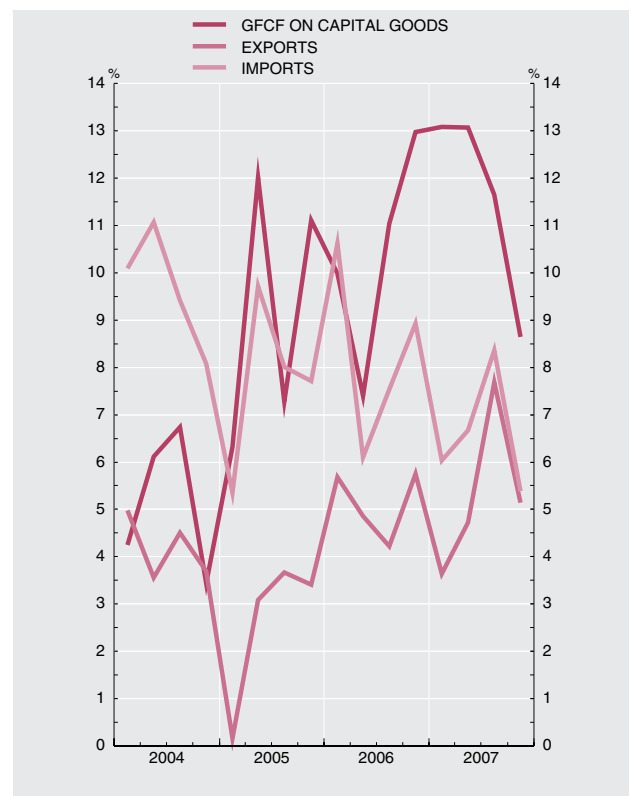
Annual percentage changes

		Gross fixed capital formation					Exports of goods and services				Imports of goods and services				Memorandum items:	
		Total	Capital goods	Construction	Other products	Change in Stocks (b)	Total	Goods	Final consumption of non-residents 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
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
07	P	5.9	11.6	4.0	4.2	0.0	5.3	4.7	-0.3	13.1	6.6	6.0	5.8	9.7	4.6	3.8
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
	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
	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	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	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
	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
	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
	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
07	Q1	P	6.3	13.1	4.9	1.9	0.1	3.6	3.4	1.3	6.9	6.0	5.9	6.7	6.7	5.1
	Q2	P	6.7	13.1	4.6	4.7	0.0	4.7	4.7	-2.2	11.8	6.7	6.1	4.4	9.9	4.9
	Q3	P	5.8	11.6	3.8	4.3	0.0	7.7	6.2	-0.6	22.0	8.4	7.4	5.5	13.7	4.5
	Q4	P	4.8	8.6	2.9	6.1	0.1	5.1	4.6	0.3	11.7	5.4	4.7	6.5	8.5	3.9

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.

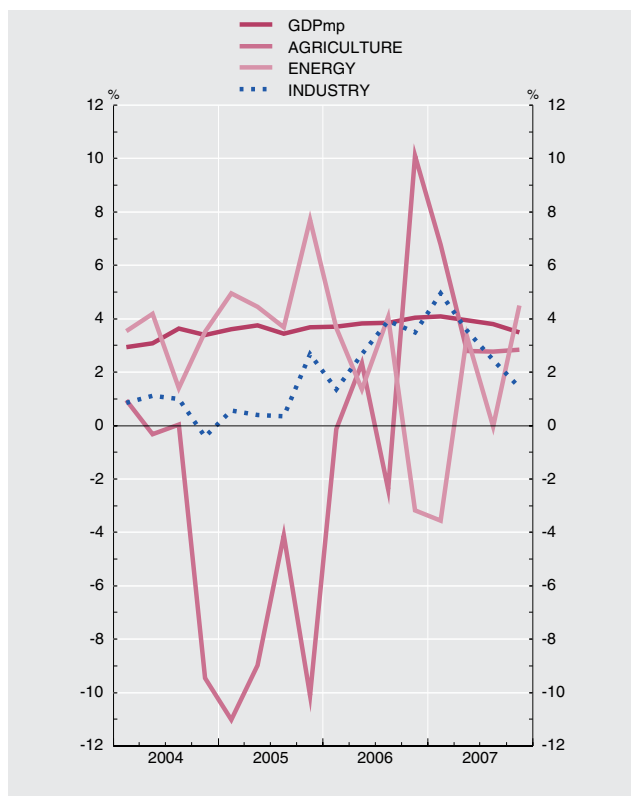
1.3. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES. REFERENCE YEAR 2000=100. BRANCHES OF ACTIVITY. SPAIN (a)

■ Series depicted in chart.

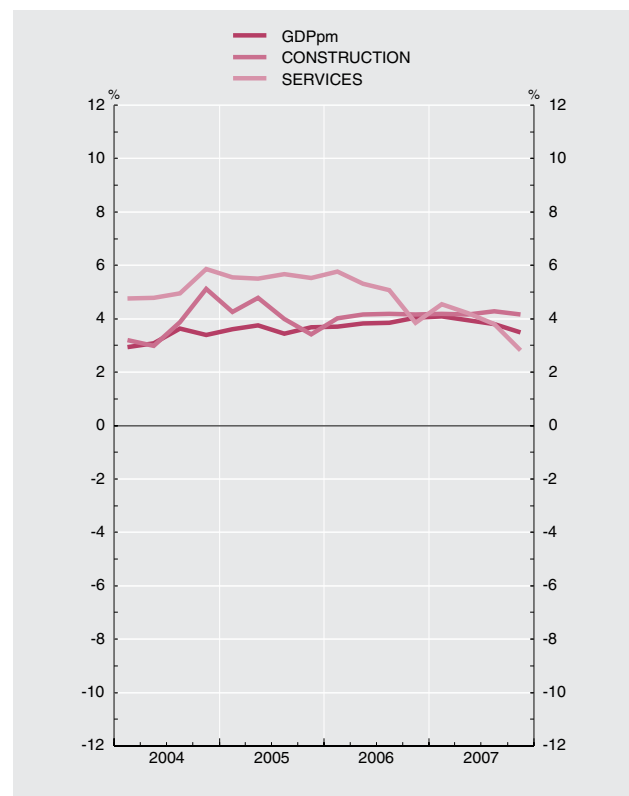
Annual percentage changes

			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
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
07	P		3.8	3.8	1.0	3.1	3.8	4.2	4.0	5.0	3.4	0.0	3.7
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	4.1	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	6.8	-3.6	5.0	4.5	4.2	4.2	4.3	4.1	-1.9	2.2
	Q2	P	4.0	2.8	3.4	3.6	4.2	4.2	3.9	5.2	3.5	-2.0	3.9
	Q3	P	3.8	2.8	-0.0	2.4	3.8	4.3	4.0	5.3	3.0	1.8	5.9
	Q4	P	3.5	2.9	4.5	1.4	2.8	4.1	3.9	5.0	2.8	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).

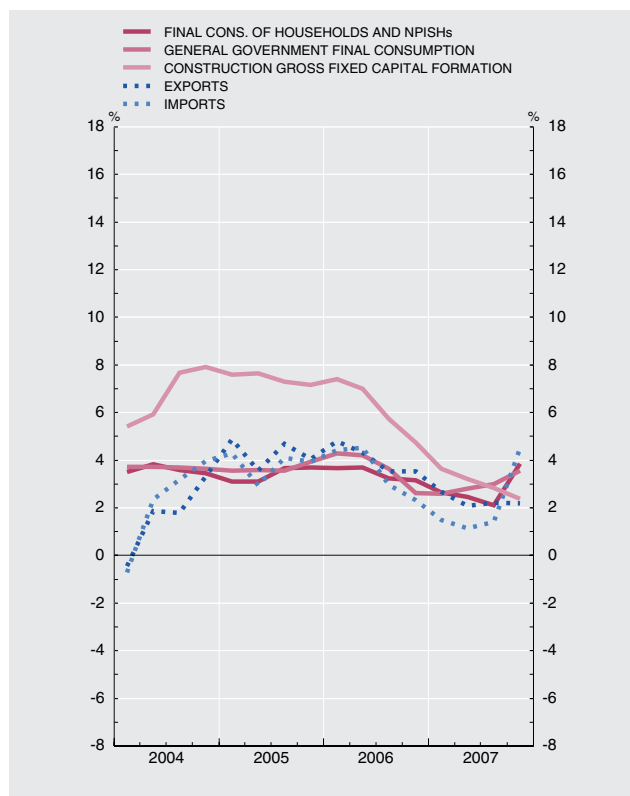
1.4. GROSS DOMESTIC PRODUCT. IMPLICIT DEFLATORS. SPAIN (a)

■ Series depicted in chart.

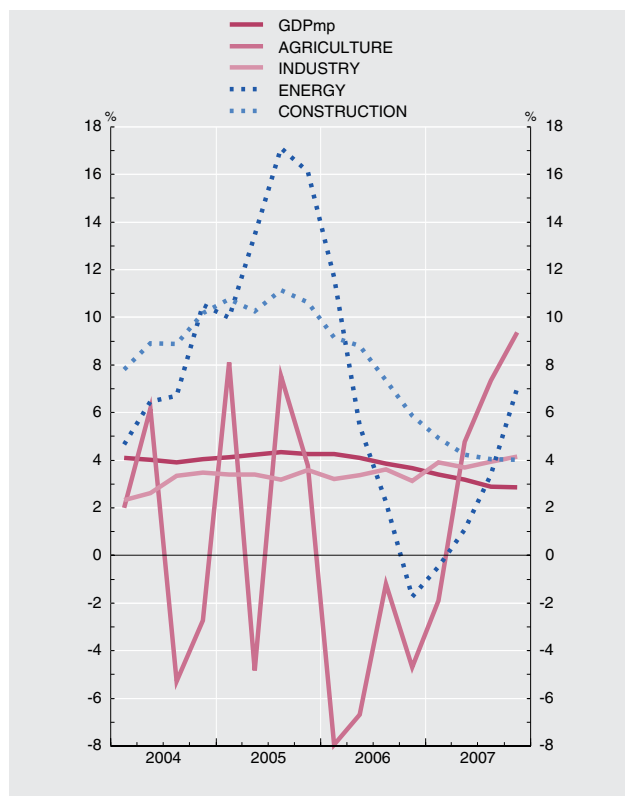
Annual percentage changes

		Demand components							Gross domestic product at market prices	Branches of activity					
		Final consumption of households and NPISHs (b)	General government final consumption	Gross fixed capital formation			Exports of goods and services	Imports of goods and services		Agriculture and fisheries	Energy	Industry	Construction	Of which	
				Capital goods	Construction	Other products								Services	Market services
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
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
07	P	2.8	3.0	2.8	3.0	5.5	2.3	2.1	3.1	4.9	2.8	3.9	4.3	3.5	3.4
05	Q1	P	3.1	3.6	2.5	7.6	5.4	4.9	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	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	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	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	4.3	-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	4.1	-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	-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	-4.7	-1.7	3.1	5.9	2.8	2.7
07	Q1	P	2.7	2.6	3.1	3.6	6.1	2.7	1.5	-1.9	-0.5	3.9	4.9	3.3	3.3
	Q2	P	2.5	2.8	3.0	3.2	5.4	2.1	1.1	3.2	4.8	1.1	3.7	4.2	3.5
	Q3	P	2.1	3.0	2.6	2.8	5.2	2.2	1.4	2.9	7.3	3.4	3.9	4.0	3.6
	Q4	P	3.9	3.6	2.6	2.4	5.3	2.2	4.5	9.4	7.0	4.1	4.0	3.5	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.

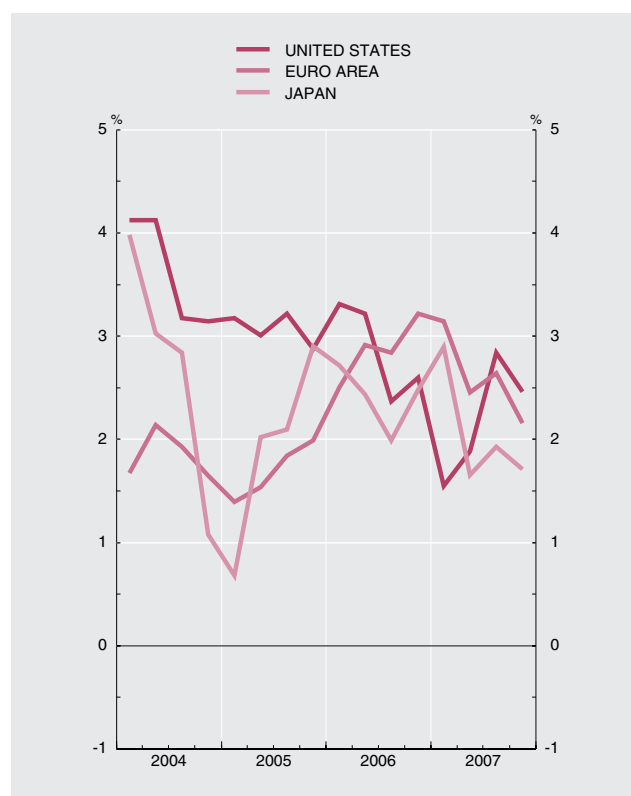
2.1. INTERNATIONAL COMPARISON. GROSS DOMESTIC PRODUCT AT CONSTANT PRICES

■ Series depicted in chart.

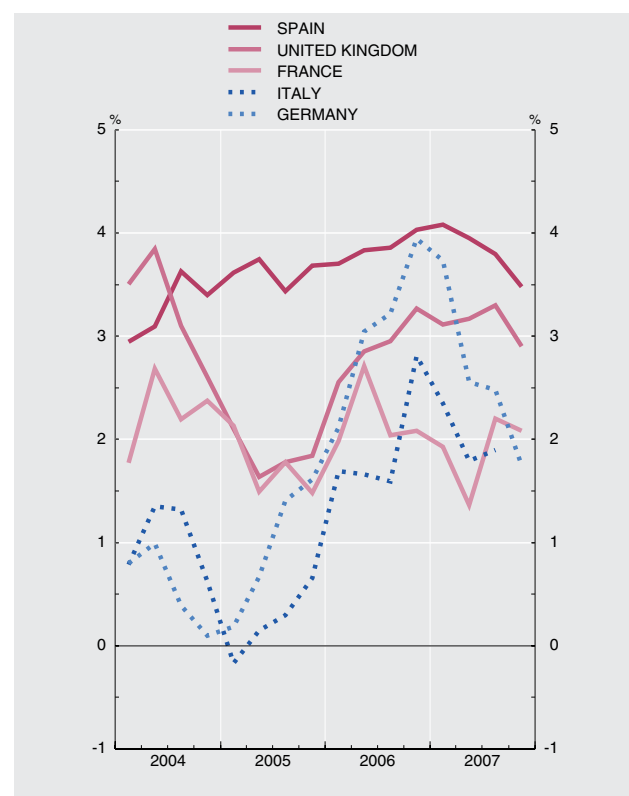
Annual percentage changes

	OECD	EU-15	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
	1	2	3	4	5	6	7	8	9	10
05	2.6	1.8	1.7	1.0	3.6	3.1	1.7	0.2	1.9	1.8
06	3.1	2.9	2.9	3.1	3.9	2.9	2.2	1.9	2.4	2.9
07	...	2.7	2.6	2.6	3.8	2.2	1.9	...	2.0	3.1
04 Q4	2.6	1.9	1.6	0.1	3.4	3.1	2.4	0.6	1.1	2.6
05 Q1	2.3	1.6	1.4	0.2	3.6	3.2	2.1	-0.2	0.7	2.1
Q2	2.4	1.6	1.5	0.7	3.7	3.0	1.5	0.1	2.0	1.6
Q3	2.8	1.9	1.8	1.4	3.4	3.2	1.8	0.3	2.1	1.8
Q4	2.8	2.0	2.0	1.6	3.7	2.9	1.5	0.7	2.9	1.8
06 Q1	3.2	2.6	2.5	2.1	3.7	3.3	2.0	1.7	2.7	2.6
Q2	3.3	3.0	2.9	3.0	3.8	3.2	2.7	1.7	2.4	2.9
Q3	2.8	2.9	2.8	3.2	3.9	2.4	2.0	1.6	2.0	3.0
Q4	3.0	3.2	3.2	3.9	4.0	2.6	2.1	2.8	2.5	3.3
07 Q1	2.6	3.1	3.1	3.7	4.1	1.5	1.9	2.4	2.9	3.1
Q2	2.5	2.5	2.5	2.6	4.0	1.9	1.4	1.8	1.7	3.2
Q3	2.9	2.7	2.6	2.5	3.8	2.8	2.2	1.9	1.9	3.3
Q4	...	2.3	2.2	1.8	3.5	2.5	2.1	...	1.7	2.9

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.

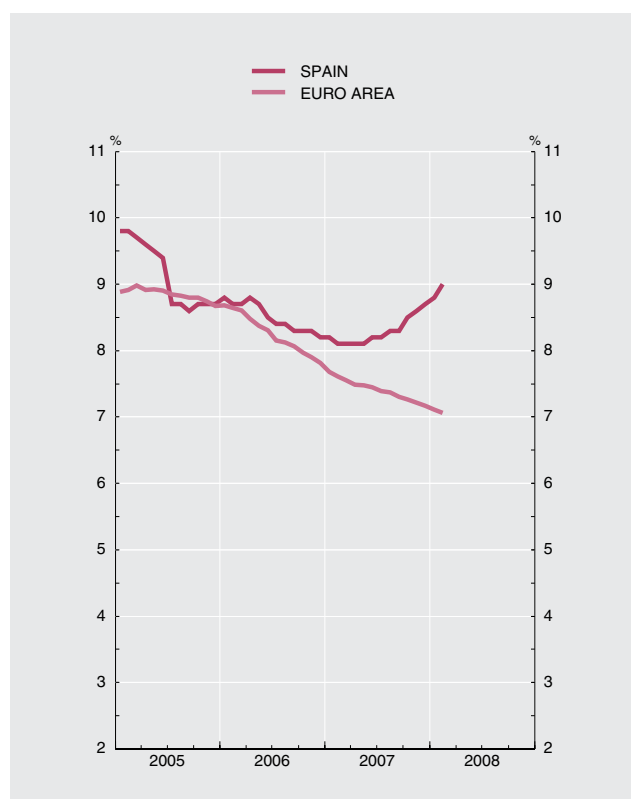
2.2. INTERNATIONAL COMPARISON. UNEMPLOYMENT RATES

■ Series depicted in chart.

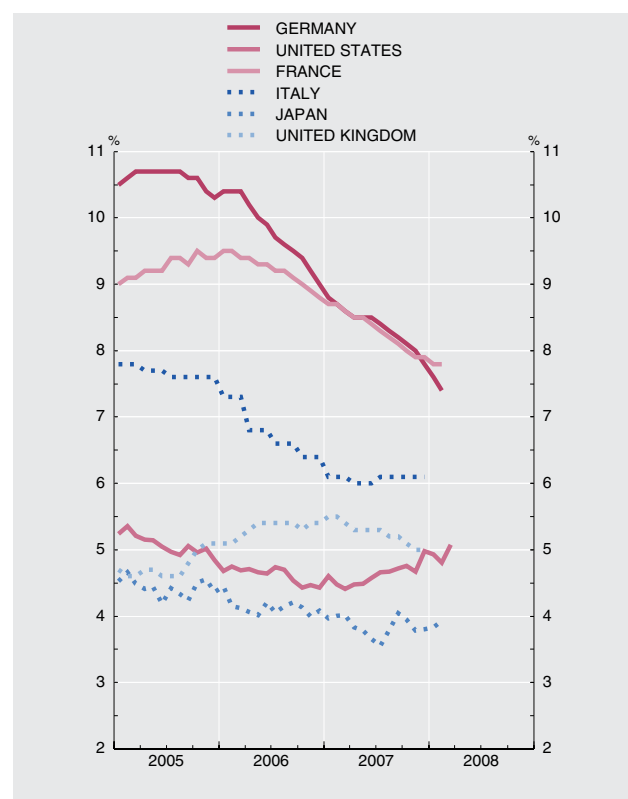
Percentages

	OECD	EU-15	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
	1	2	3	4	5	6	7	8	9	10
05	6.7	8.1	8.9	10.6	9.2	5.1	9.3	7.7	4.4	4.8
06	6.1	7.7	8.3	9.8	8.5	4.6	9.2	6.8	4.1	5.3
07	5.6	7.0	7.4	8.4	8.3	4.6	8.3	6.1	3.8	5.3
06 Sep	6.0	7.6	8.1	9.5	8.3	4.5	9.1	6.6	4.2	5.4
Oct	5.9	7.5	8.0	9.4	8.3	4.4	9.0	6.4	4.1	5.3
Nov	5.9	7.4	7.9	9.2	8.3	4.5	8.9	6.4	4.0	5.4
Dec	5.8	7.3	7.8	9.0	8.2	4.4	8.8	6.4	4.1	5.4
07 Jan	5.8	7.3	7.7	8.8	8.2	4.6	8.7	6.1	4.0	5.5
Feb	5.7	7.2	7.6	8.7	8.1	4.5	8.7	6.1	4.0	5.5
Mar	5.7	7.1	7.6	8.6	8.1	4.4	8.6	6.1	4.0	5.4
Apr	5.6	7.1	7.5	8.5	8.1	4.5	8.5	6.0	3.8	5.3
May	5.6	7.0	7.5	8.5	8.1	4.5	8.5	6.0	3.8	5.3
Jun	5.6	7.0	7.4	8.5	8.2	4.6	8.4	6.0	3.7	5.3
Jul	5.6	7.0	7.4	8.4	8.2	4.7	8.3	6.1	3.6	5.3
Aug	5.6	6.9	7.4	8.3	8.3	4.7	8.2	6.1	3.8	5.2
Sep	5.6	6.9	7.3	8.2	8.3	4.7	8.1	6.1	4.0	5.2
Oct	5.5	6.9	7.3	8.1	8.5	4.8	8.0	6.1	4.0	5.1
Nov	5.5	6.8	7.2	8.0	8.6	4.7	7.9	6.1	3.8	5.0
Dec	5.5	6.8	7.2	7.8	8.7	5.0	7.9	6.1	3.8	5.0
08 Jan	5.5	...	7.1	7.6	8.8	4.9	7.8	...	3.8	...
Feb	5.5	...	7.1	7.4	9.0	4.8	7.8	...	3.9	...

UNEMPLOYMENT RATES



UNEMPLOYMENT RATES



Sources: ECB and OECD.

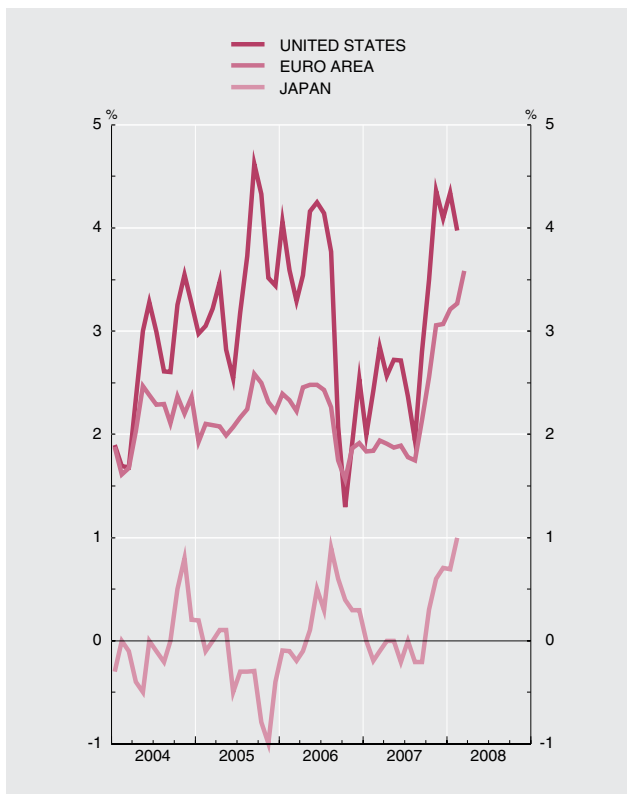
2.3. INTERNATIONAL COMPARISON. CONSUMER PRICES (a)

■ Series depicted in chart.

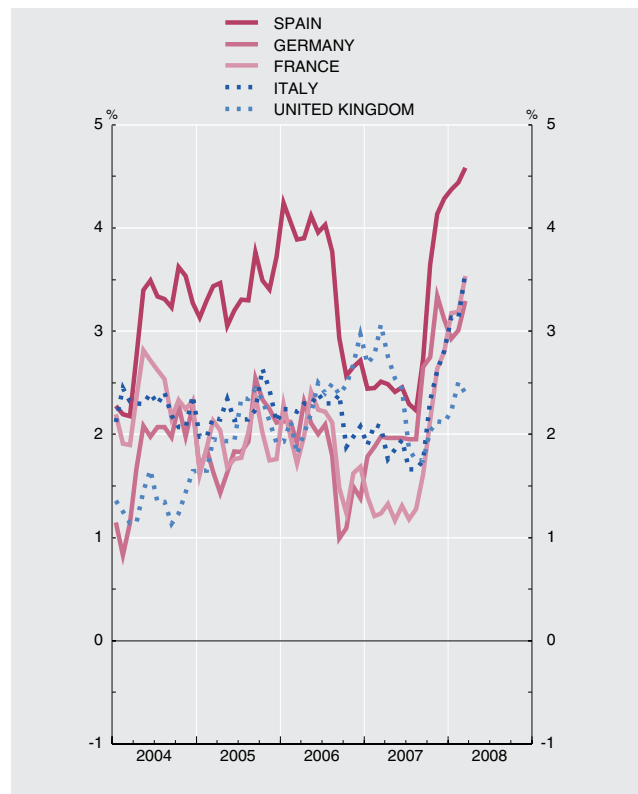
Annual percentage changes

	OECD	EU-15	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
	1	2	3	4	5	6	7	8	9	10
04	2.3	2.0	2.1	1.8	3.1	2.7	2.3	2.3	-0.0	1.3
05	2.6	2.1	2.2	1.9	3.4	3.4	1.9	2.2	-0.3	2.1
06	2.6	2.2	2.2	1.8	3.6	3.2	1.9	2.2	0.2	2.3
07	2.5	...	2.1	2.3	2.8	2.9	1.6	2.0	0.1	2.3
06 Oct	1.6	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	2.3	2.1	1.9	1.4	2.7	2.5	1.7	2.1	0.3	3.0
07 Jan	2.0	...	1.8	1.8	2.4	2.0	1.4	1.9	-	2.7
Feb	2.2	...	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	2.4	...	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	2.3	...	1.9	2.0	2.5	2.7	1.3	1.9	-0.2	2.4
Jul	2.1	...	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	2.3	...	2.1	2.7	2.7	2.8	1.6	1.7	-0.2	1.7
Oct	2.9	...	2.6	2.7	3.6	3.5	2.1	2.3	0.3	2.0
Nov	3.4	...	3.1	3.3	4.1	4.4	2.6	2.6	0.6	2.1
Dec	3.3	...	3.1	3.1	4.3	4.1	2.8	2.8	0.7	2.1
08 Jan	3.5	...	3.2	2.9	4.4	4.3	3.2	3.1	0.7	2.2
Feb	3.5	...	3.3	3.0	4.4	4.0	3.2	3.1	1.0	2.5
Mar	...	...	3.6	3.3	4.6	...	3.5	3.6	...	2.4

CONSUMER PRICES
Annual percentage changes



CONSUMER PRICES
Annual percentage changes



Sources: OECD, INE and Eurostat.

Note: The underlying series for this indicator are in Tables 26.11 and 26.15 of the BE Boletín Estadístico.

a. Harmonised Index of Consumer Prices for the EU countries.

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

■ Series depicted in chart.

Average of daily data

	Exchange rates			Indices of the nominal effective exchange rate vis-à-vis the (a) developed countries 1999 Q1=100			Indices of the real effective exchange rate vis-à-vis the developed countries (b) 1999 Q1=100					
	US dollar per ECU/euro	Japanese yen per ECU/euro	Japanese yen per US dollar	Euro	US dollar	Japanese yen	Based on consumer prices			Based on producer prices		
							Euro	US dollar	Japanese yen	Euro	US dollar	Japanese yen
	1	2	3	4	5	6	7	8	9	10	11	12
05	1.2445	136.88	110.17	103.3	87.8	99.9	104.2	94.5	83.3	102.5	96.2	83.4
06	1.2561	146.09	116.32	103.7	86.8	93.9	104.6	94.8	76.5	103.0	96.3	77.2
07	1.3710	161.26	117.74	107.7	82.3	89.0	108.3	91.0	70.8	106.9	92.5	71.9
07 J-M	1.3106	156.43	119.37	105.5	86.4	89.8	106.2	94.9	72.1	104.9	95.2	73.3
08 J-M	1.5003	157.74	105.23	112.8	75.9	95.9	112.3	86.2	74.2	110.4	88.3	75.1
07 Jan	1.2999	156.56	120.45	104.9	86.9	89.2	105.7	95.1	72.2	104.4	95.3	73.4
Feb	1.3074	157.60	120.55	105.4	86.7	89.0	106.2	95.1	71.3	104.9	95.4	72.7
Mar	1.3242	155.24	117.23	106.1	85.7	91.1	106.8	94.4	72.6	105.3	95.1	73.7
Apr	1.3516	160.68	118.88	107.2	84.4	88.8	107.9	93.0	70.6	106.4	94.2	71.8
May	1.3511	163.22	120.80	107.3	83.8	87.3	107.9	92.7	69.4	106.2	94.3	70.3
Jun	1.3419	164.55	122.63	106.9	83.6	86.1	107.4	92.7	68.1	105.9	94.3	69.4
Jul	1.3716	166.76	121.59	107.6	82.2	85.8	108.1	91.3	68.0	106.4	93.3	69.1
Aug	1.3622	159.05	116.75	107.1	81.9	89.9	107.6	90.7	71.6	106.3	92.2	72.8
Sep	1.3896	159.82	115.01	108.2	80.3	90.4	108.8	89.0	71.7	107.5	90.8	72.9
Oct	1.4227	164.95	115.94	109.4	78.3	88.4	110.1	86.8	70.2	108.7	89.1	71.4
Nov	1.4684	162.89	110.95	111.0	76.3	91.2	111.7	84.9	71.9	110.0	88.0	72.8
Dec	1.4570	163.55	112.26	111.2	77.9	90.8	111.7	86.3	71.6	110.1	88.8	72.8
08 Jan	1.4718	158.68	107.81	112.0	77.1	94.3	112.4	86.2	74.2	110.5	88.3	75.1
Feb	1.4748	157.97	107.12	111.8	76.7	94.7	112.2	...	...	110.2	...	...
Mar	1.5527	156.59	100.88	114.6	74.0	98.5	...	...	...	...	...	...

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 between 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.

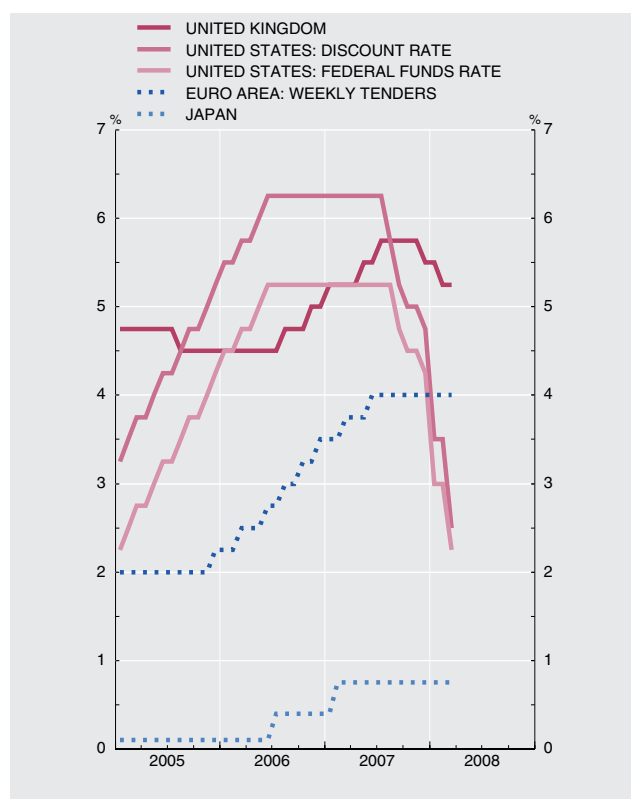
2.5. OFFICIAL INTERVENTION INTEREST RATES AND SHORT-TERM INTEREST RATES

■ Series depicted in chart.

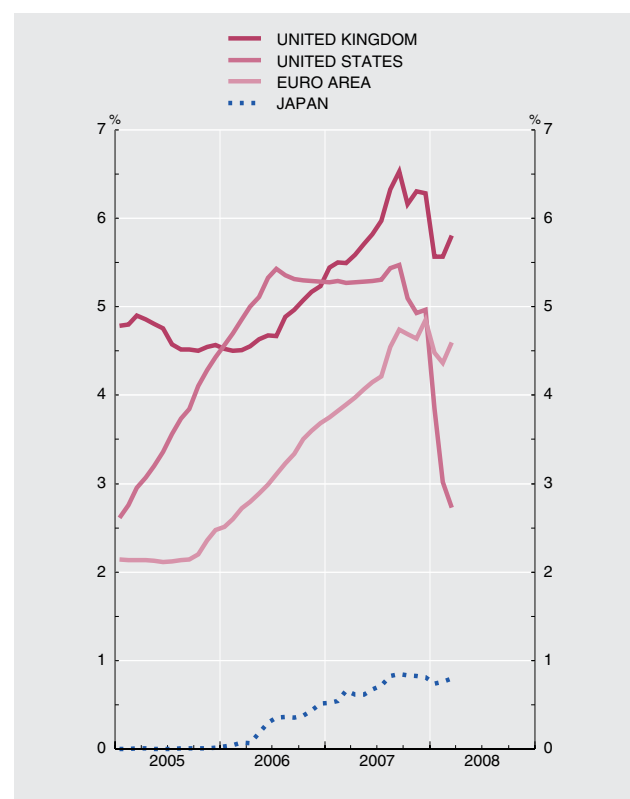
Percentages

	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)	(b)	(c)	(d)											
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
07	4.00	4.75	5.00	0.75	5.50	4.23	4.51	4.28	-	-	5.24	-	-	0.71	5.93
06 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
Oct	4.00	5.00	4.50	0.75	5.75	4.36	4.89	4.69	-	-	5.09	-	-	0.84	6.16
Nov	4.00	5.00	4.50	0.75	5.75	4.29	4.88	4.64	-	-	4.93	-	-	0.83	6.31
Dec	4.00	4.75	4.25	0.75	5.50	4.37	5.05	4.85	-	-	4.97	-	-	0.81	6.28
08 Jan	4.00	3.50	3.00	0.75	5.50	3.74	4.64	4.48	-	-	3.85	-	-	0.74	5.56
Feb	4.00	3.50	3.00	0.75	5.25	3.38	4.54	4.36	-	-	3.02	-	-	0.76	5.57
Mar	4.00	2.50	2.25	0.75	5.25	3.36	4.77	4.60	-	-	2.73	-	-	0.80	5.80

OFFICIAL INTERVENTION INTEREST RATES



3-MONTH INTERBANK RATES



Sources: 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.

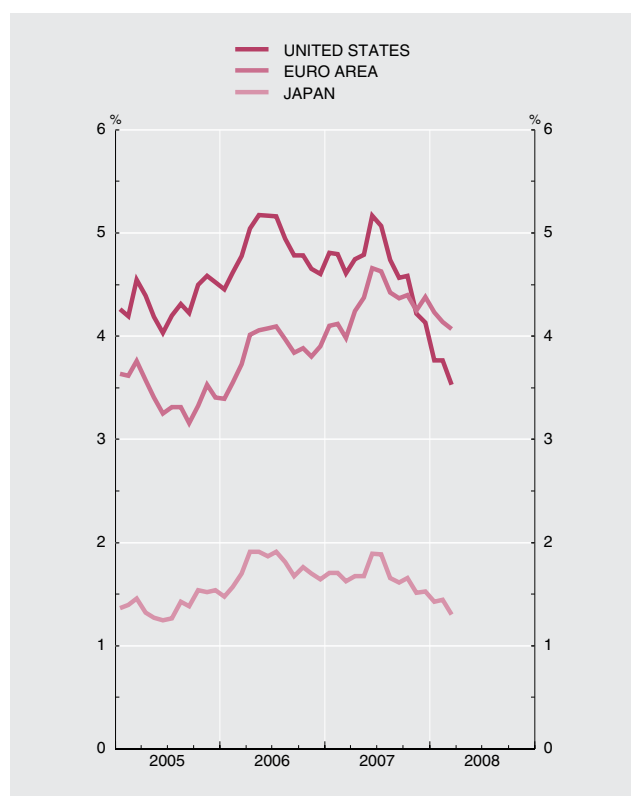
2.6. 10-YEAR GOVERNMENT BOND YIELDS ON DOMESTIC MARKETS

■ Series depicted in chart.

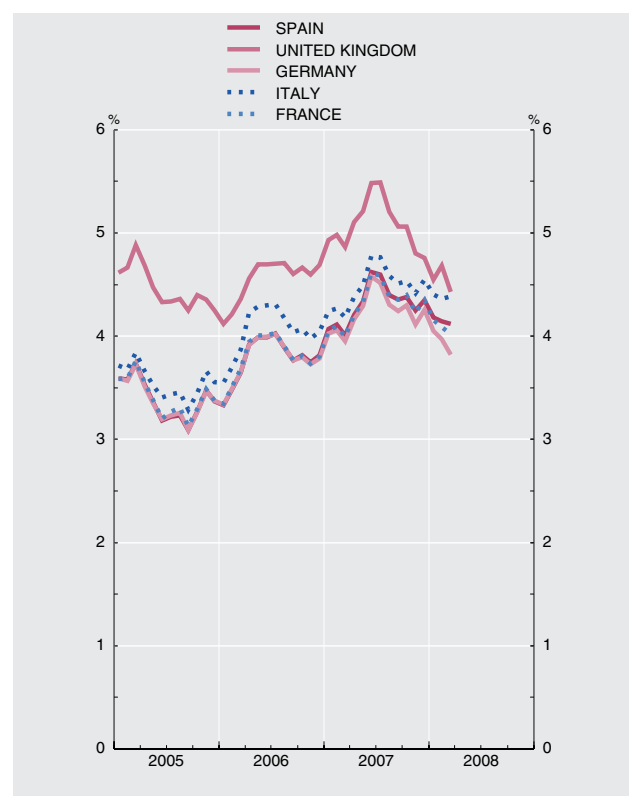
Percentages

	OECD	EU-15	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
	1	2	3	4	5	6	7	8	9	10
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
07	4.12	4.44	4.33	4.23	4.31	4.68	4.30	4.48	1.68	5.08
06 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
Oct	4.11	4.50	4.40	4.30	4.38	4.58	4.40	4.53	1.66	5.06
Nov	3.87	4.33	4.25	4.11	4.25	4.22	4.23	4.42	1.51	4.80
Dec	3.87	4.43	4.38	4.25	4.35	4.13	4.35	4.55	1.53	4.76
08 Jan	3.63	4.24	4.23	4.05	4.18	3.76	4.16	4.41	1.43	4.55
Feb	3.63	4.21	4.14	3.97	4.14	3.76	4.09	4.36	1.45	4.68
Mar	3.46	4.13	4.07	3.82	4.12	3.53	4.02	4.39	1.31	4.43

10-YEAR GOVERNMENT BOND YIELDS



10-YEAR GOVERNMENT BOND YIELDS



Sources: ECB, Reuters and BE.

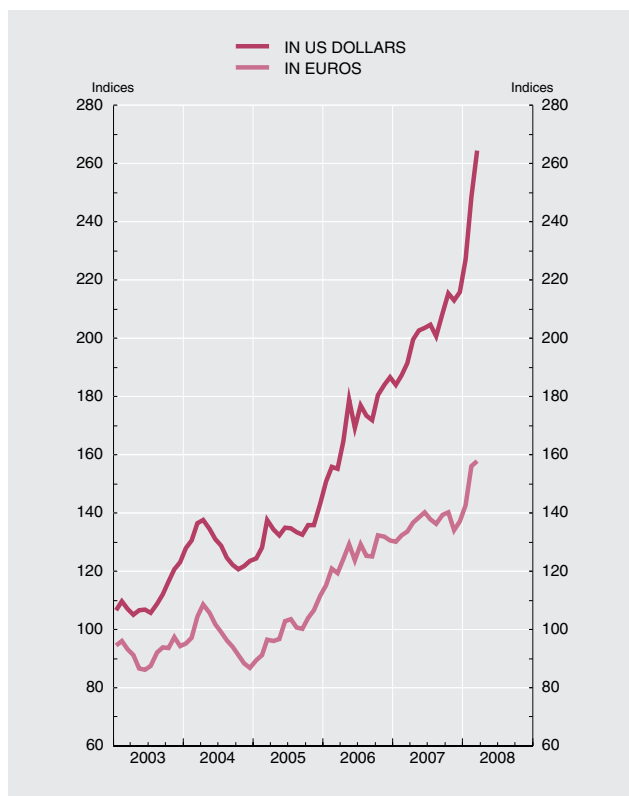
2.7 INTERNATIONAL MARKETS. NON-ENERGY COMMODITIES PRICE INDEX. CRUDE OIL AND GOLD PRICE.

■ Series depicted in chart.

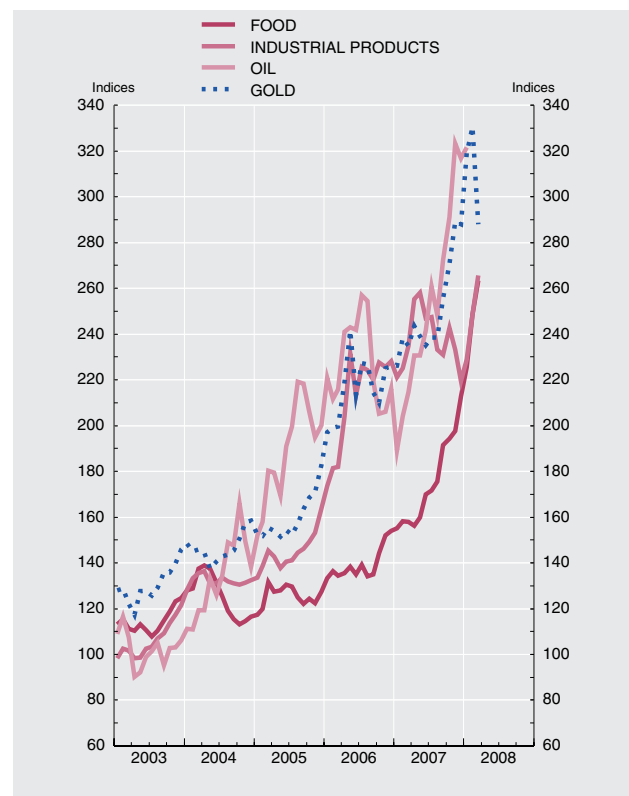
Base 2000 = 100

	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 agricultural products	Metals					
	1	2	3	4	5	6	7	8	9	10	11
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
07	136.4	202.3	175.1	237.4	162.4	278.4	252.1	73.0	249.8	696.7	16.32
07 J-M	132.0	187.6	157.1	227.1	153.7	267.1	202.5	57.8	232.9	649.8	15.94
08 J-M	152.1	246.6	245.8	247.6	188.6	279.9	...	97.5	312.1	870.8	19.86
07 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	67.9	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	248.4	71.7	238.5	665.4	15.70
Sep	139.3	208.7	191.4	231.0	162.1	268.7	272.4	78.2	255.5	712.9	16.47
Oct	140.1	215.3	194.2	242.7	168.4	283.3	291.0	82.5	270.5	754.6	17.05
Nov	134.1	213.1	197.5	233.3	175.7	264.7	323.3	93.0	289.0	806.2	17.65
Dec	137.1	215.7	212.8	219.5	176.1	243.2	316.7	91.2	287.9	803.2	17.77
08 Jan	142.7	227.1	225.7	228.8	181.9	254.6	321.7	92.4	318.9	889.6	19.42
Feb	156.1	248.4	248.4	248.5	190.4	280.3	...	95.8	330.6	922.3	20.11
Mar	157.9	264.3	263.4	265.5	193.7	304.9	...	104.3	288.1	803.7	20.06

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.

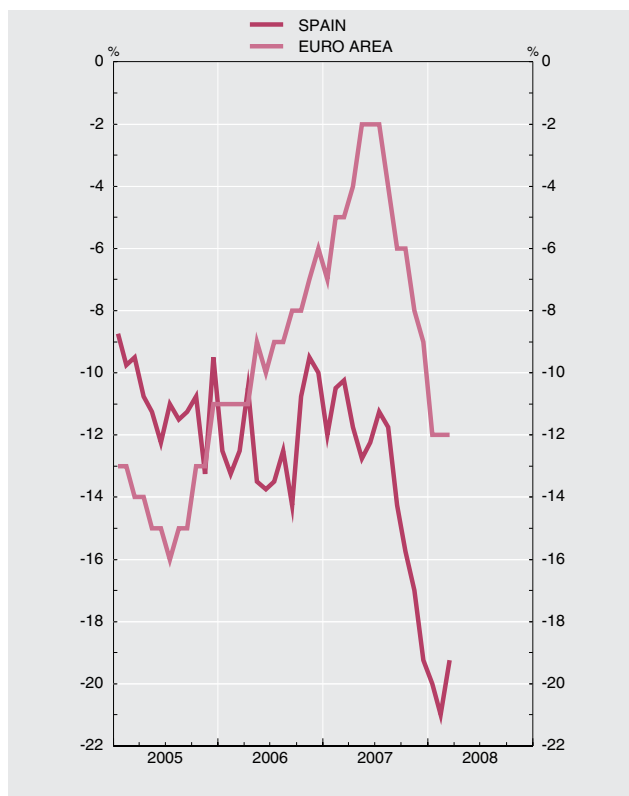
3.1 INDICATORS OF PRIVATE CONSUMPTION. SPAIN AND EURO AREA

■ Series depicted in chart.

Annual percentage changes

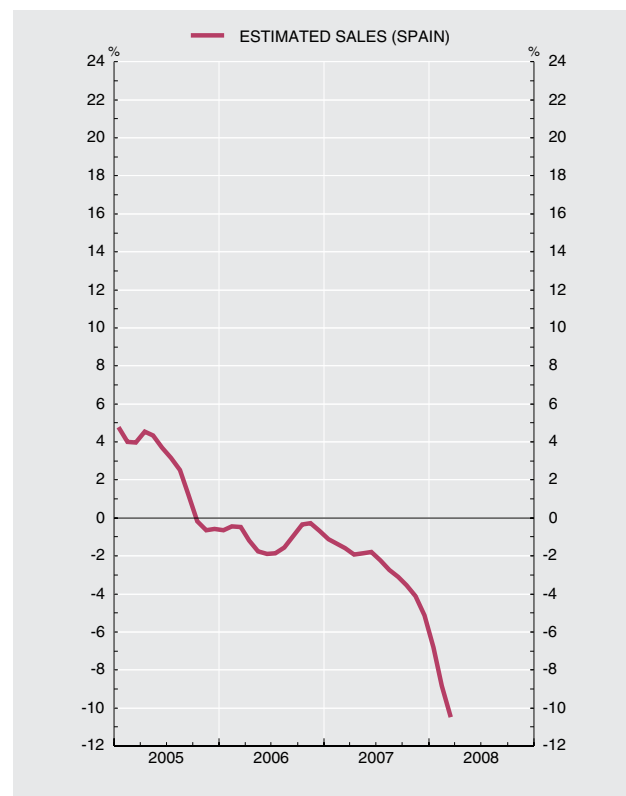
		Opinion surveys (net percentages)						New car registrations and sales				Retail trade: sales index						
		Consumers			Retail trade confidence index	Memorandum item: euro area		of which		Estimated sales	Memorandum item: euro area	General index			By type of product (deflated indices)		Memorandum item: euro area deflated index	
		Confidence index	General economic situation: anticipated trend	Household economic situation: anticipated trend		Consumer confidence index	Retail trade confidence index	Registrations	Private use			Registrations	Nominal	Deflated (a)	of which	Food (b)		Other (c)
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
05		-11	-7	-1	-5	-14	-8	1.4	1.9	2.1	0.9	4.4	1.3	3.2	0.1	2.1	1.3	
06		-12	-12	-3	-9	-9	1	-1.0	-0.8	-0.9	3.2	5.0	1.6	2.6	0.7	2.2	1.5	
07	P	-13	-12	-4	-13	-5	1	-1.6	-2.2	-1.2	-0.5	4.8	2.6	1.9	1.3	3.5	0.8	
07 J-M	P	-11	-10	-2	-11	-6	-1	1.0	-0.7	-0.7	-1.5	6.2	4.5	4.1	3.2	5.4	1.7	
08 J-M	A	-20	-19	-10	-21	-12	-0	-12.0	-15.8	-15.3	-0.2	...	...	...	...	...	...
07 Apr	P	-12	-12	-3	-12	-4	-	-5.9	-2.2	-6.0	-4.9	3.1	1.5	-1.7	-0.4	2.8	1.7	
May	P	-13	-10	-4	-9	-2	2	-0.3	-4.0	-0.2	-0.0	4.7	3.2	2.3	2.3	3.8	0.3	
Jun	P	-12	-9	-3	-9	-2	2	-1.8	-4.7	-1.8	-3.1	5.6	4.0	5.6	3.3	4.5	0.9	
Jul	P	-11	-9	-2	-15	-2	3	-0.3	0.2	-0.0	3.0	4.8	3.5	1.3	0.5	5.4	1.3	
Aug	P	-12	-10	-2	-8	-4	4	-4.2	-3.7	-2.7	0.6	5.4	4.2	2.3	1.7	5.9	0.6	
Sep	P	-14	-14	-5	-18	-6	-3	-8.2	-7.3	-7.7	2.2	2.4	0.3	-1.6	-1.8	1.7	1.4	
Oct	P	-16	-16	-6	-14	-6	-2	1.8	1.3	3.4	0.8	6.6	3.1	2.9	2.9	3.2	0.6	
Nov	P	-17	-16	-7	-16	-8	2	-7.2	-6.6	-5.9	-3.8	4.7	0.4	1.5	-0.1	0.8	-0.7	
Dec	P	-19	-19	-10	-17	-9	1	1.0	1.9	6.3	4.0	2.1	-2.2	-1.7	-2.3	-2.1	-1.2	
08 Jan	A	-20	-20	-8	-13	-12	-3	-2.7	-7.0	-12.7	-1.4	2.8	-1.7	-1.7	-0.3	-2.3	0.3	
Feb	A	-21	-21	-12	-23	-12	1	1.2	-9.0	0.7	5.7	5.2	0.5	1.6	2.5	-0.9	-0.9	
Mar	A	-19	-17	-10	-26	-12	1	-27.9	-29.4	-28.2	-4.8	...	...	...	...	...	...

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.

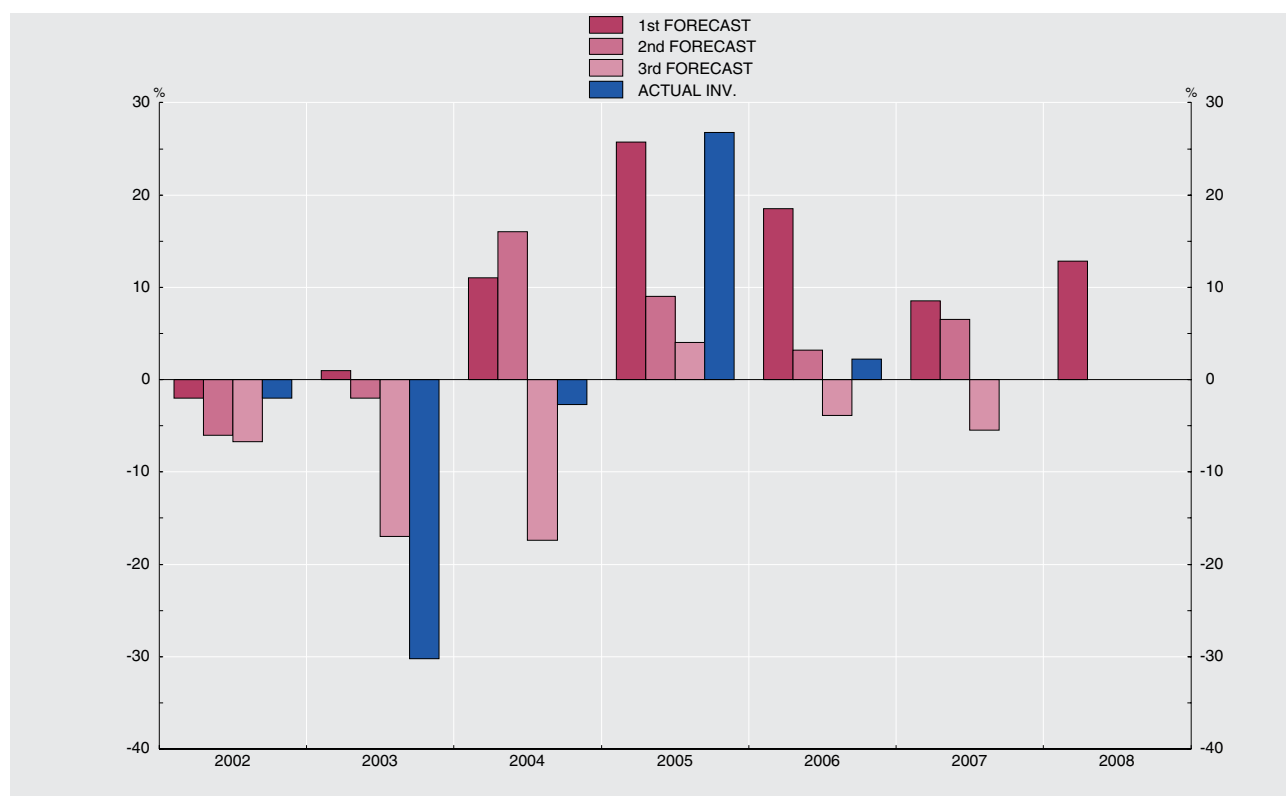
3.2. INVESTMENT IN INDUSTRY (EXCLUDING CONSTRUCTION): OPINION SURVEYS. SPAIN

■ Series depicted in chart.

Annual percentage changes at current prices

	1	2	3	4	
	ACTUAL INV.	1st FORECAST	2nd FORECAST	3rd FORECAST	
02	1				
03		-2	-2	-6	-7
04		-30	1	-2	-17
05		-3	11	16	-17
06		27	26	9	4
07		2	19	3	-4
08		...	9	7	-6
		...	13	...	...

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 $t+1$.

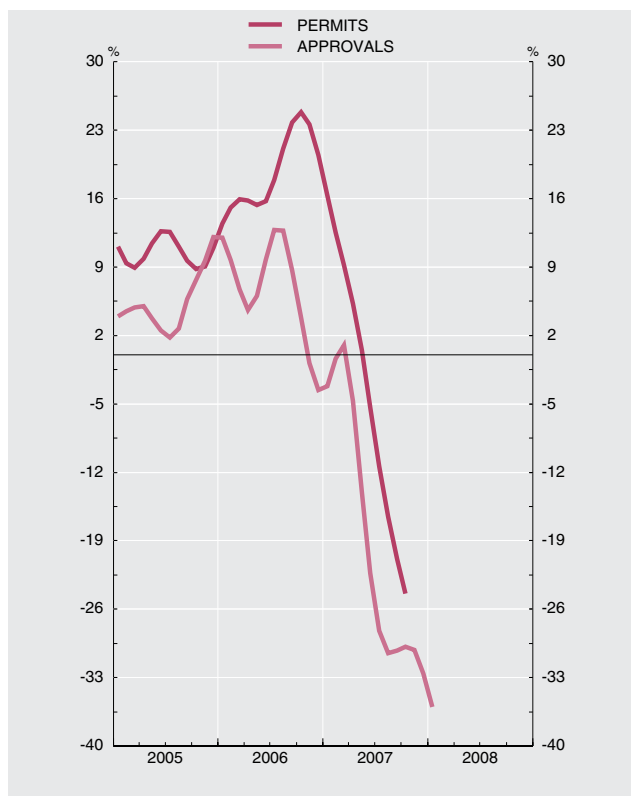
3.3. CONSTRUCTION. INDICATORS OF BUILDING STARTS AND CONSUMPTION OF CEMENT. SPAIN

■ Series depicted in chart.

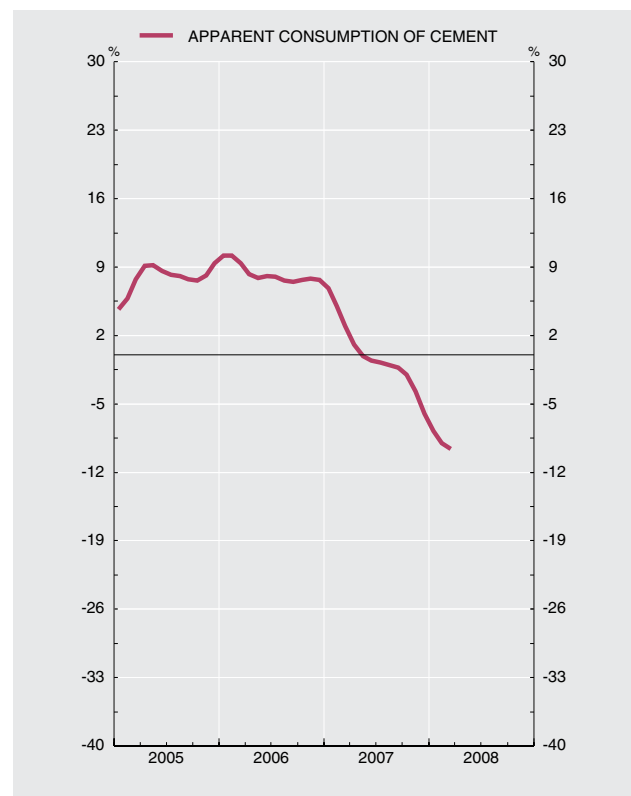
Annual percentage changes

		Permits: buildable floorage				Approvals: buildable floorage		Government tenders (budget)							Apparent consumption of cement
		Total	of which		Non-residential	Total	of which		Total		Building			Civil engineering	
			Residential	Housing			For the month	Year to date	Total	of which		Non-residential			
										Residential	Housing				
1	2	3	4	5	6	7	8	9	10	11	12	13	14		
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		22.0	20.1	20.4	31.9	14.2	16.5	31.3	31.3	26.8	61.7	57.0	15.8	33.3	8.5
07	P	...	...	...	...	-22.3	-25.2	-15.2	-15.2	-17.7	-46.5	-33.3	-5.0	-14.1	0.5
07 J-M	P	14.6	13.6	13.5	19.9	6.9	8.1	13.3	13.3	17.3	-39.1	-12.5	56.4	11.2	5.5
08 J-M	P	...	...	...	...	...	...	...	...	...	...	...	...	...	-14.5
06 Dec		20.6	23.0	23.7	9.9	-14.6	-16.4	61.2	31.3	25.6	118.6	19.0	-5.3	76.1	4.9
07 Jan	P	24.7	27.9	26.4	8.5	-1.4	-2.7	3.9	3.9	-16.9	-68.4	-16.2	33.2	14.2	15.1
Feb	P	-2.5	-2.3	-1.8	-3.6	-5.4	-5.3	56.3	20.5	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	2.2	13.3	9.8	-20.2	-24.2	27.7	-2.0	-0.5
Apr	P	6.4	14.2	14.3	-18.4	8.4	5.7	-12.1	6.4	-24.2	74.1	44.4	-37.3	-5.9	2.9
May	P	14.5	15.9	17.1	9.3	-19.0	-22.3	-9.4	2.0	-3.6	-46.5	-24.4	18.3	-11.5	-1.9
Jun	P	-2.4	-2.3	-3.7	-3.0	-25.2	-28.2	18.1	4.6	-1.1	-54.2	-35.6	12.8	28.9	-4.0
Jul	P	-18.0	-15.9	-15.1	-26.6	-33.9	-38.1	20.6	6.8	-30.2	-38.8	-52.4	-27.7	44.0	4.0
Aug	P	-16.5	-16.2	-16.7	-17.9	-36.5	-40.3	-55.8	-4.0	-56.5	-76.8	-79.2	-48.3	-55.6	-2.1
Sep	P	-26.8	-39.9	-40.6	49.5	-64.2	-66.4	-42.3	-7.4	-50.0	-68.4	-89.5	-40.5	-38.5	-5.2
Oct	P	-28.5	-29.3	-30.1	-24.9	-27.7	-31.4	-33.4	-10.8	-29.0	-50.3	-54.4	-18.1	-34.9	5.2
Nov	P	...	...	...	...	-24.6	-25.8	-38.8	-13.6	-39.5	-41.1	-55.7	-39.2	-38.5	-1.1
Dec	P	...	...	...	...	-26.4	-36.2	-28.2	-15.2	-24.3	-60.3	-2.0	3.2	-29.3	-9.1
08 Jan	P	...	...	...	...	-43.8	-47.4	-0.0	-0.0	49.3	35.5	71.4	52.5	-17.7	-7.9
Feb	P	...	...	...	...	...	...	...	...	...	...	...	...	...	-6.1
Mar	P	...	...	...	...	...	...	...	...	...	...	...	...	...	-27.4

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.

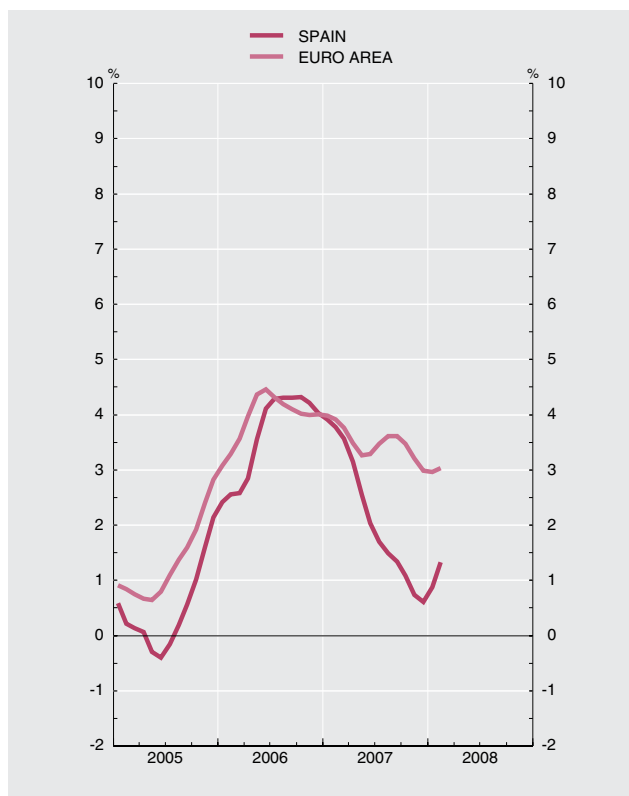
3.4. INDUSTRIAL PRODUCTION INDEX. SPAIN AND EURO AREA

■ Series depicted in chart.

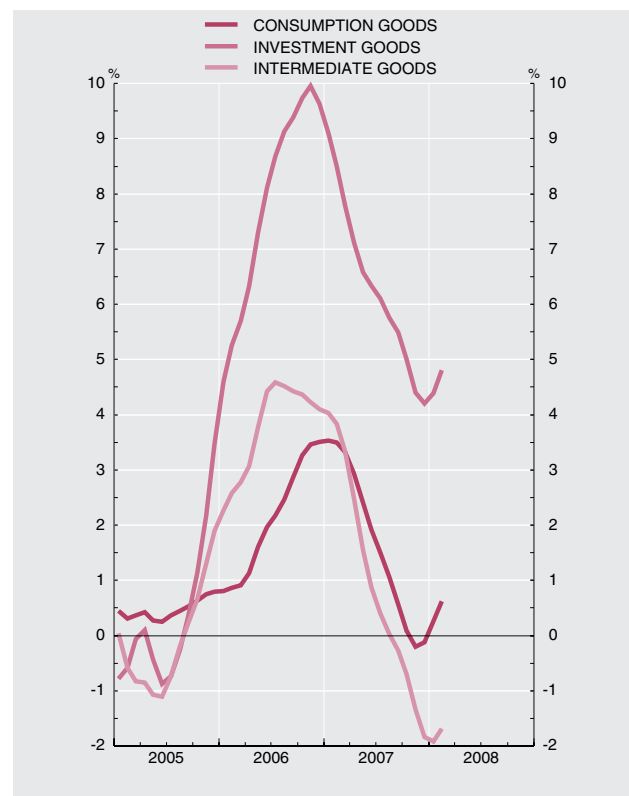
Annual percentage changes

		Overall Index		By end-use of goods				By branch of activity			Memorandum item: euro area				
		Total		Consumption	Investment	Intermediate goods	Energy	Mining and quarrying	Manufacturing	Production and distribution of electricity, gas and water	of which		By end-use of goods		
		Original series	12-month %change 12								Total	Manufacturing	Consumption	Investment	Intermediate goods
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
05	MP	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	0.8
06	MP	106.2	3.7	2.1	8.2	3.8	0.9	2.4	4.0	1.1	4.0	4.4	2.5	5.9	4.9
07	MP	108.6	2.3	1.8	6.3	1.3	0.7	-1.2	2.5	1.4	3.4	3.9	2.4	5.8	3.8
07 J-F	MP	108.1	5.5	5.9	11.9	6.0	-4.4	-4.6	6.9	-3.7	3.7	5.8	3.5	7.2	6.6
08 J-F	MP	109.8	1.6	2.4	4.7	-1.8	5.4	-1.0	1.3	4.9	3.2	3.0	1.0	7.0	2.1
06 Nov	P	115.1	4.1	4.0	12.6	3.9	-6.8	1.0	5.5	-6.7	2.9	4.0	2.8	6.4	3.3
Dec	P	97.4	0.6	-0.8	6.6	0.5	-3.1	3.8	1.2	-3.0	5.0	6.1	4.2	7.9	7.7
07 Jan	P	109.6	7.5	8.4	13.6	7.9	-2.4	0.6	8.8	-1.7	3.3	5.6	4.0	6.8	5.7
Feb	P	106.5	3.6	3.6	10.3	4.1	-6.6	-9.4	5.1	-5.9	4.2	6.1	3.0	7.5	7.5
Mar	P	119.0	2.1	2.9	4.1	3.0	-4.2	-8.4	2.9	-2.0	4.2	5.9	4.3	6.7	6.7
Apr	P	102.8	6.3	6.2	8.6	4.7	7.8	0.7	6.1	9.0	3.1	4.1	2.8	5.3	3.9
May	P	118.0	2.1	2.6	4.0	0.1	3.9	-0.4	2.0	3.1	2.8	3.0	2.1	4.0	2.8
Jun	P	115.2	-0.5	-1.7	3.8	-1.4	-2.6	-2.0	-0.3	-1.9	2.7	3.0	1.2	5.1	2.8
Jul	P	114.9	3.7	4.7	10.6	2.5	-3.7	15.1	4.7	-4.5	4.0	4.7	2.6	7.3	4.1
Aug	P	81.1	1.6	2.0	5.4	0.3	0.2	3.9	1.8	-0.6	4.6	5.0	4.9	7.5	3.6
Sep	P	107.7	-1.3	-3.1	3.2	-2.8	0.8	0.9	-1.5	-	3.3	3.1	1.5	5.4	2.8
Oct	P	117.6	4.7	2.6	10.8	3.5	4.1	2.3	4.5	6.6	4.4	4.0	2.1	7.1	3.3
Nov	P	113.9	-1.0	-3.2	-0.5	-2.9	8.8	-4.7	-2.4	12.3	3.1	2.4	0.5	4.9	1.8
Dec	P	97.2	-0.2	-2.5	4.3	-2.8	4.3	-12.1	-1.0	5.7	1.7	1.3	-0.4	3.1	0.6
08 Jan	P	108.9	-0.6	0.8	2.0	-3.7	1.5	-3.1	-0.8	1.5	3.3	3.1	1.6	6.9	2.2
Feb	P	110.7	3.9	4.1	7.3	0.1	9.8	1.1	3.5	8.7	3.2	3.0	0.5	7.1	2.1

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.

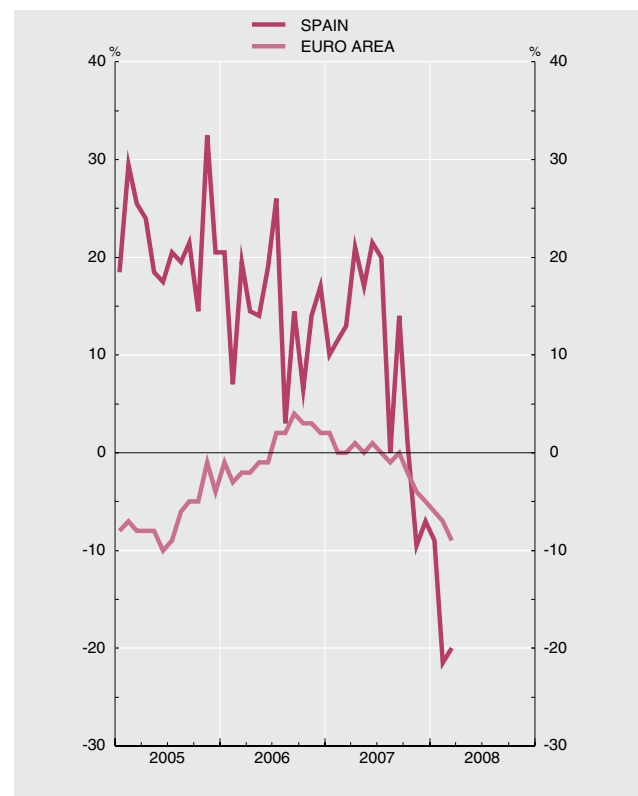
Percentage balances

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

INDUSTRIAL BUSINESS CLIMATE
Percentage balances



CONSTRUCTION BUSINESS CLIMATE
Percentage balances



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

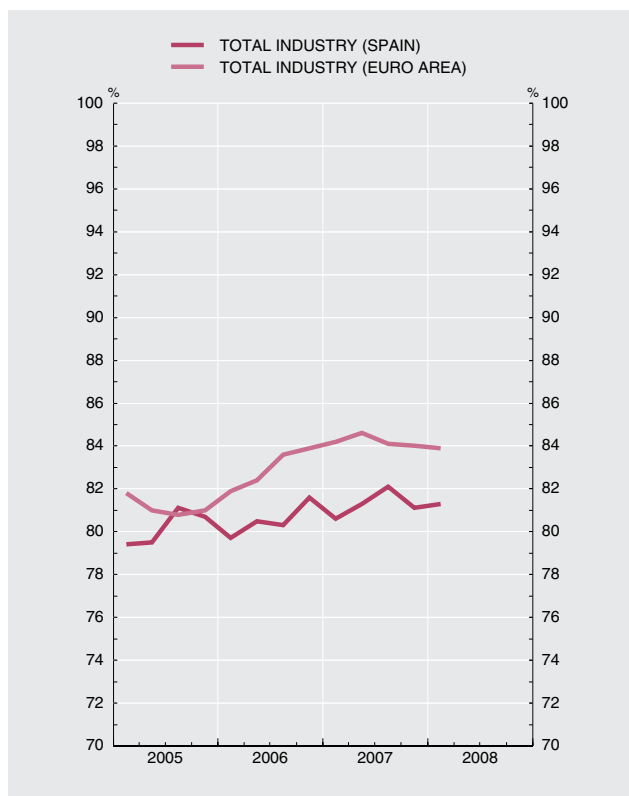
3.6. BUSINESS SURVEY: CAPACITY UTILISATION. SPAIN AND EURO AREA

■ Series depicted in chart.

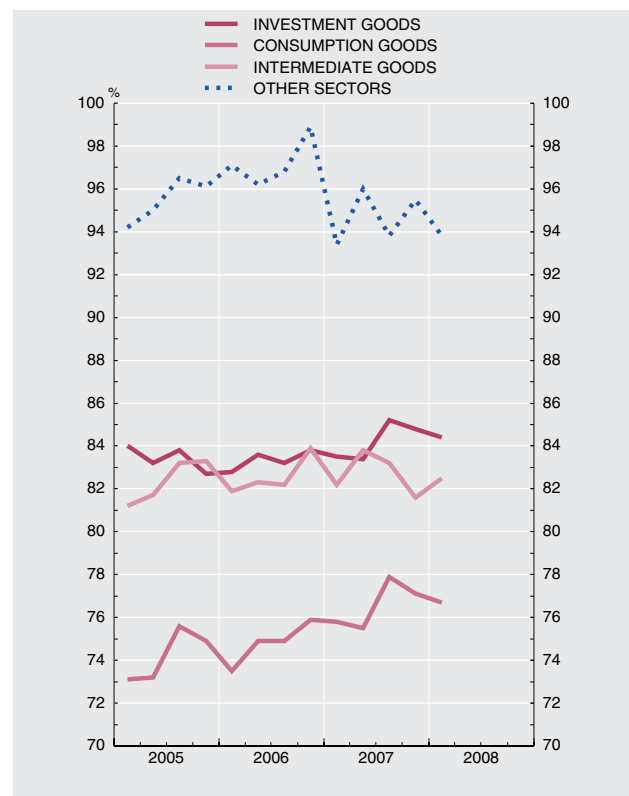
Percentages and percentage balances

	Total industry			Consumer goods			Investment goods			Intermediate goods			Other sectors			Memo- randum item: euro area capacity utilisation (%)
	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	
	Over last three months	Forecast		Over last three months	Forecast		Over last three months	Forecast		Over last three months	Forecast		Over last three months	Forecast		
	(%)	(%)	(Per- centage balan- ces)	(%)	(%)	(Per- centage balan- ces)	(%)	(%)	(Per- centage balan- ces)	(%)	(%)	(Per- centage balan- ces)	(%)	(%)	(Per- centage balan- ces)	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
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
07	81.3	82.6	3	76.6	78.2	5	84.2	85.0	-0	82.7	84.2	2	94.7	95.5	-	84.2
07 Q1-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	-	84.2
08 Q1-Q1	81.3	82.1	5	76.7	77.8	9	84.4	85.8	5	82.5	82.9	3	93.8	94.9	-	83.9
05 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	-	84.2
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	-	84.6
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	-	84.1
Q4	81.1	82.5	5	77.1	77.9	6	84.8	85.6	4	81.6	83.9	6	95.5	96.2	-	84.0
08 Q1	81.3	82.1	5	76.7	77.8	9	84.4	85.8	5	82.5	82.9	3	93.8	94.9	-	83.9

CAPACITY UTILISATION. TOTAL INDUSTRY
Percentages



CAPACITY UTILISATION. BY TYPE OF GOOD
Percentages



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

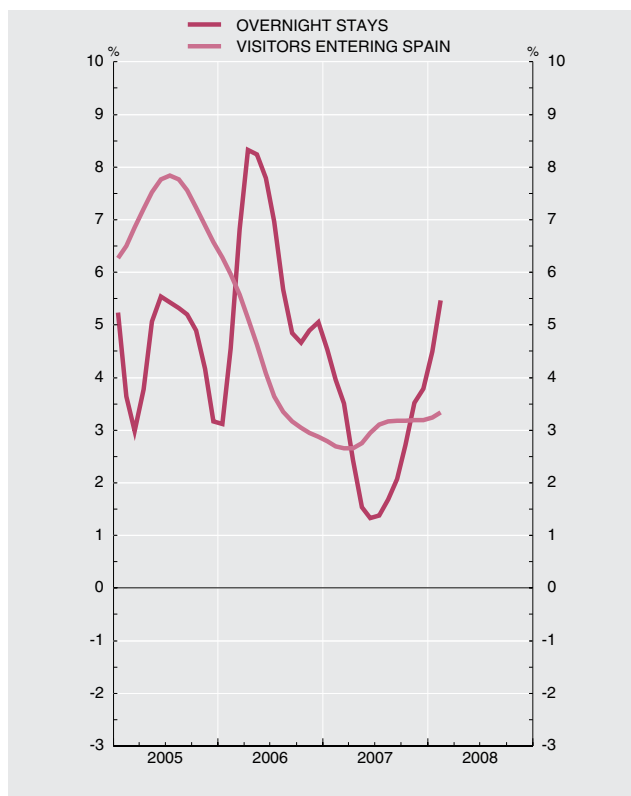
3.7. TOURISM AND TRANSPORT STATISTICS. SPAIN

■ Series depicted in chart.

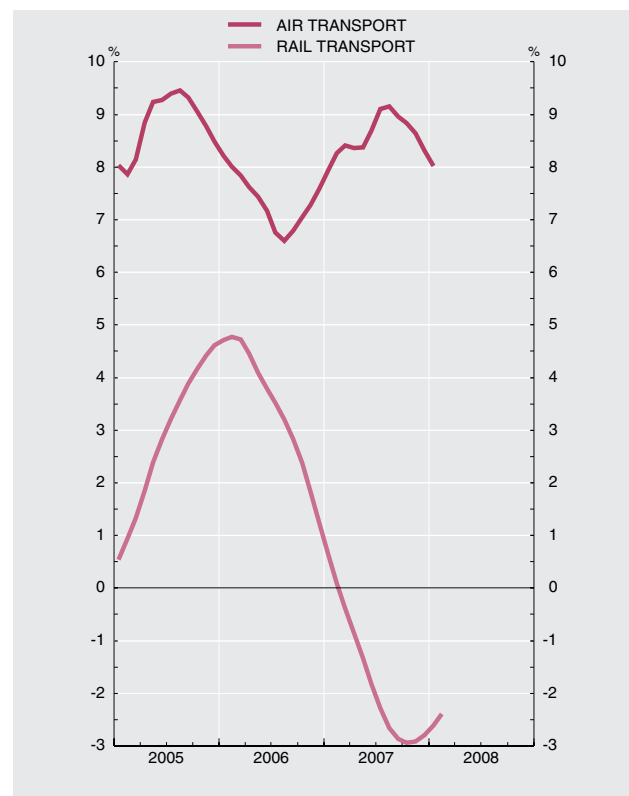
Annual percentage changes

		Hotel stays (a)		Overnight stays		Visitors entering Spain			Air transport				Maritime transport		Rail transport	
		Total	Foreigners	Total	Foreigners	Total	Tourists	Day-trip-ers	Passengers			Freight	Passen- gers	Freight	Passen- gers	Freight
		1	2	3	4	5	6	7	Total	Domestic flights	Internat- ional flights	11	12	13	14	15
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		5.8	6.1	6.2	6.5	3.6	4.1	3.0	6.7	6.7	6.8	-4.5	10.2	4.9	2.0	-3.1
07	P	3.4	4.2	2.1	2.4	3.2	1.7	5.6	9.1	9.0	9.2	4.2	5.2	4.7	-1.9	-1.5
07 J-F		3.4	6.4	2.4	4.0	2.1	3.7	0.2	7.9	7.6	8.3	6.0	5.4	3.5	-1.0	-2.8
08 J-F	P	5.8	6.6	6.0	6.6	2.9	3.9	1.7	...	...	...	...	...	...	-0.3	...
06 Nov		4.4	2.3	5.5	3.5	2.8	0.9	5.4	6.6	8.3	5.0	2.4	7.7	3.2	1.9	-7.4
Dec		5.7	2.5	7.4	6.2	3.4	1.0	6.2	9.2	10.2	8.3	3.2	29.8	8.1	-0.1	-10.0
07 Jan		3.8	7.0	2.3	3.7	3.7	3.7	3.7	6.7	6.2	7.2	5.6	5.3	0.3	-0.0	-2.0
Feb		3.1	5.9	2.5	4.2	0.5	3.6	-3.1	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	5.7	1.6	11.5	10.5	10.0	10.9	6.7	0.0	8.3	-7.9	-6.6
Sep	P	2.7	4.6	1.1	1.9	4.3	0.6	11.3	9.7	8.9	10.3	5.5	0.7	7.5	-4.7	-0.9
Oct	P	2.5	3.6	0.7	1.9	1.5	0.0	3.9	8.4	8.5	8.4	4.9	8.3	4.5	-3.3	2.6
Nov	P	8.3	9.2	7.7	6.7	5.1	5.0	5.1	10.4	8.0	12.6	-2.0	13.8	9.1	-3.3	-6.2
Dec	P	2.2	10.2	1.6	7.2	-0.4	0.7	-1.6	7.6	4.9	10.0	-0.5	-1.4	-0.2	-4.5	-5.9
08 Jan	P	3.4	4.7	2.3	3.6	0.2	0.9	-0.7	6.9	6.8	7.1	-1.9	...	...	-2.2	-4.1
Feb	P	7.8	8.4	9.3	9.4	5.5	6.5	4.3	...	...	...	...	...	...	1.5	...

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

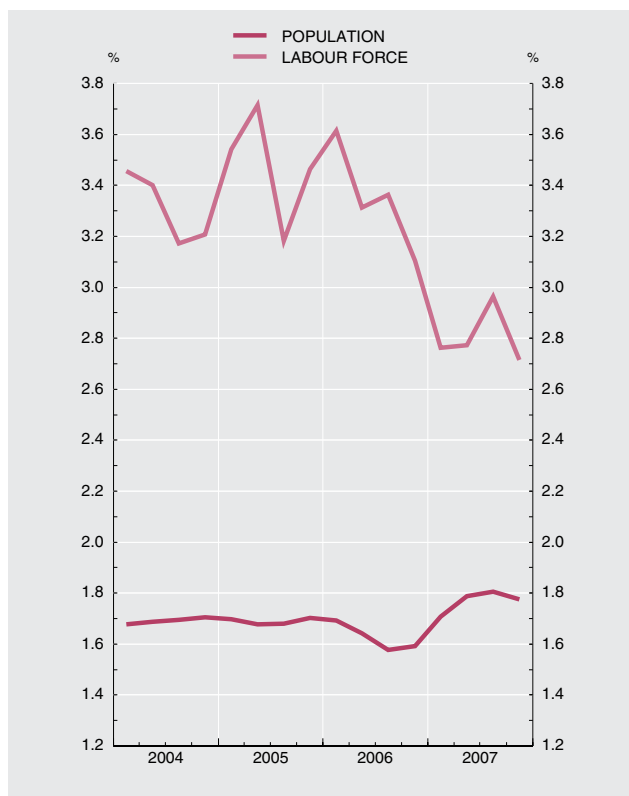
4.1. LABOUR FORCE. SPAIN

■ Series depicted in chart.

Thousands and annual percentage changes

Population over 16 years of age					Labour force					
		Thousands	Annual change	4-quarter % change	Participation rate (%) (a)	Thousands (a)	Annual change (b)			4-quarter % change
							Total	Due to change in population over 16 years of age	Due to change in participation rate	
		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-Q4 M	37 008	592	1.6	58.33	21 585	2 796	1 381	1 415	3.3
07	Q1-Q4 M	37 663	655	1.8	58.92	22 190	2 421	1 544	877	2.8
05	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
	Q3	37 734	669	1.8	59.10	22 303	642	395	246	3.0
	Q4	37 897	661	1.8	59.12	22 405	592	391	201	2.7

LABOUR FORCE SURVEY
Annual percentage change



LABOUR FORCE
Annual changes



Source: INE (Labour Force Survey: 2005 methodology).

a. the new definition of unemployment applies from 2001 Q1 onwards, entailing a break in the series. (See www.ine.es).

b. Col.7 = (col.5/col.1)x annual change in col.1. Col. 8 = (annual change in col.4/100) x col.1(t-4).

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

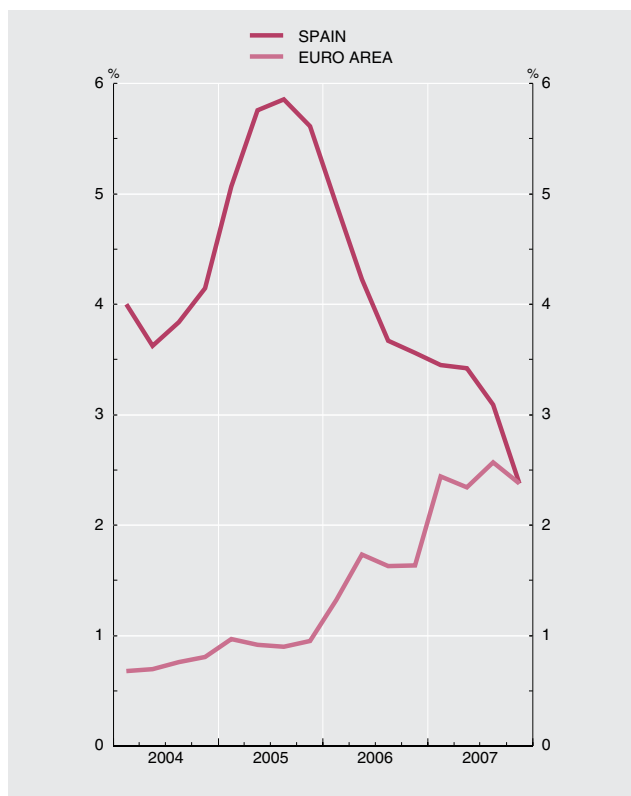
4.2. EMPLOYMENT AND WAGE-EARNERS. SPAIN AND EURO AREA

■ Series depicted in chart.

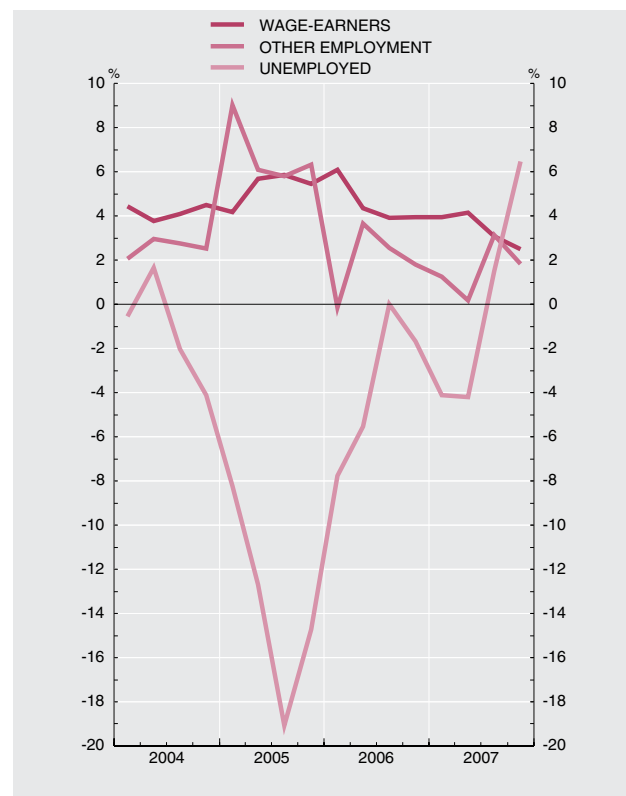
Thousands and annual percentage changes

		Employment									Unemployment			Memorandum item: euro area		
		Total			Wage-earners			Other								
		Thousands	Annual change	4-quarter % change	Thousands	Annual change	4-quarter % change	Thousands	Annual change	4-quarter % change	Thousands	Annual change	4-quarter % change	Unemployment rate	Employment 4-quarter % change	Unemployment rate
		1	2	3	4	5	6	7	8	9	(a)	11	12	(a)	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	0.7	8.83
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	8.85
06	M	19 748	774	4.1	16 208	706	4.6	3 540	68	2.0	1 837	-75	-3.9	8.51	1.6	8.26
06	Q1-Q4M	19 748	774	4.1	16 208	706	4.6	3 540	68	2.0	1 837	-75	-3.9	8.51	1.6	8.26
07	Q1-Q4M	20 356	608	3.1	16 760	552	3.4	3 596	56	1.6	1 834	-3	-0.2	8.26	2.4	7.41
05	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	8.92
	Q3	19 191	1 062	5.9	15 750	874	5.9	3 442	188	5.8	1 765	-416	-19.1	8.42	0.9	8.82
	Q4	19 314	1 026	5.6	15 842	819	5.5	3 473	207	6.3	1 841	-318	-14.7	8.70	0.9	8.74
06	Q1	19 400	907	4.9	15 889	912	6.1	3 511	-5	-0.1	1 936	-163	-7.8	9.07	1.3	8.65
	Q2	19 693	798	4.2	16 112	671	4.3	3 582	127	3.7	1 837	-108	-5.5	8.53	1.7	8.39
	Q3	19 896	705	3.7	16 366	616	3.9	3 530	88	2.6	1 765	-	-	8.15	1.6	8.11
	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	7.90
07	Q1	20 069	669	3.4	16 515	626	3.9	3 555	44	1.2	1 856	-80	-4.1	8.47	2.4	7.61
	Q2	20 367	674	3.4	16 779	668	4.1	3 588	6	0.2	1 760	-77	-4.2	7.95	2.3	7.47
	Q3	20 511	615	3.1	16 870	504	3.1	3 641	111	3.1	1 792	27	1.5	8.03	2.6	7.36
	Q4	20 477	475	2.4	16 877	410	2.5	3 600	65	1.8	1 928	117	6.5	8.60	2.4	7.22

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.

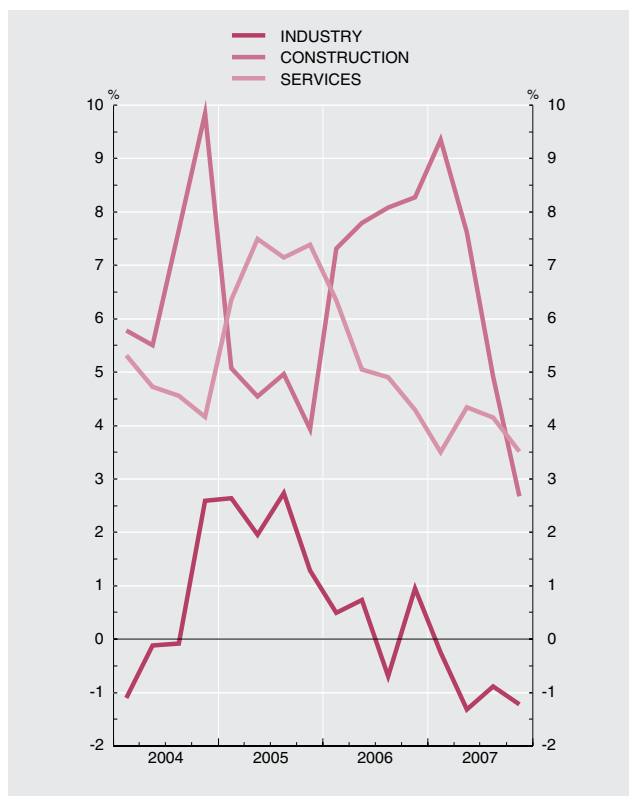
4.3. EMPLOYMENT BY BRANCH OF ACTIVITY. SPAIN (a)

■ Series depicted in chart.

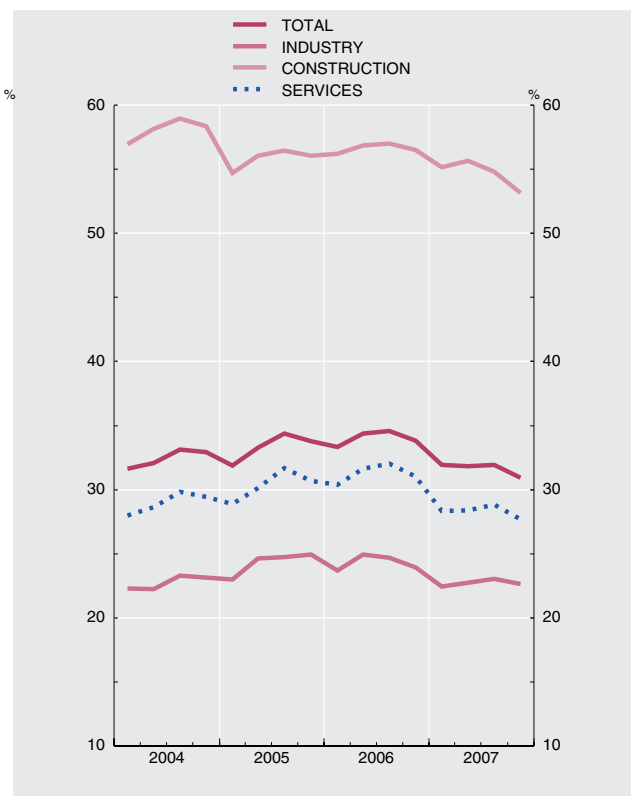
Annual percentage changes

		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-Q4M	4.1	4.6	2.1	-5.6	-1.4	-5.2	0.4	0.5	0.1	7.9	8.1	1.5	5.1	5.3	3.0	4.2	...	...
07	Q1-Q4M	3.1	3.4	-7.0	-2.0	2.3	-0.8	-0.9	-0.7	-6.6	6.1	6.8	-3.4	3.9	3.9	-9.4	2.6	...	...
05	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	...	...
	Q3	3.1	3.1	31.9	-3.0	0.6	55.8	-0.9	-0.7	23.0	4.9	5.5	54.8	4.2	3.7	28.8	3.4	...	...
	Q4	2.4	2.5	30.9	-1.7	0.3	57.4	-1.2	-0.7	22.7	2.7	2.9	53.2	3.5	3.4	27.7	2.6	...	...

EMPLOYMENT
Annual percentage changes



TEMPORARY EMPLOYMENT
Percentages



Source: INE (Labour Force Survey: 2005 methodology).

a. Branches of activity in accordance with NACE-93.

Notes: The underlying series of this indicator are in Tables 24.4 and 24.6 of the BE Boletín estadístico.

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

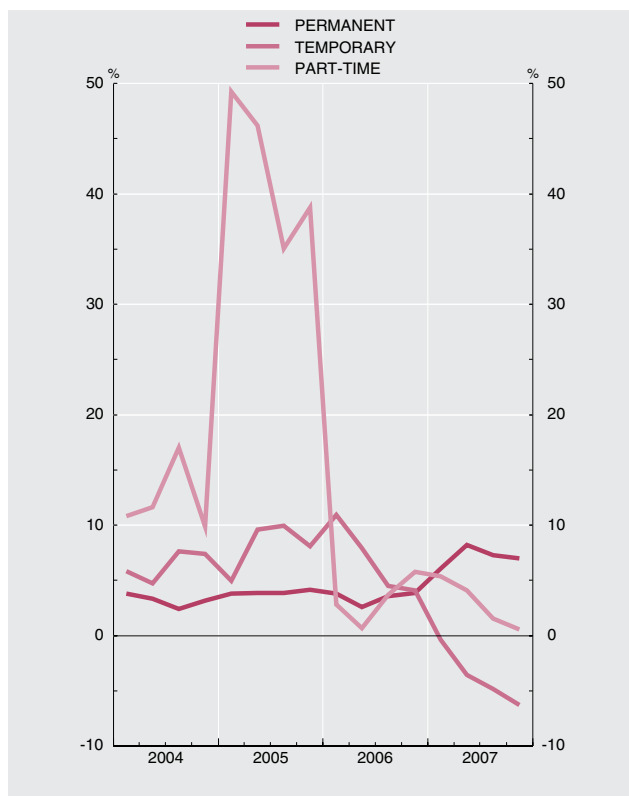
4.4. WAGE-EARNERS BY TYPE OF CONTRACT AND UNEMPLOYMENT BY DURATION. SPAIN. (a)

■ Series depicted in chart.

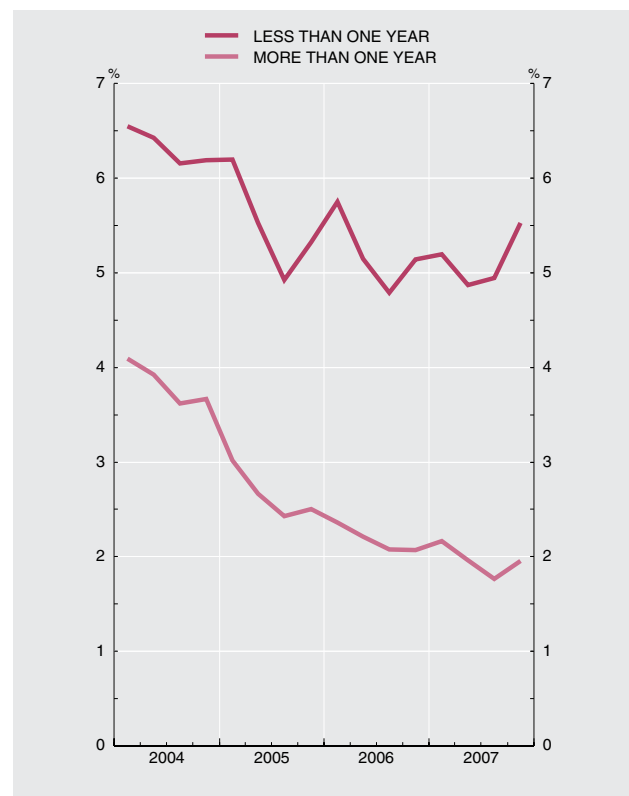
Thousands, annual percentage changes and %

		Wage-earners										Unemployment						
		By type of contract					By duration of working day					By duration				% of unemployed that would accept a job (a)		
		Permanent		Temporary			Full-time		Part-time			Less than one year		More than one year				
		Annual change	4-quar-ter % change	Annual change	4-quar-ter % change	Proportion of tempo-rary em-ployment	Annual change	4-quar-ter % change	Annual change	4-quar-ter % change	As % for wage earners	Unem-ployment rate	4-quar-ter % change	Unem-ployment rate	4-quar-ter % change	Entail-ing a change of resi-dence	Whith a lower wage	Requir-ing fever skills
		Thousands		Thousands			Thousands		Thousands			(a)		(a)				
		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-Q4M	358	3.5	348	6.7	34.03	515	3.7	61	3.2	12.13	5.20	-2.0	2.18	-14.9	...	...	...
07	Q1-Q4M	762	7.1	-210	-3.8	31.67	399	2.8	57	2.9	12.07	5.14	1.5	1.96	-7.6	...	...	...
05	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	...	...	...
	Q3	777	7.3	-273	-4.8	31.94	475	3.3	29	1.6	11.32	4.95	6.4	1.76	-12.6	...	...	...
	Q4	761	7.0	-350	-6.3	30.92	399	2.8	11	0.6	11.96	5.53	10.5	1.95	-3.3	...	...	...

WAGE-EARNERS
Annual percentage changes



UNEMPLOYMENT
Unemployment rate



Source: INE (Labour Force Survey: 2005 methodology).

a. the new definition of unemployment applies from 2001 Q1 onwards, entailing a break in the series. (See www.ine.es).

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

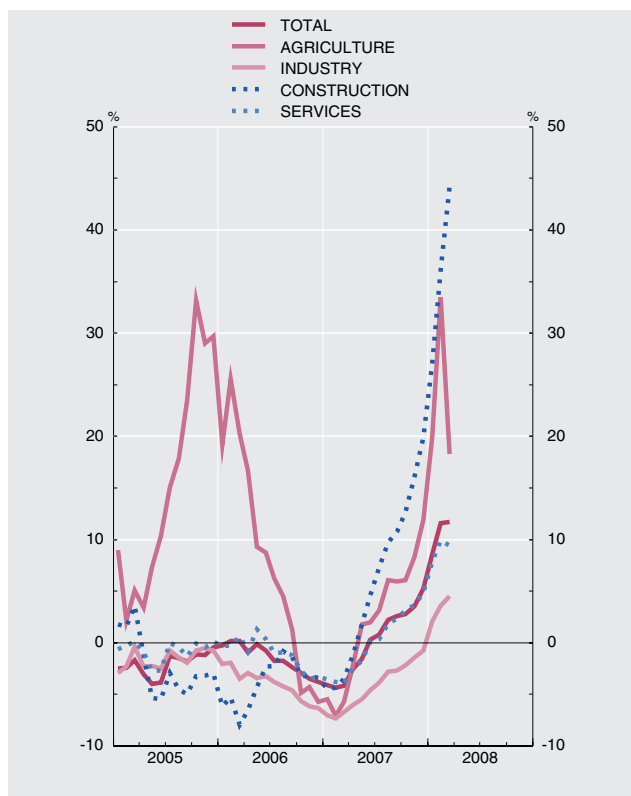
4.5. REGISTERED UNEMPLOYMENT BY BRANCH OF ACTIVITY. CONTRACTS AND PLACEMENTS. SPAIN

■ Series depicted in chart.

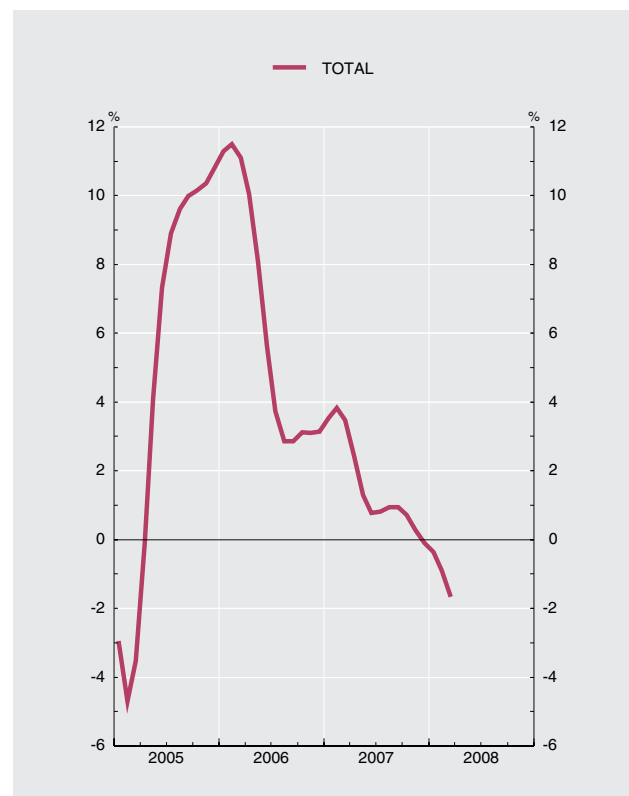
Thousands, annual percentage changes and %

		Registered unemployment										Contracts					Placements	
		Total			First time job-seekers	Previously employed						Total		Percentage of total			Total	
		Thousands	Annual change Thousands	12 month % change	12 month % change	12-month % change						Thousands	12 month % change	Perma- nent	Part time	Tempo- rary	Thousands	12 month % change
Total	Agri- culture					Branches other than agriculture												
						Total	Industry	Construc- tion	Services									
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
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
07	M	2 039	-0	-0.0	-0.7	0.1	1.9	-0.0	-4.3	5.7	-0.0	1 552	0.5	11.88	23.90	88.12	1 505	2.0
07 J-M	M	2 072	-91	-4.2	-2.5	-4.4	-6.1	-4.3	-7.0	-4.1	-3.8	1 542	5.3	13.43	22.05	86.57	1 475	4.7
08 J-M	M	2 293	220	10.6	-0.1	12.0	23.9	11.5	3.4	35.7	9.1	1 431	-7.2	12.85	22.68	87.15	1 409	-4.4
07 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
Oct		2 049	56	2.8	-3.2	3.6	6.1	3.5	-2.2	12.6	3.1	1 911	5.1	12.19	27.67	87.81	1 870	7.4
Nov		2 094	71	3.5	-4.4	4.5	8.3	4.4	-1.4	16.1	3.7	1 592	-4.1	11.94	25.61	88.06	1 540	-1.2
Dec		2 130	107	5.3	-2.3	6.2	11.9	6.0	-0.8	19.9	4.8	1 261	-9.0	10.66	25.29	89.34	1 223	-1.7
08 Jan		2 262	179	8.6	-1.0	9.8	20.0	9.4	2.1	27.1	7.9	1 581	-4.3	12.44	21.61	87.56	1 535	-0.3
Feb		2 315	240	11.6	0.4	12.9	33.5	12.2	3.6	36.1	9.9	1 427	1.3	13.04	22.79	86.96	1 434	5.0
Mar		2 301	242	11.7	0.4	13.2	18.3	13.0	4.5	44.2	9.4	1 286	-17.8	13.08	23.63	86.92	1 258	-17.2

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.

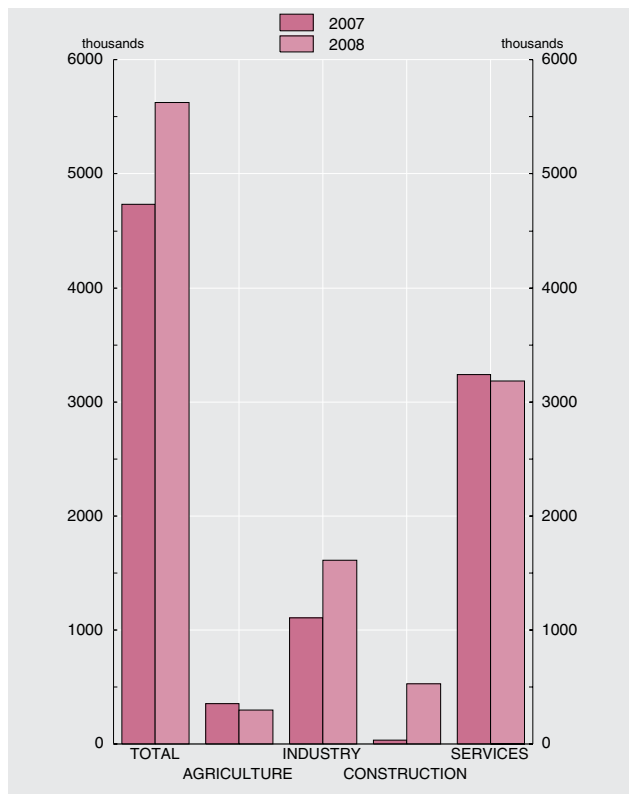
4.6. COLLECTIVE BARGAINING AGREEMENTS

■ Series depicted in chart.

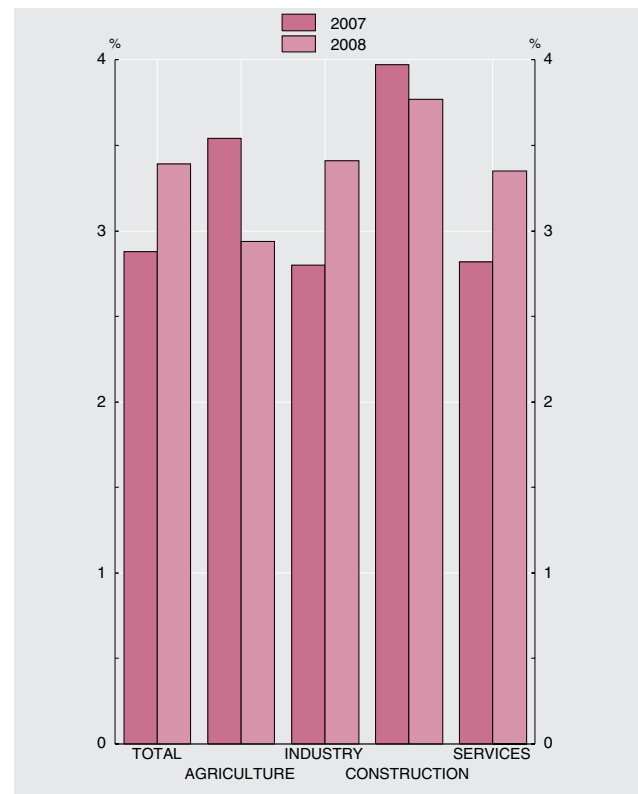
Thousands and %

	As per month economic effects come into force(a)		As per month recorded														
			Employees affected (a)								Average wage settlement (%)						
	Em- ployees affected	Average wage settle- ment	Auto- matic 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
05	10 756	4.04	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	11 017	3.59	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	9 826	4.11	5 778	2 634	8 412	-509	510	2 172	475	5 254	2.87	2.96	2.90	3.35	2.88	3.55	2.81
06 Oct	11 013	3.59	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	11 013	3.59	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	11 017	3.59	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	9 346	4.15	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	9 353	4.15	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	9 393	4.15	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	9 678	4.12	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	9 684	4.12	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	9 701	4.11	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	9 709	4.11	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	9 709	4.11	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
Sep	9 813	4.11	5 582	1 459	7 041	-725	468	1 958	64	4 552	2.87	2.93	2.89	3.40	2.85	3.74	2.83
Oct	9 823	4.11	5 607	1 959	7 566	-505	478	2 043	247	4 798	2.87	2.91	2.88	3.39	2.85	3.56	2.81
Nov	9 824	4.11	5 753	2 456	8 210	-239	478	2 139	385	5 208	2.87	2.93	2.89	3.39	2.87	3.56	2.80
Dec	9 826	4.11	5 778	2 634	8 412	-509	510	2 172	475	5 254	2.87	2.96	2.90	3.35	2.88	3.55	2.81
08 Jan	5 562	3.39	4 503	5	4 508	1 263	270	1 331	161	2 746	3.27	4.59	3.27	2.91	3.32	3.61	3.27
Feb	5 565	3.39	5 281	12	5 293	1 271	293	1 462	487	3 052	3.36	3.77	3.36	2.92	3.32	3.83	3.35
Mar	5 603	3.38	5 601	24	5 624	889	298	1 612	530	3 184	3.38	4.20	3.39	2.94	3.41	3.77	3.35

EMPLOYEES AFFECTED
January-March



AVERAGE WAGE SETTLEMENT
January-March



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

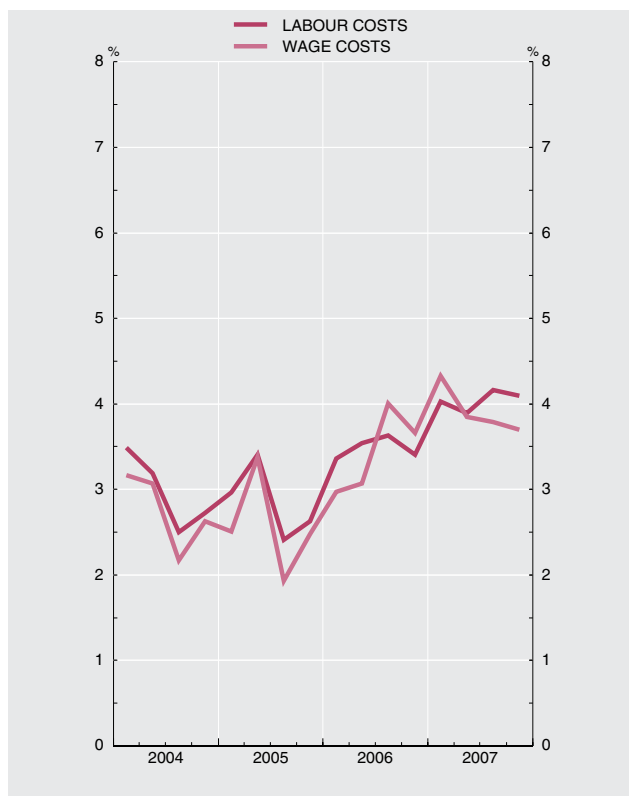
4.7. QUARTERLY LABOUR COSTS SURVEY

■ Series depicted in chart.

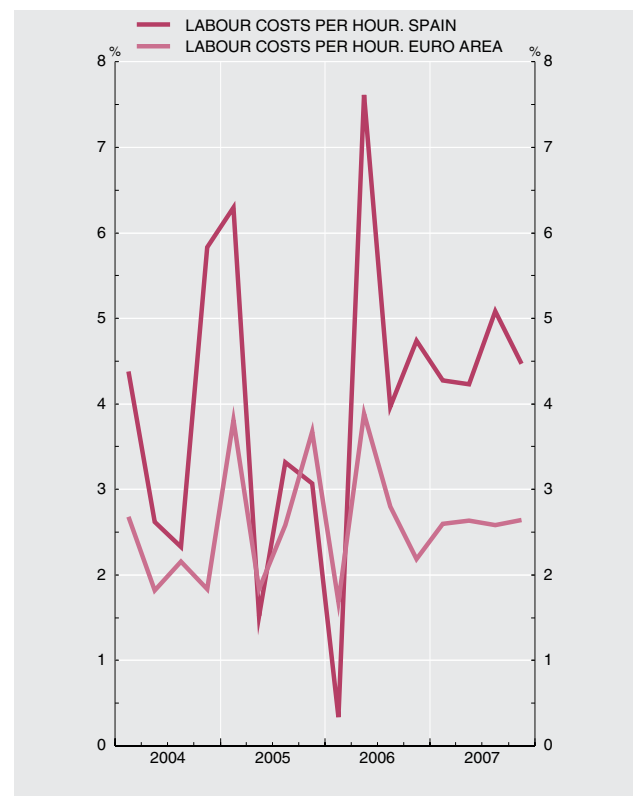
Annual percentage change

		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	2.1
05	M	2.9	3.1	2.8	3.1	3.5	2.6	2.7	2.3	2.9	3.2	3.6	3.0
06	M	3.5	3.7	4.0	3.6	4.2	3.4	3.6	3.7	3.7	4.2	3.6	2.6
06	Q1-Q4M	3.5	3.7	4.0	3.6	4.2	3.4	3.6	3.7	3.7	4.2	3.6	2.6
07	Q1-Q4M	4.0	3.3	5.0	4.3	4.5	3.9	3.0	4.8	4.2	4.4	4.4	2.6
05	Q2	3.4	3.7	3.3	3.6	1.5	3.4	3.1	3.3	3.8	1.5	3.5	1.8
	Q3	2.4	2.1	2.2	2.9	3.3	1.9	1.5	1.3	2.6	2.8	3.7	2.6
	Q4	2.6	3.2	2.6	2.8	3.1	2.5	3.0	2.0	2.8	2.9	3.1	3.7
06	Q1	3.4	4.5	4.3	3.2	0.3	3.0	3.8	3.8	3.0	-	4.4	1.7
	Q2	3.5	3.5	3.9	3.8	7.6	3.1	3.1	3.1	3.4	7.1	4.9	3.9
	Q3	3.6	3.6	4.1	3.8	4.0	4.0	4.1	4.2	4.3	4.4	2.6	2.8
	Q4	3.4	3.4	3.7	3.7	4.7	3.7	3.6	3.9	4.0	5.0	2.6	2.2
07	Q1	4.0	4.2	5.0	4.0	4.3	4.3	3.7	5.5	4.5	4.6	3.2	2.5
	Q2	3.9	2.7	4.4	4.4	4.2	3.8	3.1	3.9	4.3	4.2	4.0	2.6
	Q3	4.2	3.0	5.4	4.5	5.1	3.8	2.3	4.8	4.2	4.6	5.2	2.4
	Q4	4.1	3.4	5.3	4.2	4.5	3.7	2.8	5.1	3.8	4.1	5.3	2.5

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.

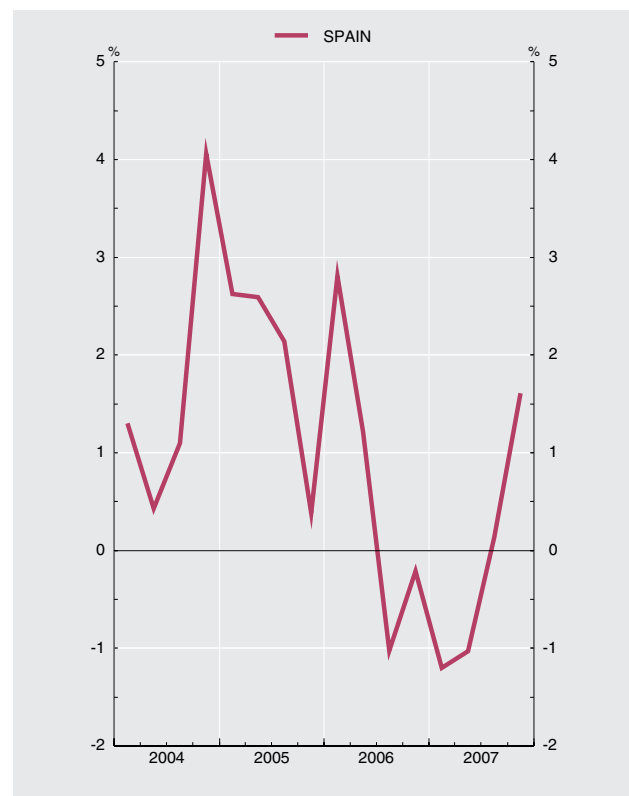
Annual percentage changes

	Whole-economy unit labour costs		Compensation per employee		Productivity						Memorandum item: unit labour costs in manufacturing	
	Spain	Euro area	Spain (b)	Euro area	Spain	Euro area	Output		Employment		Spain (c)	Euro area
							Spain	Euro area	Spain (b)	Euro area		
	1	2	3	4	5	6	7	8	9	10	11	12
04	2.4	1.0	3.0	2.1	0.6	1.1	3.3	1.8	2.7	0.7	1.7	...
05	2.5	1.0	2.8	1.8	0.4	0.8	3.6	1.7	3.2	0.9	1.9	...
06	2.3	0.9	3.0	2.2	0.7	1.3	3.9	2.9	3.2	1.6	0.7	...
05 Q1	1.8	1.2	2.8	1.6	1.0	0.4	3.6	1.4	2.6	1.0	2.6	...
Q2	2.9	1.0	3.6	1.6	0.6	0.6	3.7	1.5	3.1	0.9	2.6	...
Q3	2.5	0.7	2.3	1.6	-0.2	0.9	3.4	1.8	3.7	0.9	2.1	...
Q4	2.6	1.2	2.8	2.3	0.2	1.0	3.7	2.0	3.5	0.9	0.4	...
06 Q1	2.9	0.9	3.1	2.1	0.3	1.2	3.7	2.5	3.4	1.3	2.8	...
Q2	2.5	1.2	2.7	2.4	0.2	1.1	3.8	2.9	3.6	1.7	1.2	...
Q3	1.7	1.2	2.9	2.4	1.2	1.2	3.9	2.8	2.7	1.6	-1.0	...
Q4	2.3	0.2	3.2	1.8	0.9	1.6	4.0	3.2	3.1	1.6	-0.2	...
07 Q1	2.6	1.0	3.4	2.4	0.8	1.4	4.1	3.1	3.3	2.4	-1.2	...
Q2	2.6	1.4	3.4	2.2	0.8	0.8	4.0	2.5	3.1	2.3	-1.0	...
Q3	2.7	1.4	3.5	2.2	0.8	0.7	3.8	2.6	3.0	2.6	0.1	...
Q4	2.9	2.0	3.8	2.5	0.9	0.5	3.5	2.2	2.5	2.4	1.6	...

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.

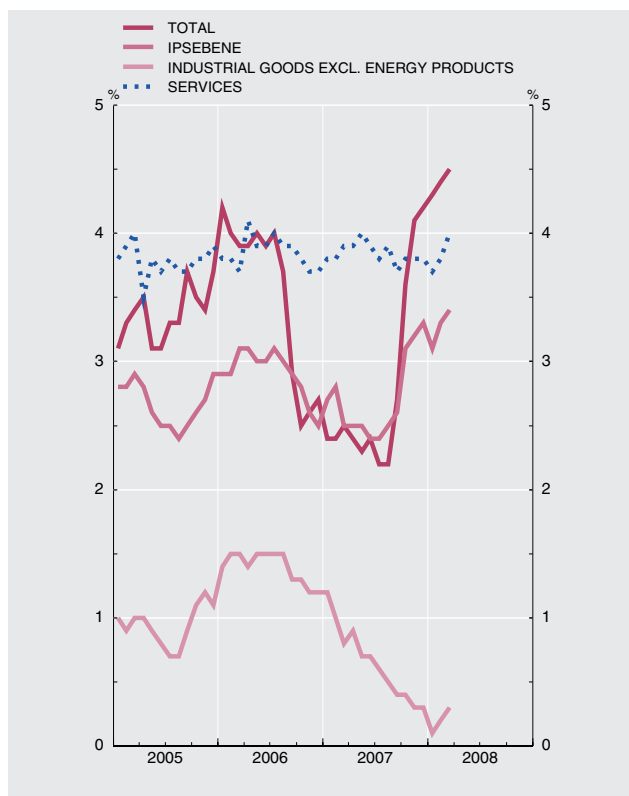
5.1. CONSUMER PRICE INDEX. SPAIN (2006=100)

■ Series depicted in chart.

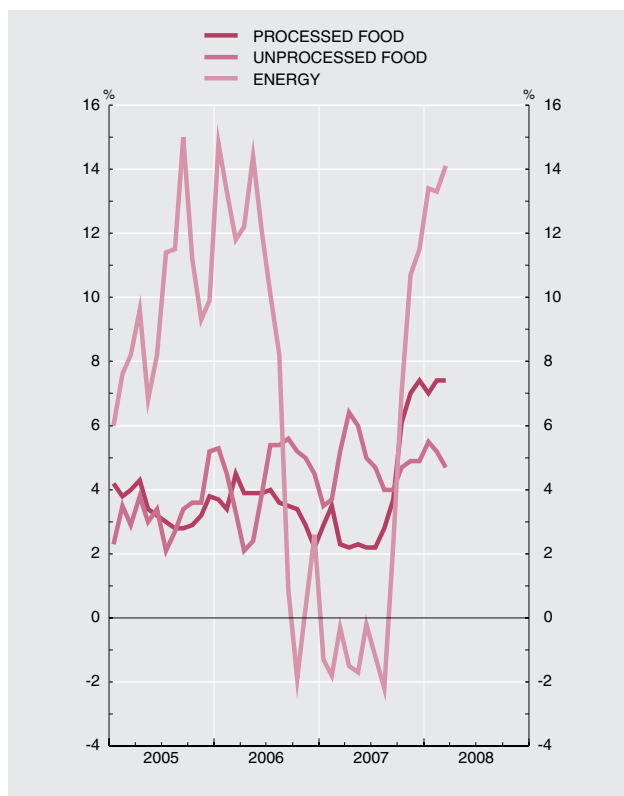
Indices and annual percentage changes

		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	
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	
07	M	102.8	—	2.8	4.2	4.8	3.7	0.7	1.8	3.8	2.7	115.5	6.0	
07	J-M	M	100.8	0.1	2.4	-0.4	4.1	2.9	1.0	-1.1	3.8	2.7	113.6	-3.7
08	J-M	M	105.2	0.2	4.4	-0.2	5.1	7.3	0.2	13.6	3.8	3.3	...	...
06	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	108.0	5.1
	Sep		102.9	0.3	2.7	1.7	4.0	3.7	0.4	2.3	3.7	2.6	112.7	12.1
	Oct		104.2	1.3	3.6	3.0	4.7	6.1	0.4	7.0	3.8	3.1	116.0	13.8
	Nov		105.0	0.7	4.1	3.8	4.9	7.0	0.3	10.7	3.8	3.2	124.6	15.7
	Dec		105.4	0.4	4.2	4.2	4.9	7.4	0.3	11.5	3.8	3.3	125.8	17.6
08	Jan		104.7	-0.6	4.3	-0.6	5.5	7.0	0.1	13.4	3.7	3.1	124.2	11.1
	Feb		104.9	0.2	4.4	-0.5	5.2	7.4	0.2	13.3	3.8	3.3	...	...
	Mar		105.8	0.9	4.5	0.4	4.7	7.4	0.3	14.1	4.0	3.4	...	...

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 information 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.

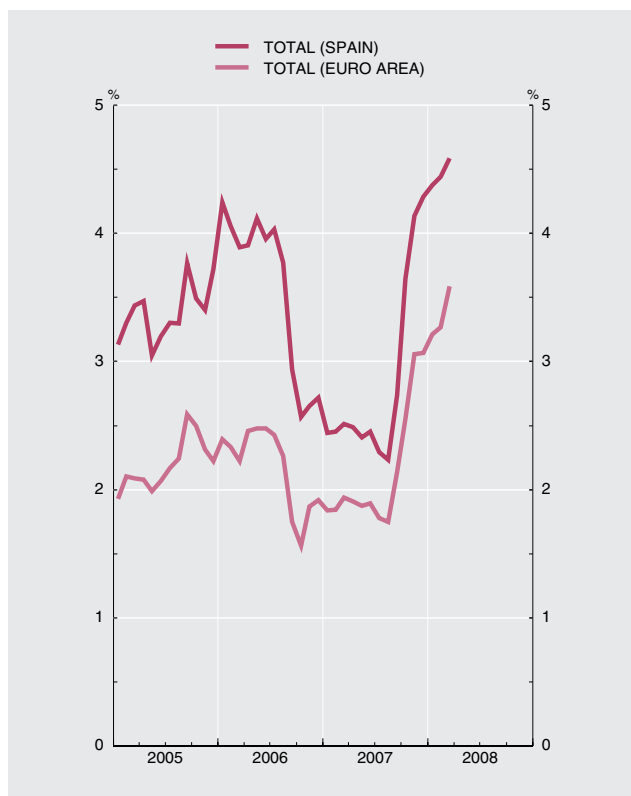
5.2. HARMONISED INDEX OF CONSUMER PRICES. SPAIN AND EURO AREA (2005=100) (a)

■ Series depicted in chart.

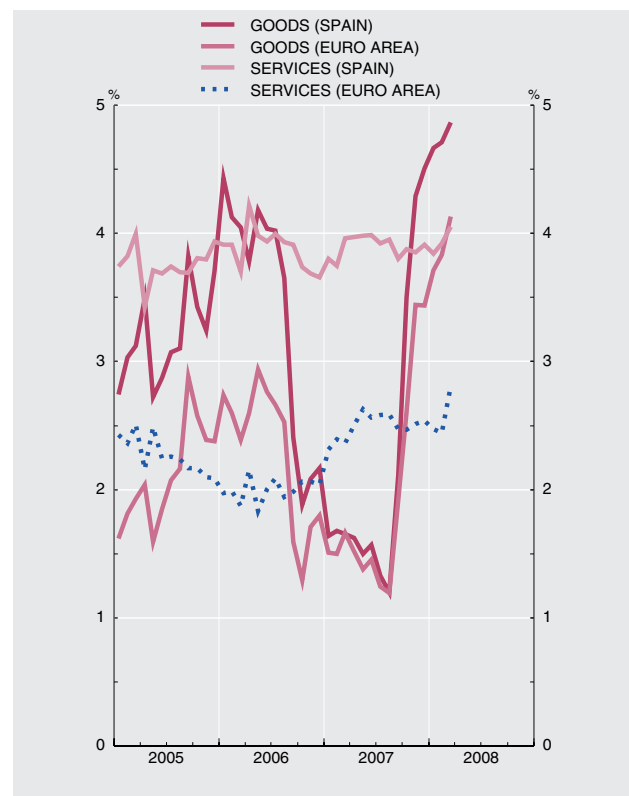
Annual percentage changes

		Total		Goods														Services	
		Spain	Euro area	Spain	Euro area	Food						Industrial						Spain	Euro area
						Total		Processed		Unprocessed		Spain	Euro area	Non-energy		Energy			
						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		
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
07	M	2.8	2.1	2.2	1.9	4.1	2.8	3.9	2.8	4.3	3.0	1.0	1.4	0.7	1.0	1.7	2.6	3.9	2.5
07	M	2.5	1.9	1.7	1.6	3.3	2.5	2.9	2.1	3.8	3.1	0.6	1.1	1.1	1.1	-1.1	1.1	3.8	2.4
08	MP	4.5	3.4	4.7	3.9	6.6	5.2	8.5	6.4	4.6	3.5	3.7	3.2	0.3	0.8	13.6	10.7	3.9	2.6
06	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	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
	Oct	3.6	2.6	3.5	2.6	5.6	3.5	7.0	3.8	4.3	3.1	2.1	2.1	0.4	1.1	7.0	5.5	3.9	2.5
	Nov	4.1	3.1	4.3	3.4	6.3	4.0	8.2	4.6	4.4	3.0	3.0	3.2	0.4	1.1	10.6	9.7	3.9	2.5
	Dec	4.3	3.1	4.5	3.4	6.6	4.3	8.6	5.1	4.5	3.1	3.2	3.0	0.4	1.0	11.4	9.2	3.9	2.5
08	Jan	4.4	3.2	4.7	3.7	6.5	4.9	8.2	5.9	4.9	3.3	3.6	3.1	0.3	0.7	13.4	10.6	3.8	2.5
	Feb	4.4	3.3	4.7	3.8	6.7	5.2	8.6	6.5	4.7	3.3	3.6	3.1	0.3	0.8	13.2	10.4	3.9	2.4
	Mar	4.6	3.6	4.9	4.1	6.6	5.6	8.8	6.8	4.3	3.8	3.9	3.4	0.4	0.9	14.1	11.2	4.1	2.8

HARMONISED INDEX OF CONSUMER PRICES. TOTAL
Annual percentage changes



HARMONISED INDEX OF CONSUMER PRICES. COMPONENTS
Annual percentage changes



Source: Eurostat.

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

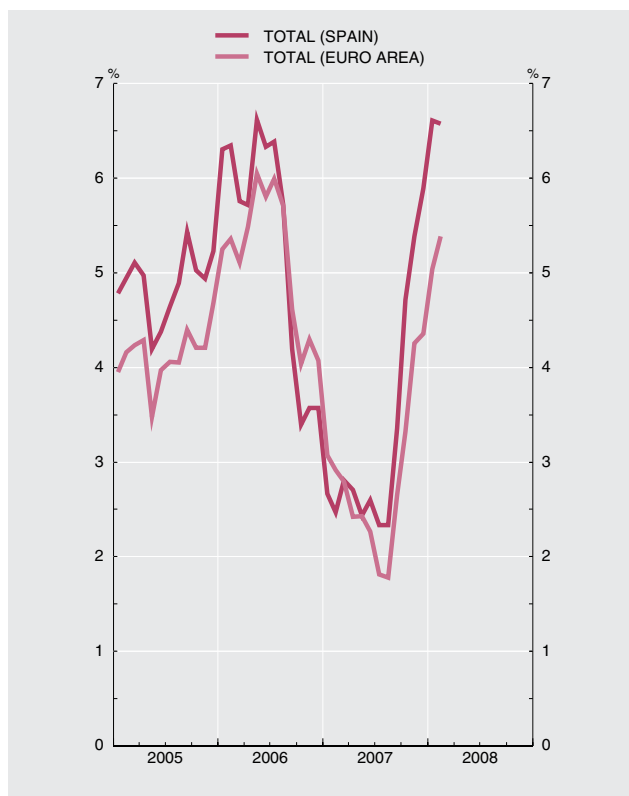
5.3. PRODUCER PRICE INDEX. SPAIN AND EURO AREA (a)

■ Series depicted in chart.

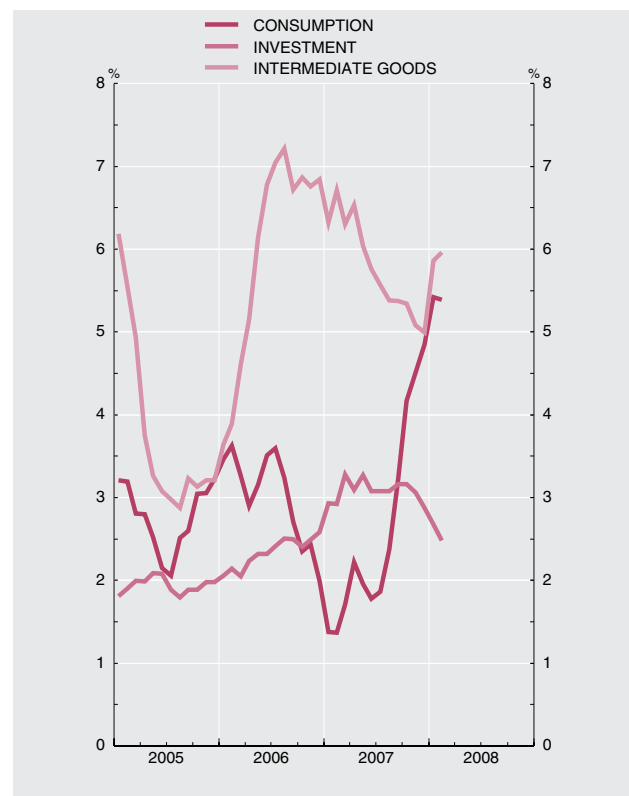
Annual percentage changes

		Total (100%)			Consumption (32.1 %)		Investment (18.3 %)		Intermediate (31.6 %)		Energy (18.0%)		Memorandum item: euro area				
		Original series	Month-on-month % change	12-month % change	Month-on-month % change	12-month % change	Month-on-month % change	12-month % change	Month-on-month % change	12-month % change	Month-on-month % change	12-month % change	Total	Consumption	Investment	Intermediate	Energy
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
05	MP	112.7	—	4.9	—	2.8	—	1.9	—	3.8	—	14.0	4.1	1.1	1.4	2.9	13.6
06	MP	118.6	—	5.3	—	3.0	—	2.3	—	6.0	—	11.0	5.1	1.7	1.4	4.8	13.6
07	MP	122.6	—	3.3	—	2.6	—	3.1	—	5.8	—	0.8	2.8	2.3	1.8	4.8	1.7
07 J-F	MP	119.9	—	2.6	—	1.4	—	2.9	—	6.5	—	-1.8	3.0	1.6	2.0	6.0	1.3
08 J-F	MP	127.8	—	6.6	—	5.4	—	2.6	—	5.9	—	13.3	5.2	4.3	1.4	4.0	11.3
06 Nov	P	118.8	-	3.6	-	2.4	0.2	2.5	0.3	6.8	-0.8	1.0	4.3	1.6	1.8	6.2	6.8
Dec	P	118.8	-	3.6	-	2.0	0.2	2.6	0.1	6.8	-	2.3	4.1	1.5	1.8	6.2	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	6.1	1.6
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	5.9	1.0
Mar	P	120.9	0.6	2.8	0.3	1.7	0.4	3.3	0.5	6.3	1.2	-1.6	2.8	1.5	2.0	5.8	0.9
Apr	P	121.5	0.5	2.7	0.5	2.2	0.1	3.1	0.7	6.5	0.7	-2.6	2.4	1.7	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	-0.1
Jun	P	122.3	0.2	2.6	0.1	1.8	-	3.1	0.2	5.8	0.6	-1.4	2.3	1.6	1.9	5.1	-0.5
Jul	P	122.7	0.3	2.3	0.2	1.9	0.1	3.1	0.2	5.6	0.8	-2.6	1.8	1.9	1.7	4.5	-1.9
Aug	P	122.9	0.2	2.3	0.4	2.4	0.1	3.1	0.2	5.4	-0.4	-2.9	1.8	2.4	1.7	4.2	-2.0
Sep	P	123.3	0.3	3.4	0.5	3.2	0.2	3.2	0.2	5.4	0.5	0.8	2.7	2.9	1.6	4.0	1.7
Oct	P	124.4	0.9	4.7	0.9	4.2	0.1	3.2	0.5	5.3	2.4	6.1	3.3	3.4	1.5	3.9	4.3
Nov	P	125.2	0.6	5.4	0.3	4.5	0.1	3.1	-	5.1	2.7	9.8	4.3	3.7	1.5	3.6	8.1
Dec	P	125.8	0.5	5.9	0.3	4.8	-	2.9	-	5.0	1.7	11.6	4.4	4.0	1.5	3.5	8.5
08 Jan	P	127.4	1.3	6.6	1.0	5.4	0.8	2.7	1.6	5.9	1.8	13.2	5.0	4.3	1.3	3.8	10.8
Feb	P	128.1	0.5	6.6	0.6	5.4	0.3	2.5	1.2	6.0	-0.3	13.3	5.4	4.3	1.5	4.2	11.7

PRODUCER PRICE INDEX. TOTAL
Annual percentage changes



PRODUCER PRICE INDEX. COMPONENTS
Annual percentage changes



Sources: INE and ECB.

Note: The underlying series for this indicator, for Spain, are in Table 25.3 of the BE Boletín estadístico.

a. Spain: 2000=100; euro area: 2000=100.

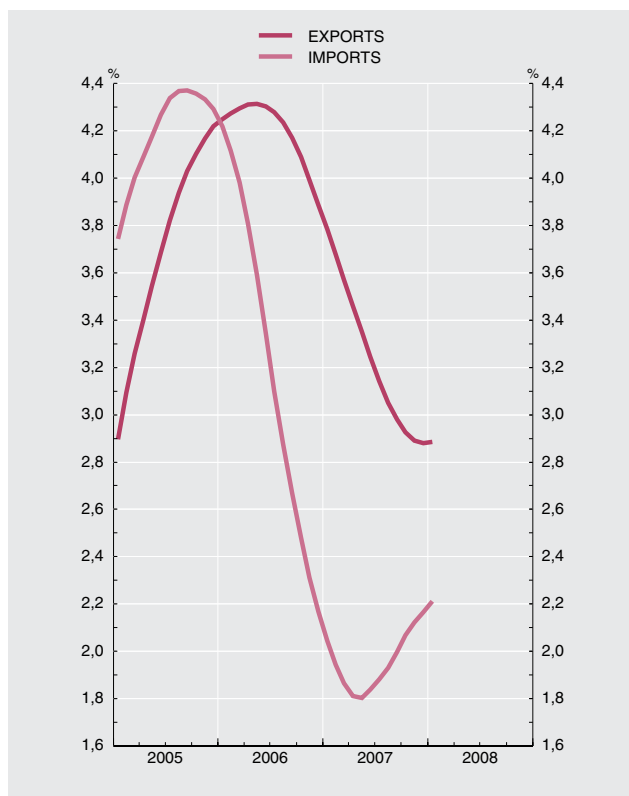
5.4. UNIT VALUE INDICES FOR SPANISH FOREIGN TRADE

■ Series depicted in chart.

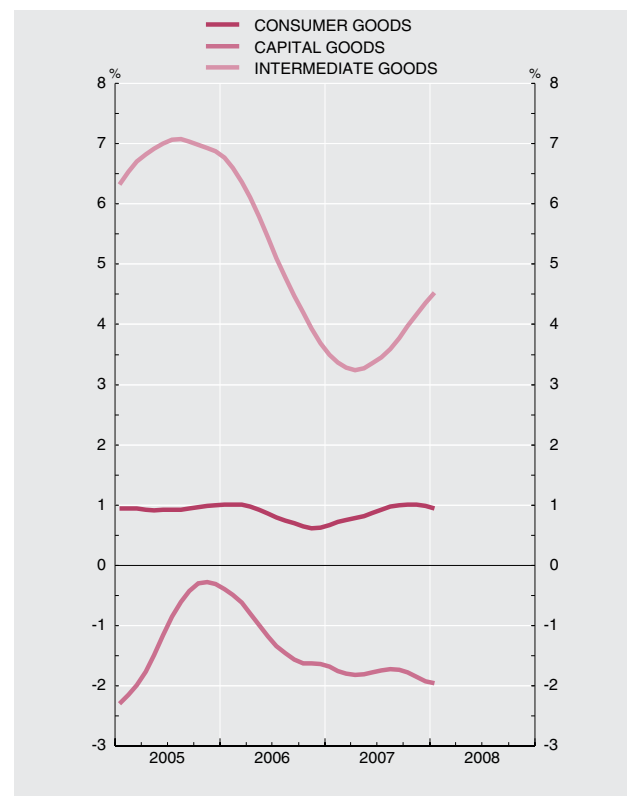
Annual percentage changes

	Exports/dispatches						Imports/arrivals					
	Total	Consumer goods	Capital goods	Intermediate goods			Total	Consumer goods	Capital goods	Intermediate goods		
				Total	Energy	Non-energy				Total	Energy	Non-energy
	1	2	3	4	5	6	7	8	9	10	11	12
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
07	2,5	2,4	-0,8	3,3	2,0	3,3	1,0	1,2	-2,3	1,6	-1,0	2,9
07 J-J	3,3	1,4	3,2	4,6	-4,8	5,6	0,8	8,6	0,8	-3,2	-5,9	-1,2
08 J-J	3,8	7,0	2,5	1,7	21,3	0,2	5,4	-0,4	3,4	8,0	25,5	0,1
06 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
Aug	1,6	1,1	-0,4	2,3	15,8	0,2	-0,6	5,5	-3,2	-2,7	-8,1	0,4
Sep	2,2	0,7	2,7	3,3	13,3	2,5	2,8	0,5	3,4	4,0	2,2	4,8
Oct	1,1	-0,6	-0,5	2,8	11,5	1,7	2,1	0,8	-1,1	3,2	6,5	2,6
Nov	1,5	1,0	-4,4	3,0	17,0	1,0	6,5	5,3	5,0	7,3	23,0	3,5
Dec	0,4	4,8	-6,3	-0,7	27,2	-2,1	-2,1	-10,9	-14,3	4,5	13,3	-0,1
08 Jan	3,8	7,0	2,5	1,7	21,3	0,2	5,4	-0,4	3,4	8,0	25,5	0,1

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 18.6 and 18.7 of the Boletín Estadístico.

a. Annual percentage changes (trend obtained with TRAMO-SEATS).

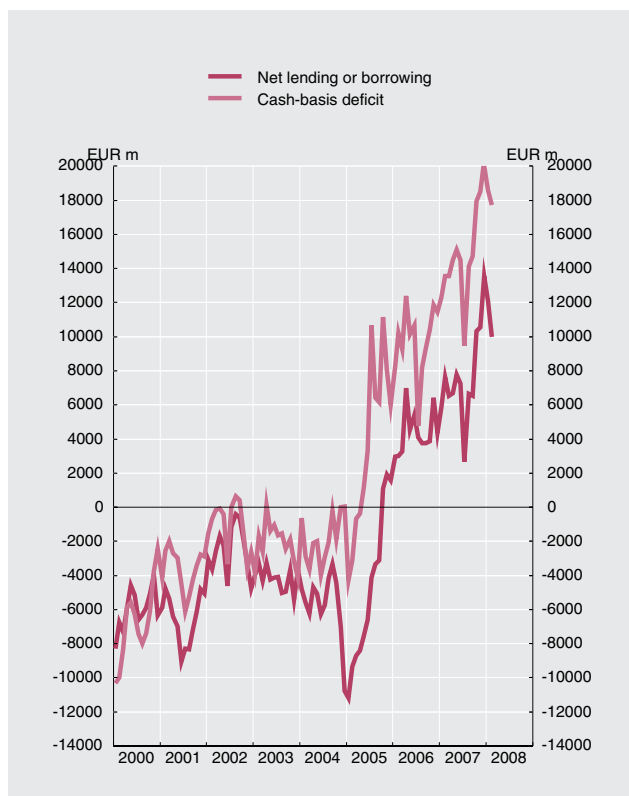
6.1. STATE RESOURCES AND USES ACCORDING TO THE NATIONAL ACCOUNTS (A). SPAIN

■ Series depicted in chart.

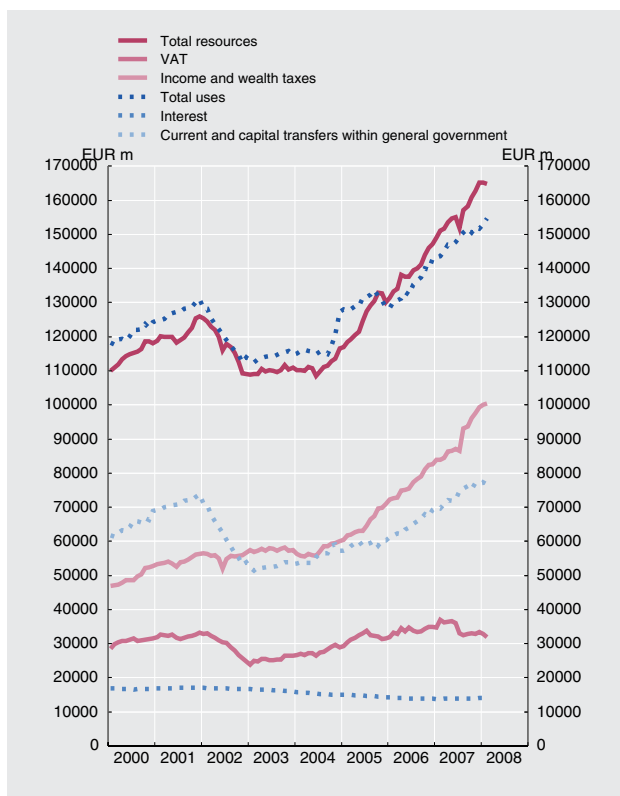
EUR millions

		Current and capital resources						Current and capital uses						Memorandum item: cash-basis deficit			
		Net lending (+) or borrowing (-)	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+7	3	4	5	6	7	8=9+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		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	4 362	147 201	34 929	11 331	5 261	82 541	13 139	142 839	16 883	13 820	69 299	5 846	36 991	11 471	141 847	130 375
07	P	13 552	165 171	33 334	12 948	6 838	99 265	12 786	151 619	18 096	13 986	76 885	5 202	37 450	20 135	159 840	139 704
07 J-F	P	12 949	31 688	15 160	2 042	557	13 247	682	18 943	2 558	2 238	9 847	180	4 120	6 231	32 045	25 814
08 J-F	A	9 389	31 338	13 706	2 138	544	14 413	537	21 949	2 634	2 260	12 165	160	4 730	3 831	31 635	27 803
07 Jun	P	-8 073	4 162	21	1 115	311	1 077	1 638	12 235	2 301	1 159	5 684	120	2 971	-7 051	3 604	10 655
Jul	P	2 267	16 300	1 521	1 245	723	11 950	861	14 033	1 337	1 216	8 822	319	2 339	-852	16 648	17 500
Aug	P	4 297	15 152	-3 621	1 114	275	17 060	324	10 855	1 318	1 182	5 957	233	2 165	3 911	13 879	9 968
Sep	P	484	12 199	3 283	1 214	354	5 986	1 362	11 715	1 364	1 150	6 108	278	2 815	2 942	11 870	8 929
Oct	P	15 331	26 994	6 751	1 000	242	18 407	594	11 663	1 345	1 210	6 229	389	2 490	14 910	26 804	11 894
Nov	P	-2 413	10 835	1 205	1 185	1 222	6 126	1 097	13 248	1 333	1 131	7 448	275	3 061	-975	10 080	11 055
Dec	P	-11 938	13 359	681	1 060	1 253	7 528	2 837	25 297	2 536	1 185	8 779	2 084	10 713	-3 968	11 432	15 400
08 Jan	A	1 438	11 089	-943	945	333	10 608	146	9 651	1 298	1 202	5 380	5	1 766	-5 290	12 833	18 123
Feb	A	7 951	20 249	14 649	1 193	211	3 805	391	12 298	1 336	1 058	6 785	155	2 964	9 121	18 802	9 680

STATE. NET LENDING OR BORROWING AND CASH-BASIS DEFICIT (Latest 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 is 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

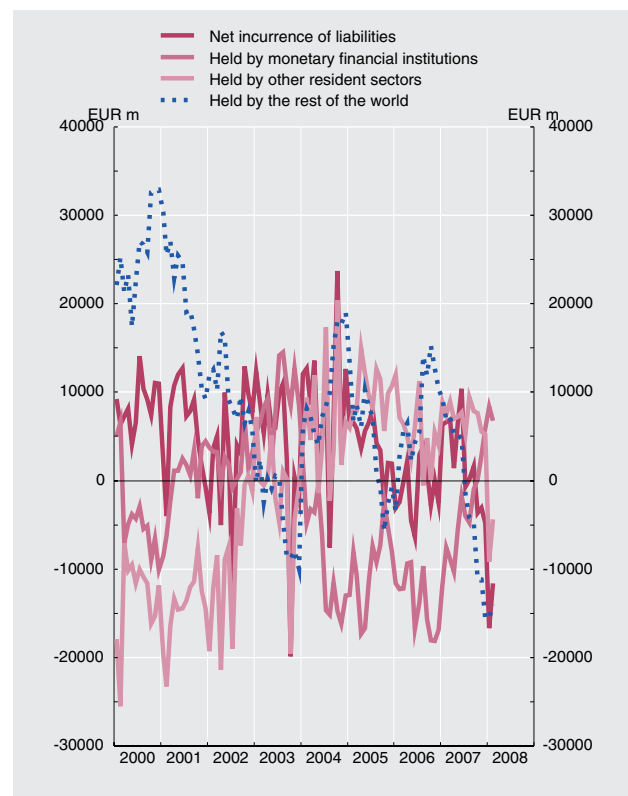
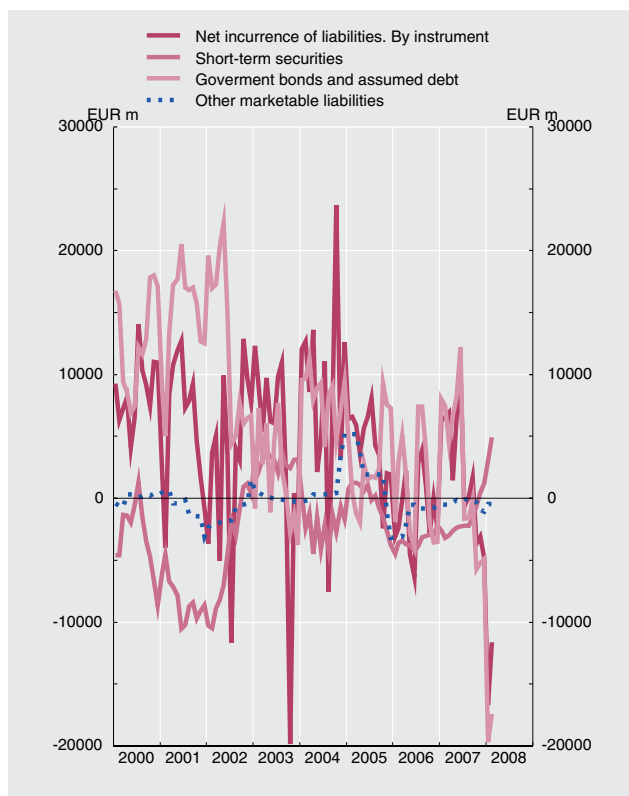
■ Series depicted in chart.

EUR millions

	Net lending (+) or net borrowing(-)	Net acquisition of financial assets		Net incurrence of liabilities											Net incurrence of liabilities (excluding other accounts payable)
				Of which		By instrument					By counterpart sector				
		Total	In currencies other than the peseta/ euro			Short-term securities	Government bonds and assumed debt	Banco de España loans	Other marketable liabilities (b)	Other accounts payable	Held by resident sectors			Rest of the world	
				Total	Deposits at the Banco de España						Total	Monetary financial institutions	Other resident sectors		
	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	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 4 362	1 870	-200	-2 492	175	-2 198	-3 488	-486	-536	4 215	-12 849	-16 865	4 017	10 357	-6 707
07	P 13 552	8 772	65	-4 780	-120	1 206	-4 916	-519	-1 081	860	11 118	5 896	5 222	-15 568	-5 310
07 J-F	P 12 949	14 041	0	1 092	17	-1 437	3 286	-	6	-492	750	-316	1 066	613	1 855
08 J-F	A 9 389	3 641	34	-5 748	15	2 273	-9 209	-	605	583	-7 953	591	-8 544	2 205	-6 331
07 Jun	P -8 073	-3 539	-4 491	4 534	8	-2 681	6 529	-	-136	822	2 938	1 880	1 057	1 596	3 712
Jul	P 2 267	-6 897	-2 109	-9 164	-56	2 031	-15 117	-	-78	4 001	-2 029	-2 653	624	-7 135	-13 165
Aug	P 4 297	-495	-301	-4 792	8	-1 606	1 051	-	27	-4 264	-1 724	-162	-1 562	-3 068	-528
Sep	P 484	7 043	97	6 559	3	2 598	4 001	-	-195	155	4 783	3 144	1 639	1 776	6 404
Oct	P 15 331	2 347	1 800	-12 984	4	-1 216	-12 685	-	18	899	-7 825	-2 360	-5 465	-5 159	-13 883
Nov	P -2 413	2 848	-1 908	5 261	-115	2 834	2 746	-	-625	306	4 913	3 232	1 681	348	4 955
Dec	P -11 938	-10 125	78	1 813	8	-1 062	2 581	-	-150	445	6 874	2 629	4 245	-5 061	1 369
08 Jan	A 1 438	-7 563	10	-9 001	8	3 403	-14 642	-	617	1 620	-9 113	-213	-8 900	112	-10 621
Feb	A 7 951	11 204	25	3 253	7	-1 131	5 433	-	-12	-1 037	1 160	804	356	2 093	4 290

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 is 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).

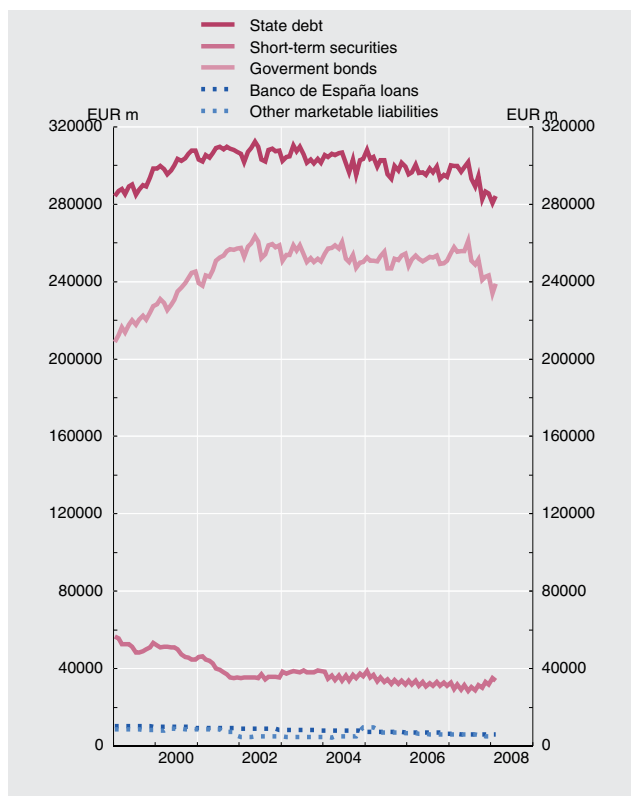
6.3. STATE: LIABILITIES OUTSTANDING. SPAIN

■ Series depicted in chart.

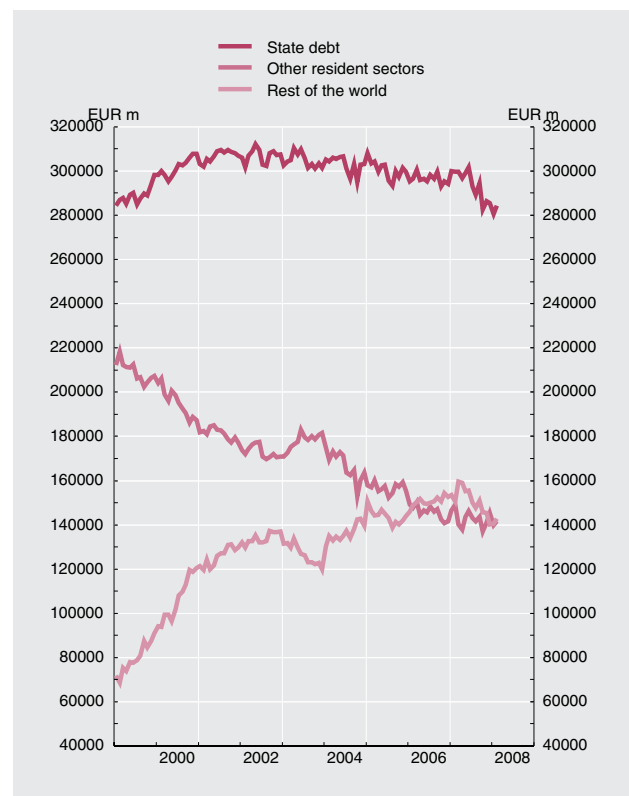
EUR millions

		Liabilities outstanding (excluding other accounts payable)									Memorandum item:		
		of which		By instrument				By counterpart sector			Deposits at the Banco de España	Guarantees given (contingent liabilities). Outstanding level	
		State debt according to the methodology of the excessive deficit procedure	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		303 254	3 267	35 996	250 125	7 388	9 746	182 967	19 412	163 554	139 700	300	7 186
05		299 578	2 154	31 647	254 442	6 902	6 588	178 398	22 810	155 588	143 990	300	6 020
06	P	294 223	515	31 060	250 702	6 416	6 046	163 603	21 897	141 706	152 517	100	5 794
07	May	P 299 065	382	31 313	255 814	5 832	6 105	167 331	23 548	143 784	155 282	7 000	5 716
	Jun	P 301 637	386	28 614	261 222	5 832	5 969	169 825	23 644	146 181	155 456	2 508	6 166
	Jul	P 293 088	386	30 485	250 880	5 832	5 891	166 645	23 492	143 152	149 935	399	6 106
	Aug	P 289 325	384	28 738	248 837	5 832	5 917	167 392	25 689	141 703	147 622	98	6 106
	Sep	P 294 478	373	31 334	251 589	5 832	5 723	169 508	25 818	143 690	150 788	195	6 193
	Oct	P 282 566	373	30 122	240 871	5 832	5 740	161 472	24 536	136 937	145 629	1 995	6 277
	Nov	P 286 465	364	32 954	242 563	5 832	5 116	165 687	24 536	141 151	145 313	87	6 207
	Dec	P 285 570	355	31 614	243 159	5 832	4 965	170 989	25 669	145 320	140 250	165	6 172
08	Jan	A 280 457	348	35 024	234 018	5 832	5 582	164 492	24 609	139 883	140 574	174	6 125
	Feb	A 284 292	340	33 878	239 010	5 832	5 571	166 241	24 609	141 632	142 660	199	...

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

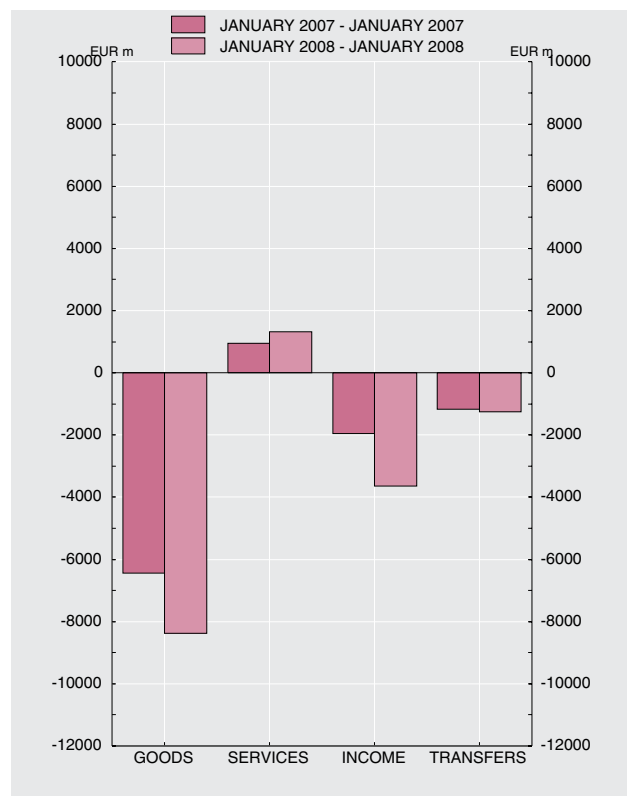
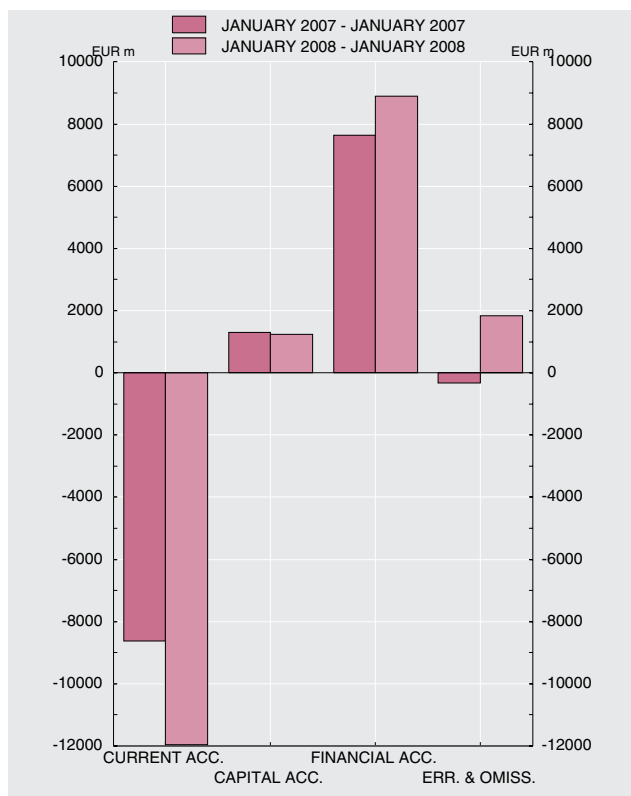
■ Series depicted in chart.

EUR millions

		Current account (a)												Capital account (bal- ance)	Current account plus capital account	Financial account (balance) (b)	Errors and omis- ion
Total (balance)	Goods			Services				Income			Current trans- fers (bal- ance)						
	Balance	Receipts	Payments	Balance	Receipts		Payments		Balance	Receipts		Pay- ments					
					Of which	Of which											
							Total	Travel					Total					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)	
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
07	P-106 201	-88 459	184 150	272 610	22 371	93 404	42 201	71 034	14 360	-32 913	45 331	78 244	-7 200	4 812	-101 389	101 869	-480
07 J-J	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
08 J-J	P -11 951	-8 375	15 431	23 806	1 321	7 355	2 759	6 034	1 136	-3 636	4 949	8 585	-1 260	1 234	-10 717	8 889	1 829
06 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 -9 880	-7 813	15 545	23 358	3 370	10 308	5 065	6 938	1 548	-4 499	4 087	8 586	-937	153	-9 727	8 610	1 117
Aug	P -6 735	-6 981	12 331	19 312	3 479	9 642	5 353	6 163	1 358	-2 373	2 340	4 713	-860	109	-6 626	9 056	-2 430
Sep	P -8 669	-7 523	15 114	22 638	2 846	8 814	4 581	5 967	1 664	-2 863	2 912	5 775	-1 129	105	-8 564	10 077	-1 513
Oct	P -9 773	-8 342	16 975	25 316	2 524	8 930	4 030	6 406	1 282	-2 787	4 283	7 071	-1 168	825	-8 948	9 416	-469
Nov	P -11 638	-7 845	16 824	24 669	901	7 088	2 795	6 187	1 347	-3 829	2 778	6 607	-865	292	-11 346	11 090	256
Dec	P -9 304	-9 268	14 246	23 514	631	7 084	2 400	6 453	1 034	-3 150	5 536	8 685	2 482	1 172	-8 132	5 391	2 741
08 Jan	P -11 951	-8 375	15 431	23 806	1 321	7 355	2 759	6 034	1 136	-3 636	4 949	8 585	-1 260	1 234	-10 717	8 889	1 829

SUMMARY

CURRENT ACCOUNT



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

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

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

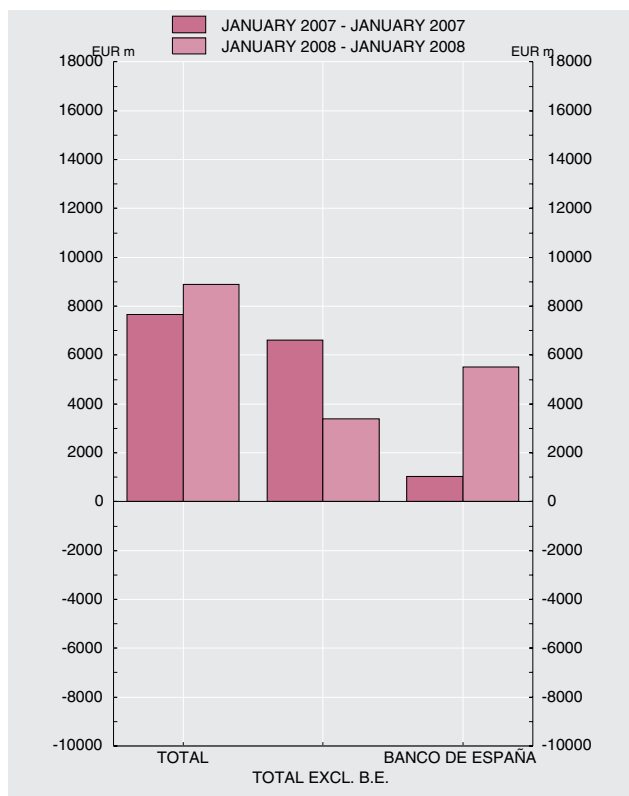
7.2. THE SPANISH BALANCE OF PAYMENTS VIS-À-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD. FINANCIAL ACCOUNT (a)

■ Series depicted in chart.

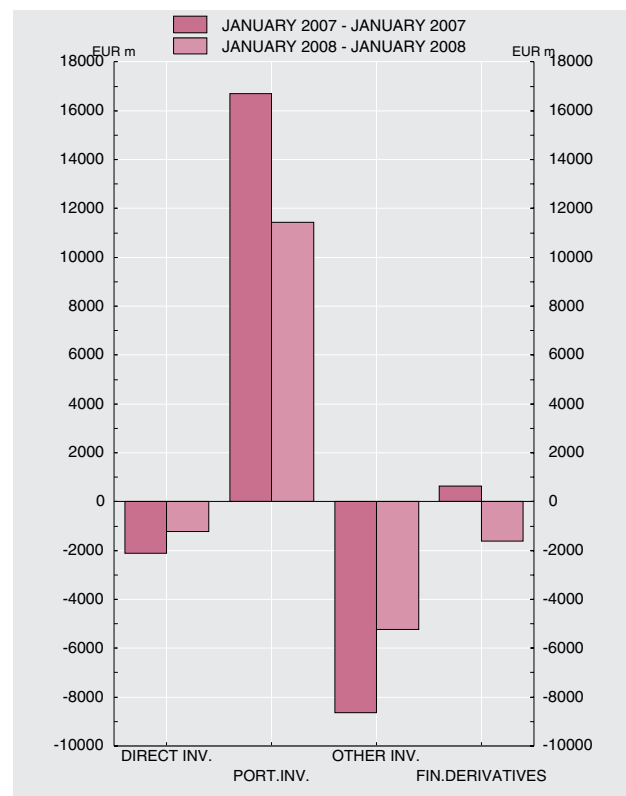
EUR millions

		Total, excluding Banco de España												Banco de España			
	Financial account	Total (NCL- NCA)	Direct investment			Portfolio investment			Other investment (d)			Net financial derivatives (NCL- NCA)	Balance (NCL- NCA)	Re-serves (e)	Net claims with the Euro-system (e)	Other net assets (NCL- NCA)	
	(NCL- NCA)		Balance (NCL- NCA)	Spanish invest- ment abroad (NCA)	Foreign invest- ment in Spain (NCL) (b)	Balance (NCL- NCA)	Spanish invest- ment abroad (NCA)	Foreign invest- ment in Spain (NCL) (c)	Balance (NCL- NCA)	Spanish invest- ment abroad (NCA)	Foreign invest- ment in Spain (NCL)						
	1= 2+13		3=5-4	4	5	6=8-7	7	8	9=11-10	10	11						12	13=14+ 15+16	14	15	16
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
07	P	101 869	87 547	-40 894	84 243	43 349	103 094	-7 507	95 587	30 271	53 993	84 264	-4 923	14 322	-164	28 329	-13 843
07 J-J	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
08 J-J	P	8 889	3 386	-1 212	3 129	1 917	11 437	-12 698	-1 261	-5 223	34 797	29 574	-1 616	5 502	123	5 483	-104
06 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
Aug	P	9 056	-6 665	-1 190	2 708	1 517	165	-4 035	-3 870	-4 912	5 604	692	-728	15 721	-6	15 663	64
Sep	P	10 077	1 080	-7 645	7 773	128	7 404	-8 087	-684	2 328	10 463	12 791	-1 007	8 996	336	9 339	-679
Oct	P	9 416	7 968	-2 866	24 176	21 310	-14 813	-4 481	-19 294	28 857	-4 070	24 787	-3 209	1 448	-111	3 692	-2 132
Nov	P	11 090	3 895	-253	3 004	2 751	4 831	-4 817	14	-3 772	19 254	15 482	3 089	7 195	35	7 757	-596
Dec	P	5 391	2 928	-2 507	5 091	2 583	-2 136	-1 997	-4 133	10 297	-23 782	-13 485	-2 726	2 464	-71	2 268	266
08 Jan	P	8 889	3 386	-1 212	3 129	1 917	11 437	-12 698	-1 261	-5 223	34 797	29 574	-1 616	5 502	123	5 483	-104

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

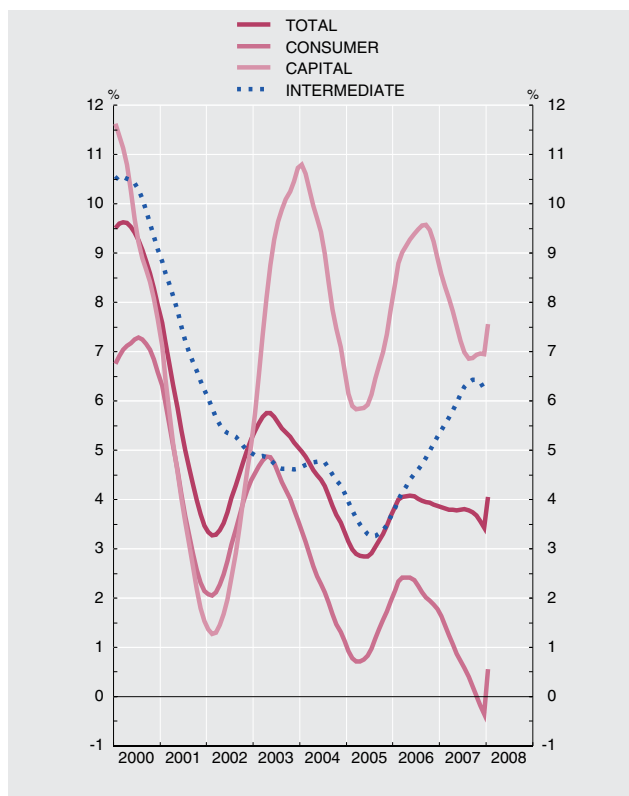
■ Series depicted in chart.

Eur millions and annual percentage changes

	Total			By product (deflated data) (a)					By geographical area (nominal data)							
	EUR millions	Nom- inal	De- flat- ed (a)	Con- sumer	Capital	Intermediate			EU 27		OECD		OPEC	Other Amer- ican coun- tries	China	Newly indus- trial- ised coun- tries
						Total	Energy	Non- energy	Total	Euro Area	of which:					
											Total	United States				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
03	138 119	3.6	5.2	4.2	11.9	4.8	24.7	3.9	4.5	5.1	3.8	-1.7	-5.4	2.2	38.2	-23.4
04	146 925	6.4	5.3	2.2	13.1	6.6	10.2	6.4	5.0	5.2	5.9	2.0	12.2	3.3	5.6	4.7
05	155 005	5.5	0.8	-0.9	5.3	1.4	-8.9	2.0	2.6	2.2	4.2	10.2	10.4	11.8	31.4	14.5
06	170 439	10.0	5.0	3.0	12.5	5.1	-5.0	5.6	8.1	7.7	8.4	17.7	1.2	34.5	12.8	16.5
07	181 479	6.9	4.2	0.1	-0.7	8.1	8.4	8.3	5.7	6.1	4.7	2.6	24.7	-3.6	27.4	5.1
06 Dec	14 538	9.4	5.2	8.5	-7.0	5.8	31.8	4.4	1.8	2.8	4.9	40.5	14.2	23.6	100.1	9.9
07 Jan	13 969	9.5	6.0	9.7	-18.6	8.5	-15.1	9.7	11.3	13.5	9.0	4.7	31.0	-16.4	-2.6	76.6
Feb	14 860	6.2	1.7	-2.4	7.4	3.8	-3.4	4.1	3.1	4.2	4.5	20.8	-16.6	58.2	1.7	-23.2
Mar	16 302	5.5	1.6	0.3	-6.4	4.0	-19.7	5.2	8.4	9.2	5.9	-2.8	15.7	-24.0	11.1	-8.1
Apr	14 399	9.4	6.7	6.7	18.6	4.5	-6.7	5.0	9.2	10.2	4.8	-12.0	45.0	42.2	43.8	-4.6
May	16 019	3.5	0.2	-5.9	1.6	4.6	-6.2	5.1	4.5	5.7	2.5	-22.1	-11.0	-14.4	41.1	-10.9
Jun	16 110	6.0	2.0	-2.2	0.5	5.3	-3.3	5.6	3.4	3.1	4.2	24.3	14.2	22.0	-2.3	14.4
Jul	15 322	12.7	10.6	13.2	-5.8	12.2	15.5	12.0	12.7	13.8	11.7	9.4	27.7	-20.9	26.3	8.0
Aug	12 126	7.6	6.0	-3.8	-8.3	14.8	30.5	13.9	5.0	7.2	3.9	2.9	24.0	-38.6	20.1	9.0
Sep	14 903	5.8	3.4	-0.8	-1.2	7.1	8.6	7.1	0.0	-0.7	0.9	13.7	31.2	-17.4	67.3	-0.7
Oct	16 707	9.5	8.2	2.9	12.7	11.2	31.9	10.4	1.6	2.6	3.7	26.2	44.2	16.6	97.3	-1.5
Nov	16 568	9.7	8.2	-1.8	13.0	15.0	85.3	12.9	4.2	2.0	3.9	-2.4	95.7	7.1	33.5	-8.0
Dec	14 196	-2.4	-2.8	-11.6	-16.8	7.2	-15.8	8.7	4.6	2.5	1.1	-29.1	-6.4	-49.7	-10.0	7.1
08 Jan	14 928	6.9	3.0	-2.6	7.3	6.5	30.3	5.6	5.6	5.4	5.7	-7.4	8.3	-13.5	58.3	-17.5

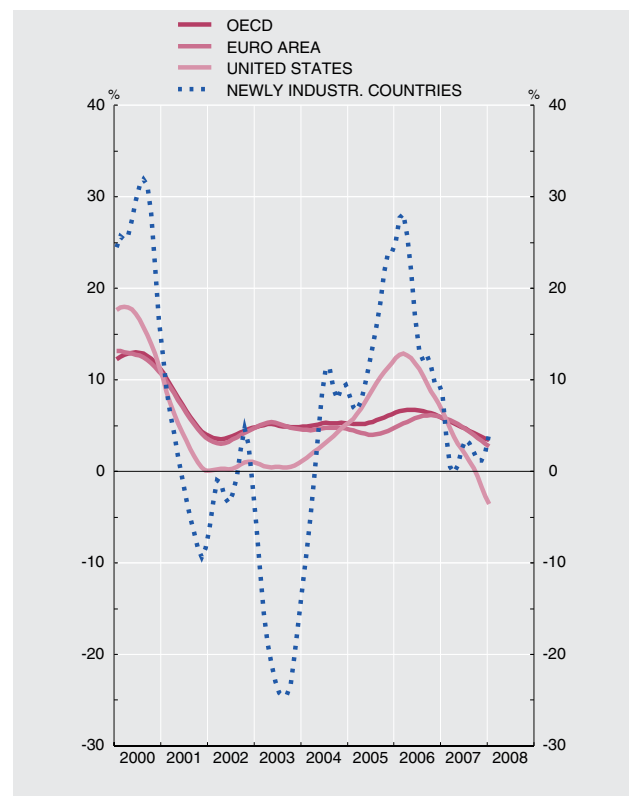
BY PRODUCT

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 18.4 and 18.5 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

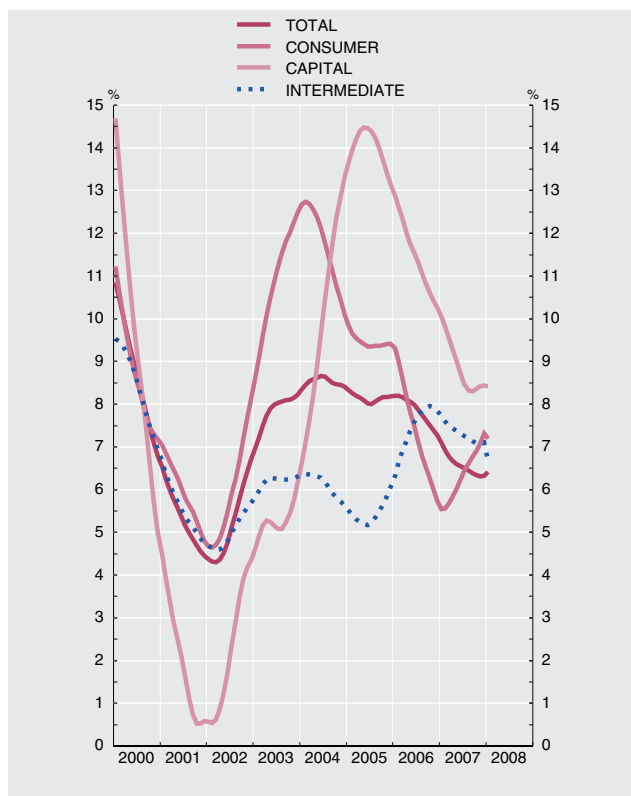
■ Series depicted in chart.

Eur millions and annual percentage changes

	Total			By product (deflated data) (a)					By geographical area (nominal data)							
	EUR millions	Nom- inal	De- flat- ed (a)	Con- sumer	Capital	Intermediate			EU 27		OECD		OPEC	Other Amer- ican coun- tries	China	Newly indus- trial- ised coun- tries
						Total	Energy	Non- energy	Total	Euro Area	of which:					
											Total	United States				
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
03	185 114	5.6	7.1	9.6	12.9	4.8	1.0	5.7	5.8	5.3	5.8	-4.8	1.9	12.9	16.6	1.1
04	208 411	12.6	9.9	13.5	14.4	7.3	10.6	6.5	9.9	10.0	11.3	9.3	12.8	7.9	26.8	14.6
05	232 954	11.8	6.4	8.4	17.6	3.4	10.9	1.5	5.6	5.3	6.1	-0.1	36.9	29.3	37.3	11.2
06	262 687	12.8	9.2	7.4	5.9	10.6	4.8	12.2	8.4	7.9	8.5	14.7	26.5	24.1	22.7	28.6
07	280 431	8.2	6.9	5.1	9.9	7.2	4.0	8.5	8.6	9.0	8.2	19.1	-4.7	5.9	31.2	-2.9
06 Dec	20 934	2.3	1.1	0.3	-8.1	3.8	2.6	4.1	-4.5	-3.4	-3.3	36.8	12.2	29.1	29.2	24.3
07 Jan	21 592	11.7	10.8	-7.9	32.2	17.9	4.0	21.6	10.1	5.8	7.7	15.4	1.6	17.2	43.8	0.3
Feb	21 749	6.1	5.5	1.8	14.7	5.5	3.2	6.1	4.4	6.2	5.1	7.5	-8.9	41.2	32.3	-1.8
Mar	24 106	2.7	0.8	3.1	14.8	-2.7	-12.0	-0.5	4.7	5.8	2.7	-3.6	-19.6	-1.7	45.2	0.6
Apr	22 059	10.0	12.3	10.6	9.3	13.5	1.9	16.4	12.0	13.4	11.8	11.6	-11.3	5.5	32.0	-1.9
May	23 943	4.1	6.8	-0.1	17.6	8.0	6.4	8.4	5.5	7.5	6.5	18.0	-10.0	-26.2	33.9	-10.6
Jun	24 426	6.8	3.6	7.2	6.2	1.4	1.0	1.5	6.5	6.2	6.3	18.1	-2.4	3.3	19.0	13.7
Jul	23 983	15.4	13.4	15.0	0.6	14.8	10.6	15.8	13.8	15.0	15.1	4.1	-1.1	22.2	46.9	2.5
Aug	19 946	3.1	3.7	5.7	-6.2	4.3	-0.3	5.7	4.4	4.2	5.3	38.5	-14.2	1.6	34.0	-9.6
Sep	23 313	7.2	4.3	4.6	3.0	4.2	1.9	4.7	6.4	6.5	7.0	47.8	-2.1	19.3	24.5	7.4
Oct	26 017	9.9	7.7	9.2	6.8	7.2	2.6	8.3	9.6	10.3	9.6	61.0	3.2	1.4	27.8	-16.9
Nov	25 267	5.8	-0.6	-1.3	-1.8	-0.0	-4.4	0.9	6.9	7.0	5.3	12.2	-2.8	-5.4	29.8	-15.9
Dec	24 030	14.8	17.3	16.3	24.9	16.5	32.0	13.0	18.5	19.8	15.1	-2.3	11.5	-4.3	4.8	-1.6
08 Jan	24 080	11.5	5.8	-2.6	-18.3	14.1	33.7	9.6	1.7	3.8	6.4	32.5	51.4	7.7	24.3	-8.8

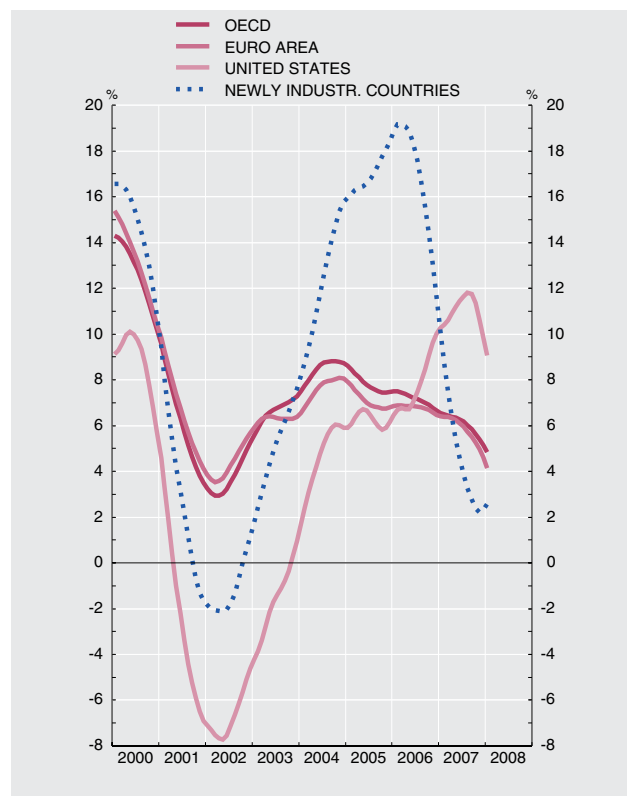
BY PRODUCTS

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 18.2 and 18.3 of the Boletín estadístico.

The monthly series are provisional data, while the annual series are the final foreign trade data.

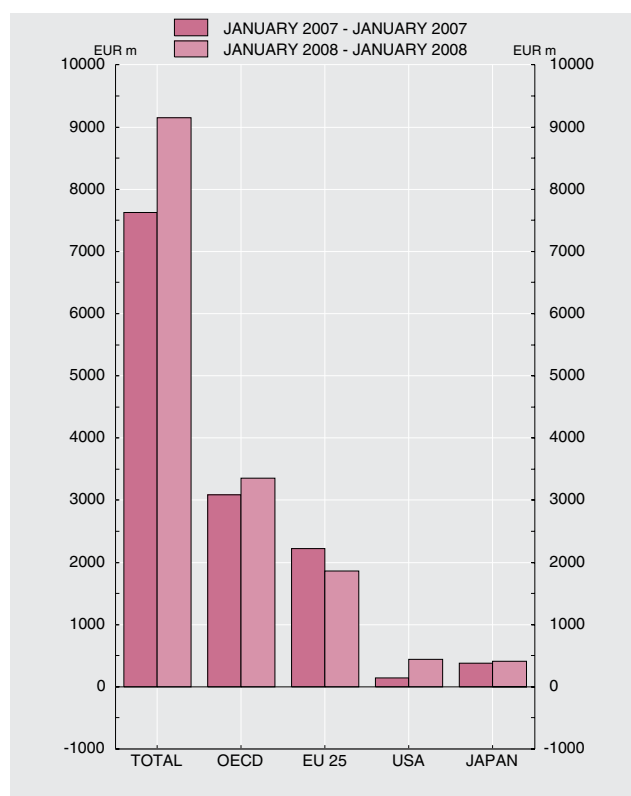
a. Series deflated by unit value indices.

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

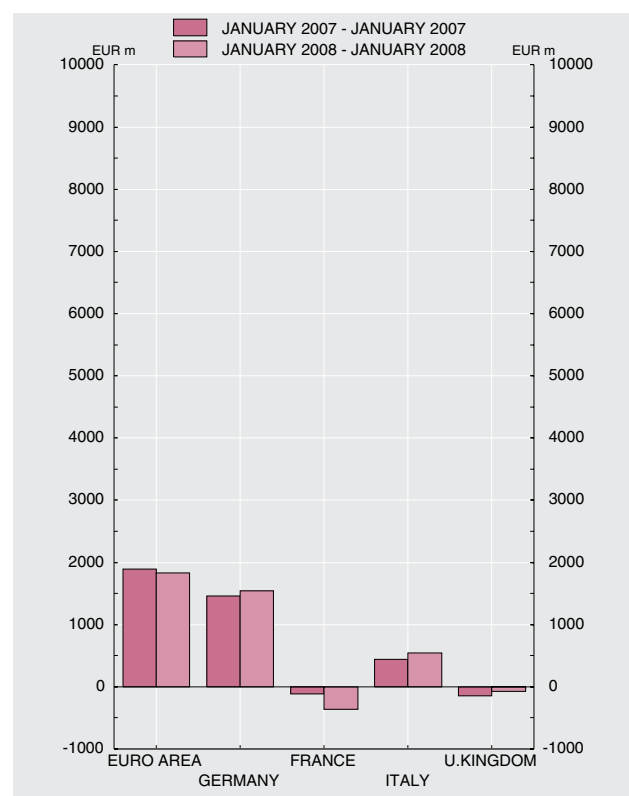
EUR millions

	World total	European Union (EU 27)							OECD				OPEC	Other American countries	China	Newly industrialised countries
		Total	Euro area				Other EU 27		Of which:							
			Of which:				Of which:		Total	United States	Japan					
			Total	Germany	France	Italy	Total	United Kingdom								
1	2=3+7	3	4	5	6	7	8	9	10	11	12	13	14	15		
02		-42 000	-16 786	-18 192	-12 970	-3 436	-3 312	1 406	1 430	-24 004	-1 416	-3 224	-7 771	-897	-4 975	-2 176
03		-46 995	-19 057	-19 307	-13 731	-3 239	-3 517	250	1 035	-27 616	-1 170	-3 855	-8 187	-1 467	-5 629	-2 600
04		-61 486	-25 991	-25 298	-16 282	-3 353	-5 671	-693	472	-36 990	-1 692	-4 583	-9 253	-1 784	-7 369	-3 104
05		-77 950	-30 703	-29 334	-16 749	-3 112	-6 938	-1 369	-210	-41 592	-1 092	-4 769	-13 683	-3 089	-10 182	-3 411
06		-92 249	-33 547	-31 868	-18 689	-1 625	-7 184	-1 679	294	-45 357	-1 062	-4 652	-18 384	-3 316	-12 647	-4 564
07	P	-98 952	-38 583	-36 711	-22 949	-441	-8 919	-1 872	456	-52 074	-2 358	-4 708	-15 816	-4 025	-16 583	-4 349
07 J-J		-7 624	-2 219	-1 896	-1 456	112	-438	-323	150	-3 089	-138	-375	-1 330	-383	-1 408	-354
08 J-J		-9 152	-1 863	-1 834	-1 546	367	-542	-29	73	-3 358	-438	-406	-2 163	-509	-1 711	-339
07 Jan		-7 624	-2 219	-1 896	-1 456	112	-438	-323	150	-3 089	-138	-375	-1 330	-383	-1 408	-354
Feb		-6 889	-2 348	-2 358	-1 756	167	-605	9	145	-3 338	-80	-401	-1 206	-180	-1 219	-341
Mar		-7 804	-2 801	-2 802	-1 840	170	-642	1	183	-3 907	-136	-475	-1 183	-425	-1 196	-355
Apr		-7 660	-3 304	-3 047	-1 908	-68	-749	-257	-113	-4 559	-337	-389	-1 153	-3	-1 049	-285
May		-7 924	-2 832	-2 697	-1 974	153	-714	-135	81	-4 191	-269	-407	-1 268	-192	-1 303	-394
Jun		-8 316	-3 578	-3 582	-2 199	-24	-897	4	188	-4 529	73	-410	-1 463	-111	-1 303	-540
Jul		-8 661	-3 195	-3 195	-2 052	102	-881	1	132	-4 458	-184	-368	-1 437	-390	-1 541	-361
Aug		-7 820	-2 994	-2 643	-1 355	-203	-731	-350	-142	-4 070	-196	-352	-1 330	-382	-1 590	-250
Sep		-8 410	-3 159	-2 978	-1 934	-45	-728	-182	5	-4 396	-242	-341	-1 343	-674	-1 536	-357
Oct		-9 310	-3 758	-3 518	-2 132	17	-849	-240	-94	-5 072	-346	-476	-1 513	-510	-1 529	-340
Nov		-8 699	-3 595	-3 467	-2 130	-102	-807	-127	-11	-4 801	-313	-396	-921	-441	-1 747	-386
Dec		-9 835	-4 800	-4 527	-2 212	-720	-878	-273	-66	-5 665	-190	-317	-1 669	-335	-1 163	-386
08 Jan		-9 152	-1 863	-1 834	-1 546	367	-542	-29	73	-3 358	-438	-406	-2 163	-509	-1 711	-339

CUMULATIVE TRADE DEFICIT



CUMULATIVE TRADE DEFICIT



Source: ME.

Note: The underlying series for this indicator are in Tables 18.3 and 18.5 of the Boletín Estadístico.

The monthly series are provisional data, while the annual series are the final foreign trade data.

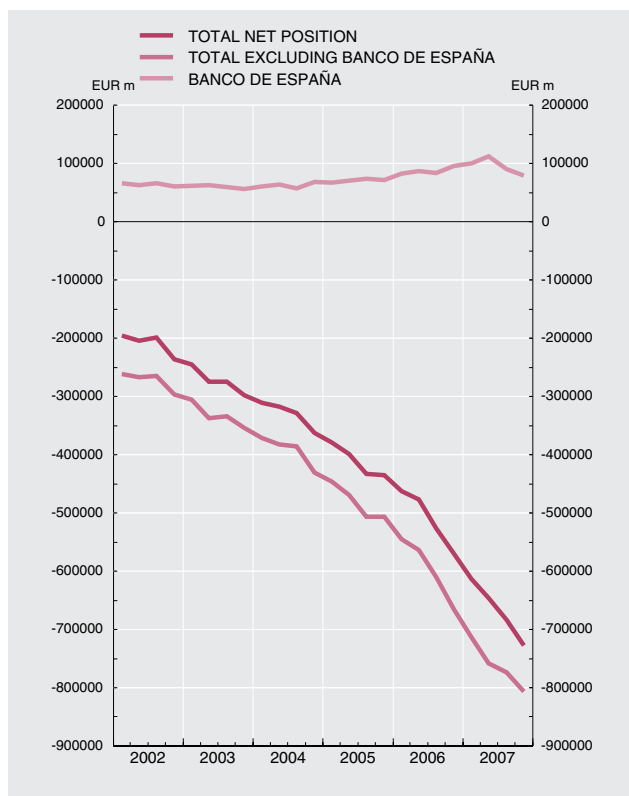
7.6. SPANISH INTERNATIONAL INVESTMENT POSITION VIS-À-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD SUMMARY

■ Series depicted in chart.

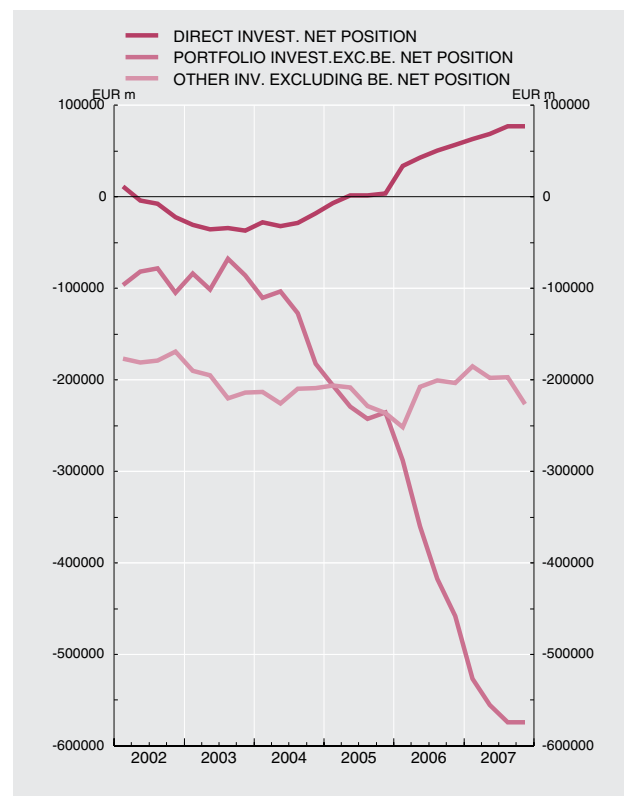
End-of-period stocks in EUR billions

	Net international investment position (assets-liabil.)	Total excluding Banco de España											Banco de España				
		Net position excluding Banco de España (assets - liabil.)	Direct investment			Portfolio investment			Other investment			Financial derivatives Net position (assets-liabil.)	Banco de España Net position (assets-liabil.)	Reserves	Net assets vis-à-vis the Euro-system	Other net assets (assets-liabil.)	
			Net position (assets-liabil.)	Spanish investment abroad (assets)	Foreign investment in Spain (liabil.)	Net position (assets-liabil.)	Spanish investment abroad (assets)	Foreign investment in Spain (liabil.)	Net position (assets-liabil.)	Spanish investment abroad (assets)	Foreign investment in Spain (liabil.)						
	1=2+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	R	-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		-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 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		-378.8	-446.0	-7.3	288.1	295.4	-232.7	366.5	599.2	-206.0	239.5	445.4	-	67.2	13.3	25.2	28.7
Q2		-398.7	-468.9	1.1	299.6	298.5	-261.4	390.8	652.2	-208.5	254.9	463.4	-	70.2	13.7	22.0	34.5
Q3		-432.8	-506.4	1.4	303.6	302.3	-278.9	417.7	696.6	-228.9	254.7	483.6	-	73.6	14.0	21.2	38.4
Q4		-435.0	-506.7	3.4	317.9	314.5	-273.6	454.7	728.4	-236.5	268.2	504.7	-	71.7	14.6	17.1	40.1
06 Q1		-462.3	-544.8	33.8	348.5	314.7	-327.1	476.7	803.8	-251.5	284.8	536.3	-	82.4	15.4	26.8	40.3
Q2		-476.4	-563.7	43.0	363.8	320.8	-399.2	444.3	843.5	-207.5	300.1	507.7	-	87.3	14.6	32.2	40.5
Q3		-526.3	-609.7	50.3	380.5	330.2	-459.1	447.7	906.8	-200.8	314.8	515.7	-	83.4	15.0	25.4	43.0
Q4		-570.1	-665.8	56.4	392.6	336.2	-508.9	455.7	964.6	-203.7	326.9	530.6	-9.6	95.7	14.7	29.4	51.6
07 Q1		-612.8	-713.2	63.0	398.8	335.8	-579.9	461.0	1 040.9	-185.0	360.4	545.4	-11.3	100.4	14.0	31.9	54.5
Q2		-646.2	-758.4	68.6	426.1	357.6	-612.9	471.0	1 083.9	-198.1	364.1	562.3	-15.9	112.1	12.9	40.7	58.5
Q3		-684.0	-773.6	76.9	436.0	359.1	-635.5	455.2	1 090.8	-197.1	386.5	583.6	-17.9	89.6	12.5	14.8	62.4
Q4		-727.8	-806.7	76.7	463.1	386.4	-638.1	443.3	1 081.4	-226.5	381.8	608.3	-18.8	78.9	12.9	1.1	64.9

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.

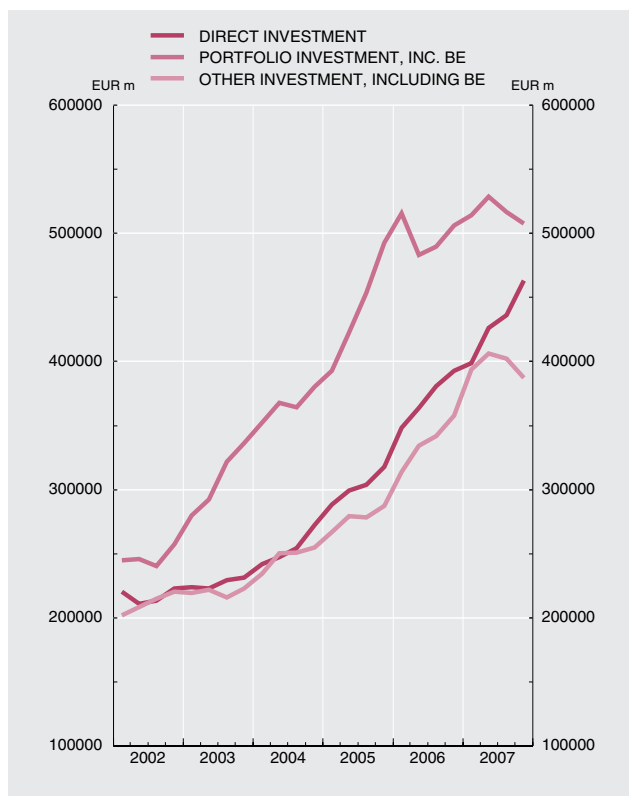
7.7. SPANISH INTERNATIONAL INVESTMENT POSITION VIS-À-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD BREAKDOWN BY INVESTMENT

■ Series depicted in chart.

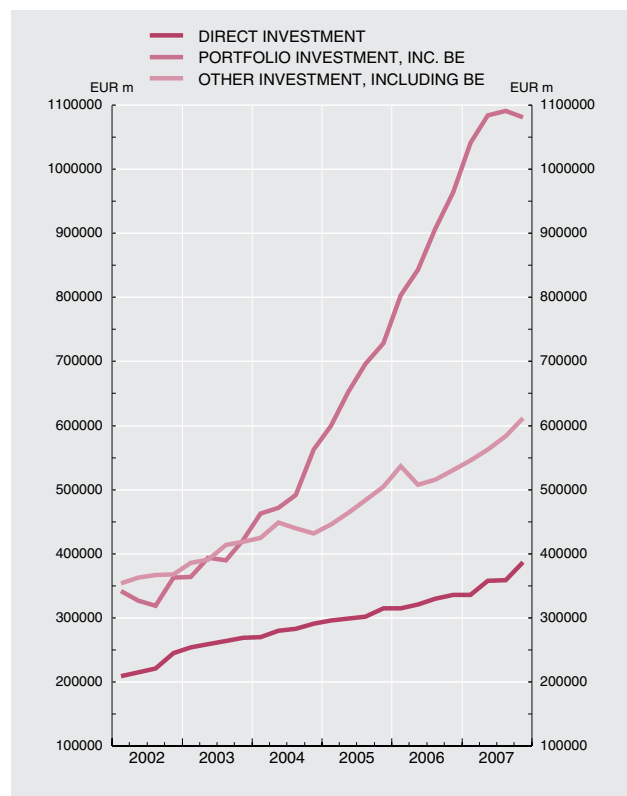
End-of-period stocks in EUR millions

	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	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 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	20 629	225 155	70 241	79 829	313 130	184 793	414 446	266 918	445 447	-	-
Q2	278 521	21 031	229 158	69 311	83 676	339 219	178 505	473 699	279 362	463 496	-	-
Q3	281 577	22 071	229 623	72 671	93 654	360 155	204 334	492 267	278 226	483 662	-	-
Q4	295 784	22 133	239 162	75 322	104 157	388 472	197 347	531 035	287 551	504 831	-	-
06 Q1	329 989	18 489	240 318	74 391	119 452	395 944	214 645	589 149	313 733	536 821	-	-
Q2	342 095	21 671	246 756	74 004	122 047	361 127	206 547	636 951	334 330	507 995	-	-
Q3	359 863	20 641	250 438	79 808	126 170	363 383	232 494	674 271	341 670	515 967	-	-
Q4	370 304	22 327	256 600	79 609	133 193	373 001	245 683	718 897	357 672	530 917	32 973	42 569
07 Q1	378 458	20 341	259 146	76 664	140 731	373 512	256 533	784 337	393 847	545 729	33 197	44 487
Q2	410 883	15 267	274 135	83 416	153 759	374 852	269 506	814 353	406 190	562 688	39 921	55 856
Q3	415 045	20 957	278 154	80 922	142 124	374 617	273 560	817 192	402 392	583 890	44 181	62 069
Q4	441 588	21 493	300 516	85 867	134 797	372 789	285 339	796 091	387 044	611 818	44 644	63 493

SPANISH INVESTMENT ABROAD



FOREIGN INVESTMENT IN SPAIN



Source: BE.

Note: See footnote to Indicator 7.6

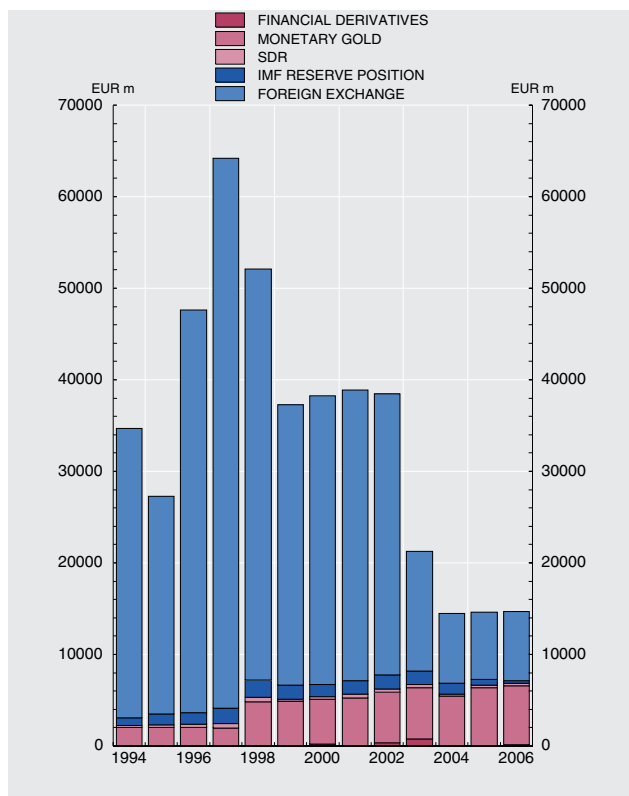
7.8. SPANISH RESERVE ASSETS

■ Series depicted in chart.

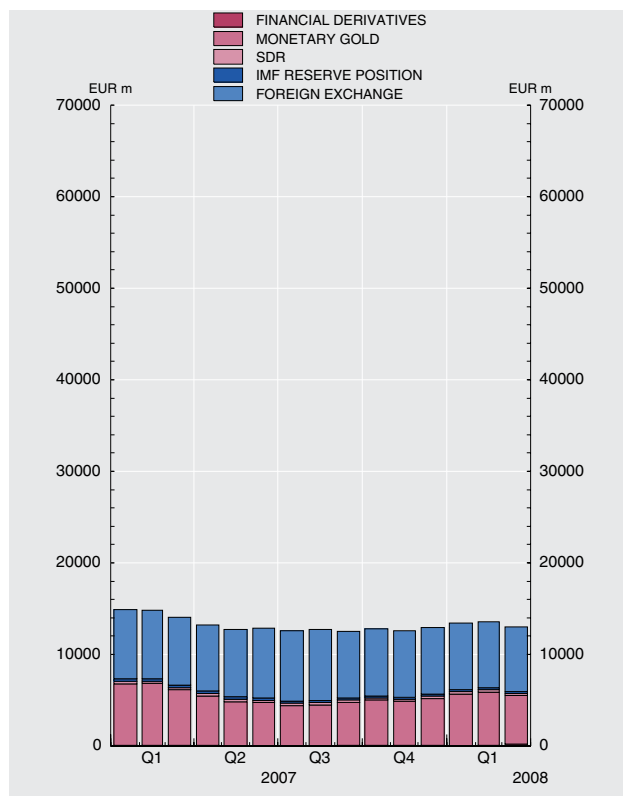
End-of-period stocks in EUR millions

	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 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
Oct	12 791	7 314	230	240	4 948	60	9.1
Nov	12 559	7 221	225	236	4 809	68	9.1
Dec	12 946	7 285	218	252	5 145	46	9.1
08 Jan	13 450	7 316	218	255	5 630	31	9.1
Feb	13 586	7 222	216	253	5 795	101	9.1
Mar	12 976	7 021	211	189	5 367	189	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 amount 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 instruments	Loans	Bonds and notes	Loans	Trade credits		Money market instruments	Deposits	Bonds and notes	Deposits	
1	2	3	4	5	6	7	8	9	10	11	12		
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	958 055	204 834	2 513	1 024	183 038	18 259	-	460 500	467	202 197	125 535	132 301	
Q2	1 038 214	213 939	2 110	437	194 059	17 333	-	490 258	587	232 191	139 670	117 810	
Q3	1 080 328	213 370	3 088	1 424	191 719	17 139	-	517 879	400	264 976	150 727	101 776	
Q4	1 144 447	213 412	2 465	65	192 798	18 085	-	548 891	981	276 566	164 457	106 887	
06 Q1	1 237 915	214 075	4 628	11	191 300	18 135	-	589 522	1 003	295 771	193 633	99 115	
Q2	1 257 904	213 336	3 620	345	191 381	17 991	-	580 901	2 186	268 475	208 797	101 443	
Q3	1 307 408	214 171	6 070	1 469	188 569	18 062	-	602 346	5 274	267 202	225 647	104 224	
Q4	1 370 107	215 559	4 836	662	191 871	18 190	-	622 807	6 252	277 169	236 038	103 347	
07 Q1	1 458 006	218 784	4 901	37	195 176	18 670	-	657 875	11 371	295 511	251 968	99 026	
Q2	1 517 064	213 524	5 446	440	188 891	18 747	-	683 799	10 672	294 386	269 402	109 340	
Q3	1 533 670	199 644	4 820	1 325	174 952	18 547	-	706 947	14 900	308 877	274 031	109 138	
Q4	1 547 976	190 036	4 505	875	165 763	18 894	-	724 094	16 893	327 379	265 527	114 295	

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 instruments	Loans	Other liabilities	Bonds and notes	Loans	Trade credits	Other liabilities		Direct investors	Subsidiaries	
	13	14	15	16	17	18	19	20	21	22	23	24	25	
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	194 559	4 274	20 471	787	98 620	69 232	387	788	98 161	39 449	58 712	
Q2	71	71	232 928	3 839	19 803	1 569	133 435	73 111	384	788	101 020	41 447	59 573	
Q3	42	42	244 638	3 401	19 164	1 636	142 932	76 503	356	646	104 399	42 506	61 893	
Q4	126	126	273 437	3 380	17 817	996	166 955	83 404	358	527	108 581	43 547	65 034	
06 Q1	535	535	321 838	2 905	19 460	408	195 679	102 516	360	510	111 945	46 934	65 011	
Q2	328	328	350 380	4 283	18 328	330	226 684	99 898	352	506	112 959	48 198	64 761	
Q3	316	316	373 405	4 641	21 876	830	244 071	101 140	348	499	117 170	51 614	65 556	
Q4	281	281	411 168	4 786	22 661	694	275 114	107 087	338	489	120 293	51 928	68 365	
07 Q1	322	322	453 085	5 303	21 350	541	315 618	109 471	334	467	127 940	52 247	75 692	
Q2	423	423	479 294	5 418	27 029	1 054	334 524	110 486	331	453	140 023	52 529	87 495	
Q3	277	277	494 215	2 153	22 099	837	346 336	122 003	339	447	132 588	54 087	78 500	
Q4	3 550	3 550	490 228	8	20 108	277	343 396	125 664	329	447	140 067	56 686	83 381	

Source: BE.

8.1.a CONSOLIDATED BALANCE SHEET OF THE EUROSISTEM. 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	Bank-notes	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 Oct	433 484	313 068	120 001	432	-9	84	92	261 353	591 533	22 866	327 789	-25 256	5 562	166 570	-
Nov	428 935	308 796	120 002	-	5	175	43	252 397	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	326 660	-33 284	5 152	175 819	-
07 Jan	435 688	317 755	120 000	-1 996	-1	101	171	257 242	610 602	13 826	323 822	-43 364	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	628 080	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	-
Oct	442 984	183 479	265 003	-4 978	-14	152	658	244 052	639 176	23 767	327 813	-91 078	8 229	190 703	-
Nov	439 967	171 319	270 460	-1 261	-15	108	645	231 264	640 840	18 081	327 446	-100 211	11 263	197 440	-
Dec	467 641	259 094	274 422	-65 014	-172	314	1 003	239 097	663 813	14 467	331 309	-107 875	20 754	207 790	-
08 Jan	438 144	191 905	268 486	-21 373	-162	199	911	212 476	658 002	13 958	354 556	-104 928	32 944	192 724	-
Feb	442 654	175 548	268 494	-762	-374	158	410	208 735	651 786	14 180	348 530	-108 701	29 424	204 496	-
Mar	470 123	198 667	268 696	3 286	-252	196	470	231 579	659 638	30 235	341 598	-116 696	22 849	215 695	-

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	Bank-notes	Net liabilities to general government	Gold and net assets in foreign currency	Other (net)	Total	Of euro area residents	Rest			
16=17+18 +19+20 +21-22	17	18	19	20	21	22	23=24+25 -26+27	24	25	26	27	28=29+ +30	29	30	31	32	
06 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	-
	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	-
	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	-
	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	-
	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	-
	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	-
	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	-
	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	-
	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	-
	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	-
	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	-
	35 396	18 311	17 821	-734	-5	3	0	19 773	82 899	14 773	12 779	-65 120	-6 316	-5 873	-443	21 938	-
	40 368	19 314	21 172	-90	-7	-	21	20 305	81 859	17 425	12 812	-66 167	-150	291	-442	20 214	-
	44 086	33 527	18 781	-8 202	-3	-	17	16 401	84 039	12 081	13 456	-66 263	3 854	4 278	-424	23 831	-
08 Jan	39 644	28 261	14 356	-2 957	-1	22	37	13 645	82 646	12 215	15 523	-65 694	4 664	4 993	-328	21 336	-
	44 067	24 201	20 086	-115	-103	1	3	14 257	80 774	14 130	14 185	-66 461	7 667	7 985	-318	22 143	-
	43 937	21 534	22 480	161	-236	-	2	14 101	81 638	13 482	13 662	-67 357	6 267	6 549	-282	23 569	-

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

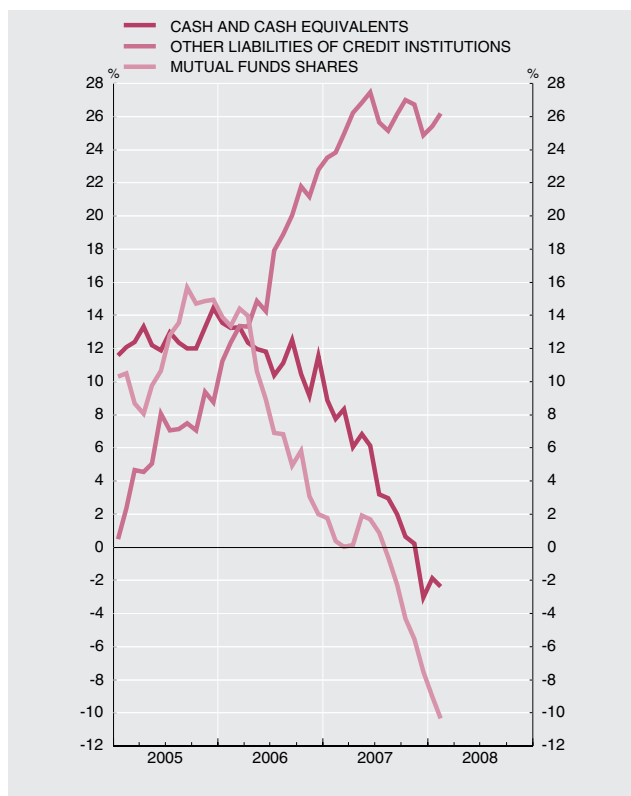
8.2 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

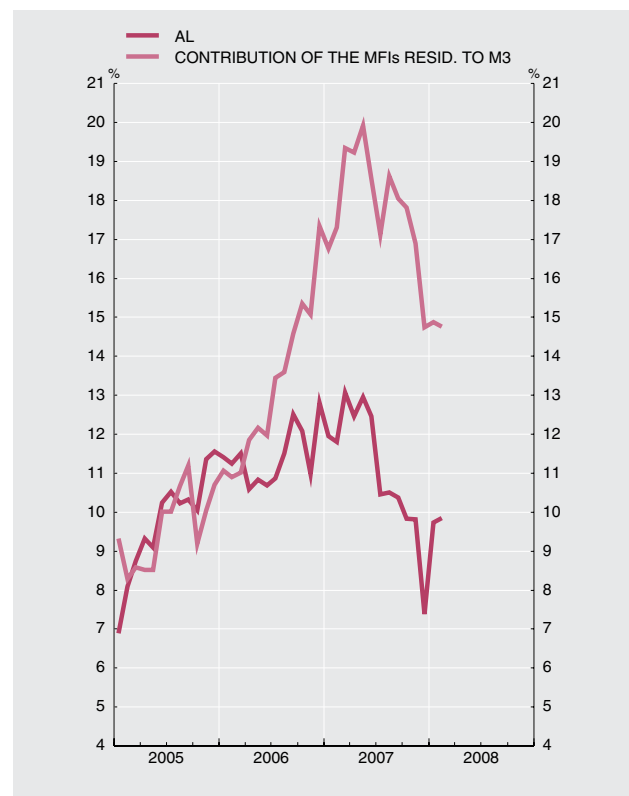
EUR millions and %

	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
05	459 550	14.4	16.1	14.0	302 252	8.8	10.5	0.0	6.3	221 306	14.9	7.7	22.6	11.6	10.7
06	512 581	11.5	9.9	11.9	371 166	22.8	22.8	29.4	0.9	225 687	2.0	-10.1	13.1	12.8	17.3
07	497 121	-3.0	1.5	-4.1	463 530	24.9	29.8	5.6	-10.7	208 688	-7.5	-4.7	-9.6	7.4	14.7
06 Nov	486 157	9.1	10.6	8.8	358 857	21.1	21.4	27.1	-3.5	226 128	3.1	-9.6	15.1	11.0	15.1
Dec	512 581	11.5	9.9	11.9	371 166	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	379 115	23.5	26.0	17.7	-4.0	225 798	1.8	-9.0	11.1	12.0	16.8
Feb	491 056	7.8	8.6	7.6	385 762	23.8	26.6	16.0	-4.1	225 755	0.4	-7.1	6.5	11.8	17.3
Mar	501 750	8.3	8.3	8.4	397 641	25.0	27.7	14.7	8.9	228 073	0.0	-3.1	2.4	13.1	19.3
Apr	491 186	6.0	7.2	5.8	402 135	26.2	28.5	18.7	7.1	228 575	0.1	-2.1	1.8	12.5	19.2
May	498 400	6.8	7.2	6.7	410 121	26.9	28.0	22.7	17.9	230 073	1.9	-3.7	6.2	13.0	19.9
Jun	516 493	6.1	6.5	6.0	419 763	27.5	28.5	27.1	5.4	229 351	1.7	-5.9	7.9	12.5	18.6
Jul	502 322	3.2	5.5	2.6	422 469	25.7	27.0	22.6	8.3	227 345	0.9	-5.2	5.7	10.5	17.1
Aug	491 019	3.0	5.9	2.3	430 371	25.1	26.3	22.3	10.5	226 621	-0.6	-3.7	1.9	10.5	18.6
Sep	500 430	2.0	4.7	1.4	437 134	26.2	27.9	19.7	12.1	222 421	-2.3	-3.3	-1.4	10.4	18.0
Oct	484 646	0.6	4.0	-0.2	446 278	27.0	29.8	15.8	5.6	219 244	-4.3	-6.3	-2.8	9.8	17.8
Nov	487 252	0.2	3.0	-0.4	454 750	26.7	30.0	13.8	1.1	213 563	-5.6	-4.8	-6.2	9.8	16.9
Dec	497 121	-3.0	1.5	-4.1	463 530	24.9	29.8	5.6	-10.7	208 688	-7.5	-4.7	-9.6	7.4	14.7
08 Jan	P 481 410	-1.9	0.8	-2.5	475 406	25.4	30.0	5.9	-6.7	205 382	-9.0	7.0	-20.4	9.7	14.9
Feb	P 479 404	-2.4	0.4	-3.0	486 788	26.2	31.2	4.2	-7.4	202 402	-10.3	6.6	-22.3	9.8	14.8

NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHS
Annual percentage change



NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHS
Annual percentage change



Source: BE.

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

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

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

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

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

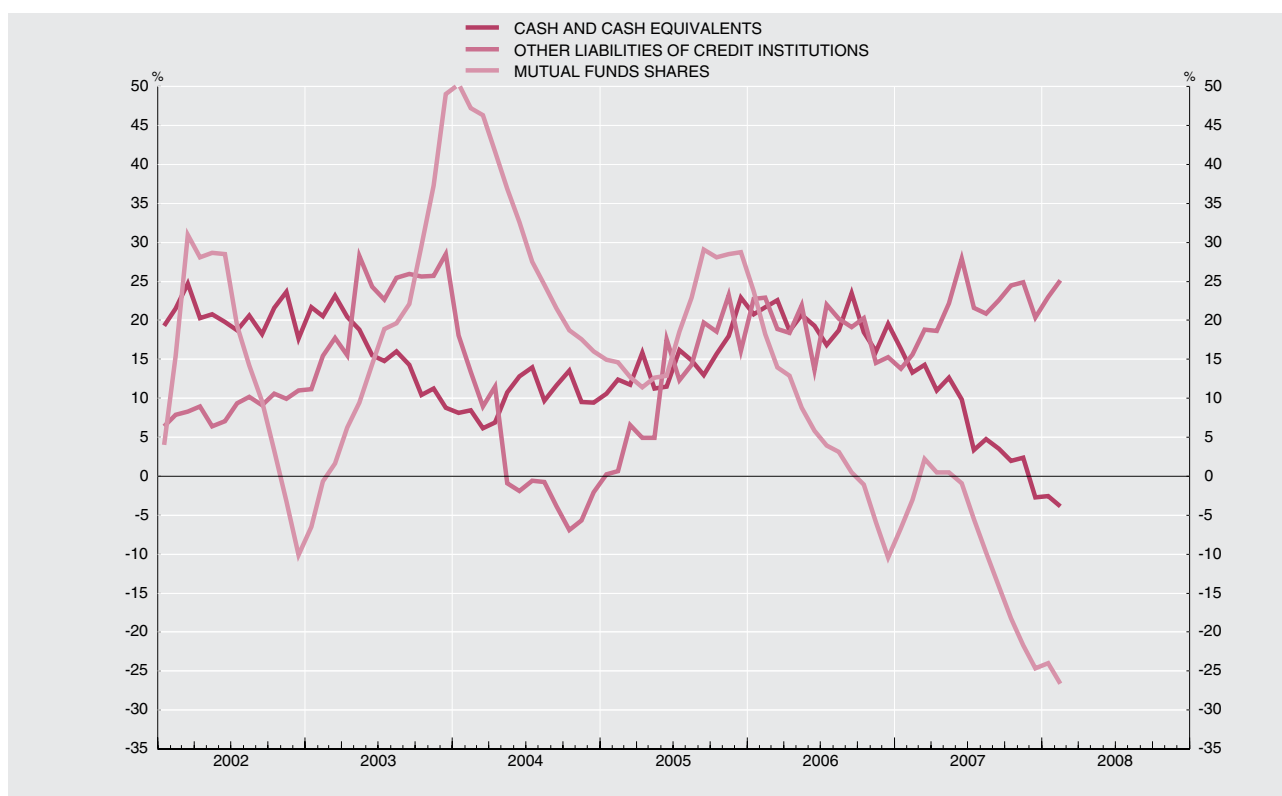
8.3 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF NON-FINANCIAL CORPORATIONS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

EUR millions and %

		Cash and cash equivalents (b)		Other liabilities of credit institutions				Mutual funds shares			
		Stocks	Annual growth rate	Stocks	Annual growth rate	Annual growth rate		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
05		114 876	22.9	72 402	16.1	30.5	1.2	30 552	28.7	14.8	42.8
06		137 357	19.6	83 468	15.3	17.4	12.4	27 359	-10.5	-15.5	-6.4
07		133 623	-2.7	100 459	20.4	37.4	-3.3	20 614	-24.7	-22.4	-26.3
06	Nov	126 253	16.0	79 539	14.5	19.5	7.8	28 178	-5.9	-12.0	-0.7
	Dec	137 357	19.6	83 468	15.3	17.4	12.4	27 359	-10.5	-15.5	-6.4
07	Jan	128 823	16.3	82 130	13.8	24.5	0.6	28 093	-6.7	-12.6	-2.0
	Feb	129 819	13.3	83 021	15.6	28.2	-0.1	28 740	-3.1	-6.4	-0.5
	Mar	134 565	14.3	86 804	18.8	30.7	3.7	29 765	2.2	2.4	2.0
	Apr	128 862	11.0	85 308	18.6	28.8	4.9	29 234	0.5	1.5	-0.3
	May	133 554	12.7	88 926	22.1	29.8	11.7	28 803	0.5	-1.9	2.2
	Jun	137 293	9.9	94 396	27.9	36.9	15.2	28 110	-0.9	-4.6	1.9
	Jul	128 420	3.4	91 290	21.6	30.3	9.5	27 078	-5.5	-8.3	-3.4
	Aug	126 227	4.8	94 613	20.9	27.4	11.8	26 205	-9.8	-9.5	-10.0
	Sep	132 591	3.5	96 759	22.6	30.7	11.1	24 966	-14.1	-11.8	-15.9
	Oct	125 602	1.9	97 628	24.5	35.8	8.0	23 620	-18.3	-18.4	-18.2
	Nov	129 238	2.4	99 322	24.9	37.4	6.1	22 070	-21.7	-21.0	-22.2
	Dec	133 623	-2.7	100 459	20.4	37.4	-3.3	20 614	-24.7	-22.4	-26.3
08	Jan	P 125 516	-2.6	100 981	23.0	36.2	2.7	21 358	-24.0	-5.9	-36.8
	Feb	P 124 817	-3.9	103 866	25.1	38.9	3.2	21 097	-26.6	-8.0	-39.7

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.

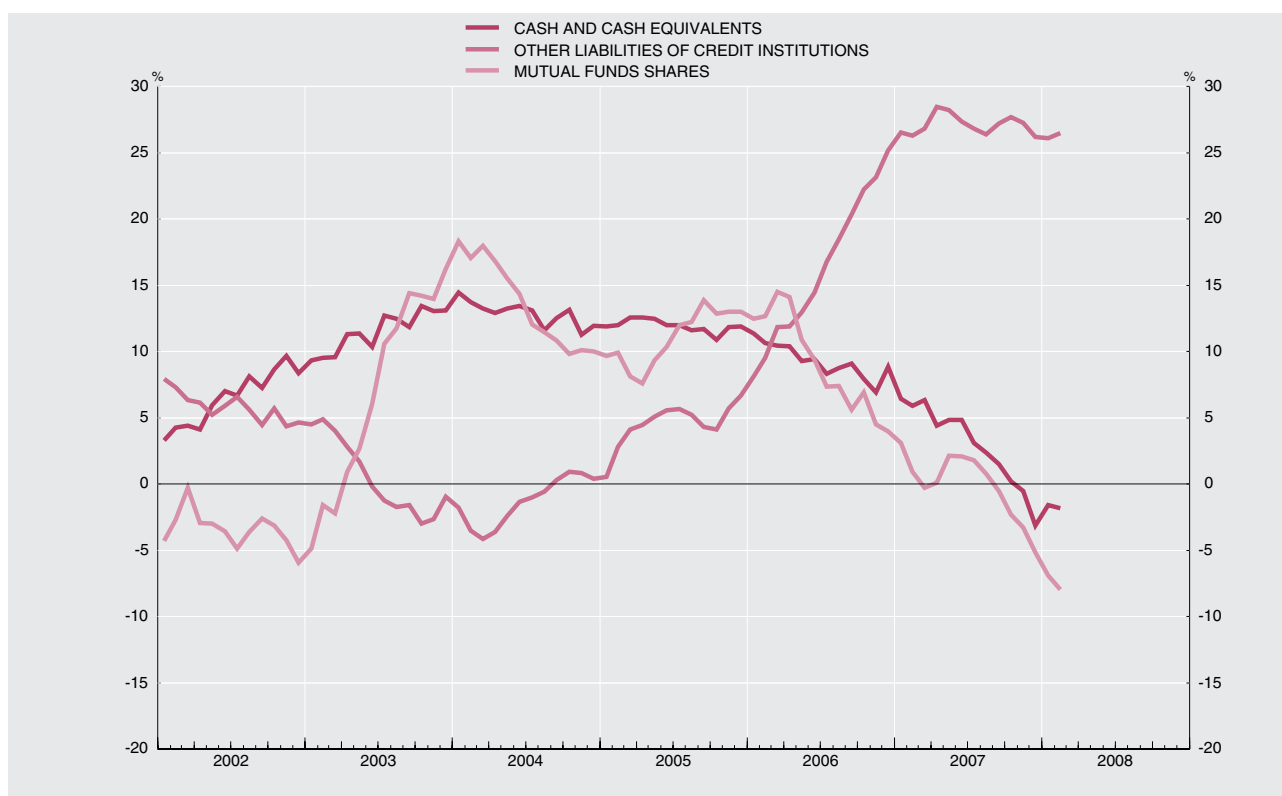
8.4 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ 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
05	344 674	11.9	14.3	11.2	229 849	6.7	7.3	1.6	190 753	13.0	6.7	19.6
06	375 224	8.9	9.2	8.8	287 698	25.2	23.8	36.8	198 328	4.0	-9.3	16.5
07	363 498	-3.1	1.9	-4.6	363 071	26.2	28.4	8.9	188 075	-5.2	-2.3	-7.3
06 Nov	359 904	6.9	9.8	6.1	279 317	23.2	21.8	35.2	197 950	4.5	-9.2	17.8
Dec	375 224	8.9	9.2	8.8	287 698	25.2	23.8	36.8	198 328	4.0	-9.3	16.5
07 Jan	361 723	6.4	8.6	5.8	296 985	26.5	26.2	28.8	197 705	3.1	-8.5	13.3
Feb	361 237	5.9	8.1	5.3	302 741	26.3	26.3	26.0	197 014	0.9	-7.2	7.6
Mar	367 185	6.3	7.8	5.9	310 838	26.8	27.1	24.6	198 308	-0.3	-3.8	2.4
Apr	362 324	4.4	6.9	3.6	316 827	28.5	28.4	28.8	199 340	0.1	-2.6	2.1
May	364 846	4.8	7.0	4.2	321 196	28.2	27.7	32.5	201 270	2.1	-3.9	6.8
Jun	379 200	4.8	6.4	4.4	325 367	27.4	26.9	30.6	201 241	2.1	-6.1	8.8
Jul	373 902	3.1	5.4	2.4	331 179	26.8	26.3	30.7	200 266	1.8	-4.8	7.1
Aug	364 792	2.4	5.9	1.3	335 757	26.4	26.1	28.9	200 417	0.8	-2.9	3.7
Sep	367 839	1.5	4.8	0.5	340 375	27.2	27.4	25.9	197 455	-0.5	-2.2	0.8
Oct	359 044	0.2	4.3	-1.0	348 650	27.7	28.7	19.9	195 625	-2.3	-4.6	-0.5
Nov	358 013	-0.5	3.3	-1.7	355 429	27.2	28.6	16.7	191 494	-3.3	-2.5	-3.9
Dec	363 498	-3.1	1.9	-4.6	363 071	26.2	28.4	8.9	188 075	-5.2	-2.3	-7.3
08 Jan	P 355 894	-1.6	1.2	-2.5	374 424	26.1	28.8	4.6	184 025	-6.9	8.8	-18.1
Feb	P 354 587	-1.8	0.8	-2.7	382 922	26.5	29.7	1.2	181 305	-8.0	8.7	-19.8

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.

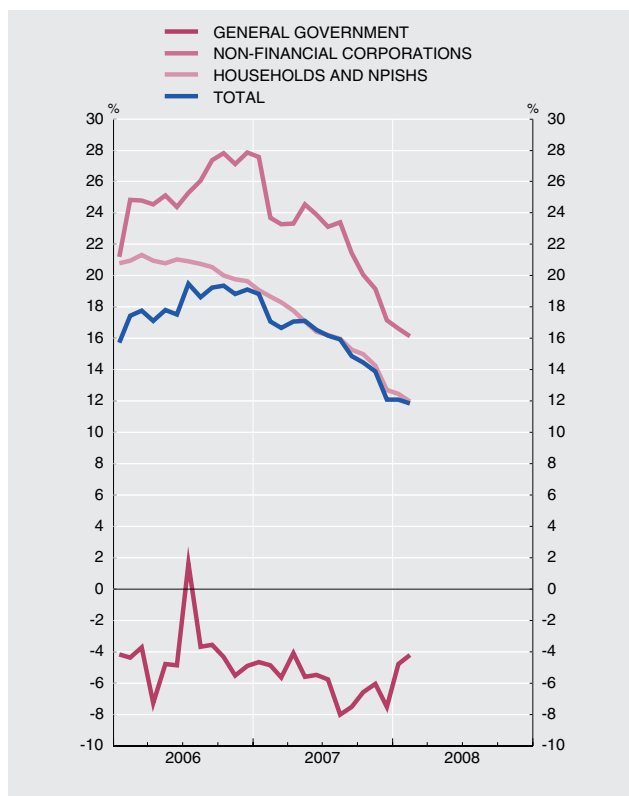
8.5. FINANCING OF NON-FINANCIAL SECTORS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

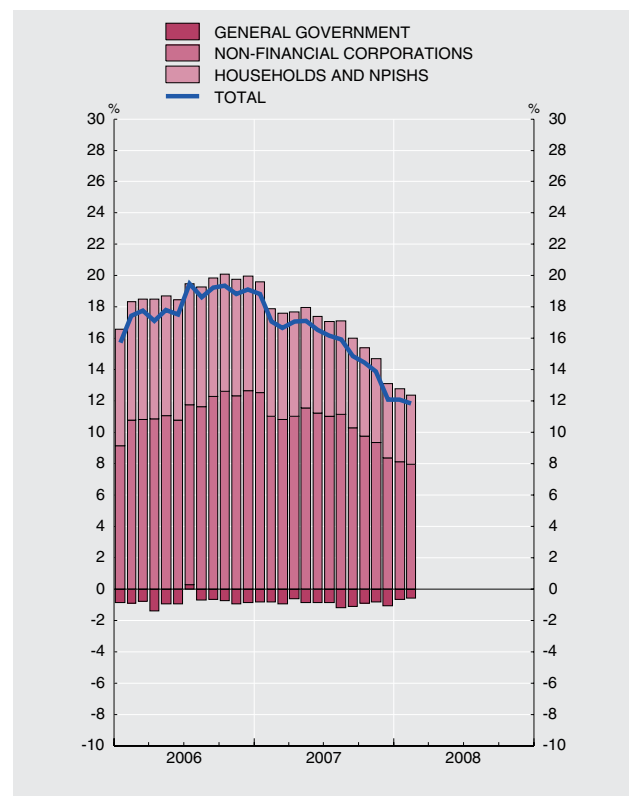
EUR millions and %

	Total			Annual growth rate							Contribution to col. 3						
	Stocks	Effective flow	Annual growth rate	General government (b)	Non-financial corp. and households and NPISHs						General government (b)	Non-financial corp. and households and NPISHs					
					By sectors			By instruments				By sectors		By instruments			
					Non-financial corporations	Households and NPISHs	Credit institutions' loans & securit. funds	Securities other than shares	External loans	Non-financial corporations		Households and NPISHs	Credit institutions' loans & securit. funds	Securities other than shares	External loans		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
05	1 752 553	238 604	15.8	-4.2	21.2	21.4	20.9	23.0	23.7	10.7	-0.9	16.7	9.2	7.5	15.3	0.2	1.3
06	2 091 743	335 329	19.1	-4.9	24.2	27.9	19.6	24.4	134.3	15.6	-0.8	20.0	12.7	7.3	17.1	1.0	1.8
07	2 352 375	252 839	12.1	-7.5	15.2	17.1	12.7	15.9	18.1	10.5	-1.0	13.1	8.4	4.7	11.6	0.3	1.2
06 Nov	2 040 204	31 009	18.8	-5.5	23.8	27.1	19.8	24.6	131.0	12.4	-0.9	19.8	12.4	7.4	17.3	1.0	1.5
Dec	2 091 743	49 112	19.1	-4.9	24.2	27.9	19.6	24.4	134.3	15.6	-0.8	20.0	12.7	7.3	17.1	1.0	1.8
07 Jan	2 111 642	19 000	18.8	-4.6	23.7	27.6	19.1	24.3	131.2	13.6	-0.8	19.6	12.5	7.1	17.0	1.0	1.6
Feb	2 124 389	11 830	17.1	-4.8	21.5	23.7	18.7	23.7	61.0	5.5	-0.8	17.9	11.0	6.9	16.5	0.7	0.7
Mar	2 161 813	30 217	16.7	-5.6	21.1	23.3	18.3	23.3	58.4	5.2	-0.9	17.6	10.8	6.8	16.3	0.6	0.7
Apr	2 165 112	10 828	17.1	-4.1	20.9	23.3	17.8	22.6	56.2	7.9	-0.6	17.7	11.1	6.6	16.1	0.6	1.0
May	2 201 666	36 150	17.1	-5.6	21.3	24.6	17.1	22.5	55.4	10.8	-0.9	18.0	11.6	6.4	16.0	0.6	1.3
Jun	2 258 105	43 718	16.6	-5.4	20.6	23.9	16.4	21.9	29.8	11.9	-0.8	17.4	11.2	6.2	15.6	0.4	1.4
Jul	2 281 699	34 110	16.2	-5.8	20.1	23.1	16.2	21.3	29.9	11.9	-0.9	17.1	11.0	6.0	15.2	0.4	1.4
Aug	2 278 588	-1 334	15.9	-8.0	20.1	23.4	16.0	21.3	30.3	12.1	-1.2	17.1	11.1	6.0	15.3	0.4	1.4
Sep	2 301 754	19 487	14.9	-7.5	18.8	21.5	15.3	19.9	28.1	10.6	-1.1	16.0	10.3	5.7	14.3	0.4	1.3
Oct	2 302 766	6 540	14.5	-6.6	17.9	20.0	15.0	18.7	24.0	11.8	-0.9	15.4	9.8	5.6	13.6	0.4	1.4
Nov	2 327 007	23 904	13.9	-6.0	17.0	19.1	14.2	17.6	21.7	12.5	-0.8	14.7	9.4	5.4	12.9	0.3	1.5
Dec	2 352 375	18 390	12.1	-7.5	15.2	17.1	12.7	15.9	18.1	10.5	-1.0	13.1	8.4	4.7	11.6	0.3	1.2
08 Jan	P 2 374 311	21 927	12.1	-4.8	14.8	16.6	12.5	15.4	18.3	10.8	-0.7	12.8	8.2	4.6	11.2	0.3	1.3
Feb	P 2 381 668	7 439	11.8	-4.2	14.3	16.1	12.0	14.9	13.9	10.7	-0.6	12.4	7.9	4.4	10.9	0.2	1.3

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.

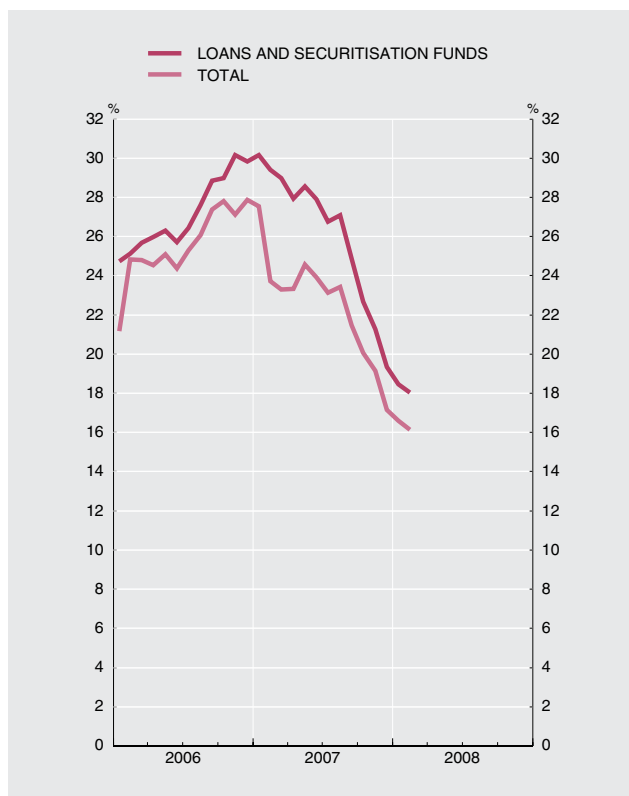
8.6. FINANCING OF NON-FINANCIAL CORPORATIONS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

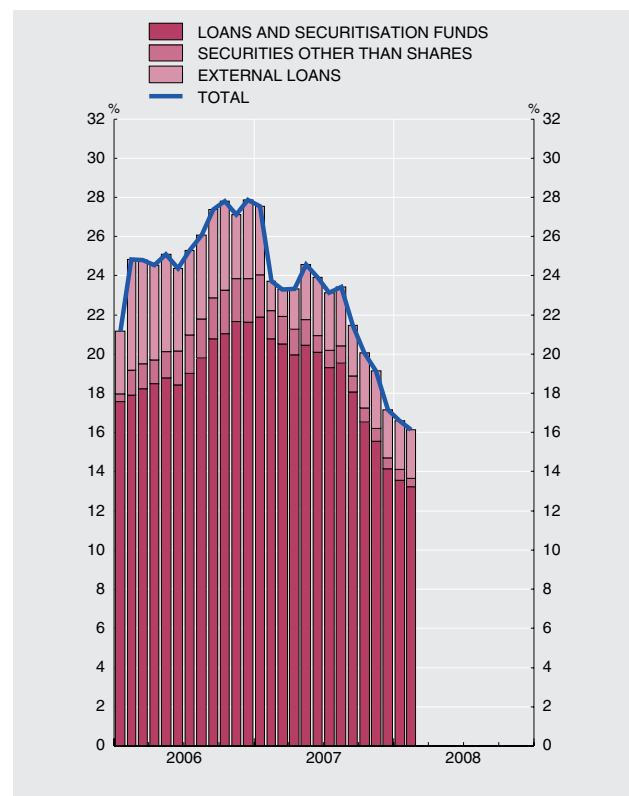
EUR millions and %

	Total			Resident credit institu- tions' loans and off-balance-sheet securitised loans			Securities other than shares (b)				External loans			Memoran- dum items: off- balance- sheet securi- tised loans
	Stocks	Effective flow	Annual growth rate	Stocks	Annual growth rate	Contri- bution to col.3	of which		Annual growth rate	Contri- bution to col.3	Stocks	Annual growth rate	Contri- bution to col.3	
							Stocks	Issues by re- sident financ. subsid.						
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
05	797 569	139 309	21.4	578 229	25.5	18.1	13 207	2 634	23.7	0.4	206 133	10.8	3.0	5 581
06	1 024 219	222 278	27.9	750 137	29.8	21.6	30 940	19 370	134.3	2.2	243 142	15.6	4.0	3 230
07	1 209 005	175 529	17.1	894 215	19.3	14.2	36 534	22 951	18.1	0.5	278 256	10.3	2.4	1 166
06 Nov	996 603	16 317	27.1	729 232	30.1	21.7	30 111	18 282	131.0	2.2	237 261	12.4	3.3	3 824
Dec	1 024 219	25 046	27.9	750 137	29.8	21.6	30 940	19 370	134.3	2.2	243 142	15.6	4.0	3 230
07 Jan	1 036 258	11 083	27.6	761 073	30.2	21.9	30 951	19 526	131.2	2.2	244 234	13.6	3.5	3 162
Feb	1 047 340	10 124	23.7	767 415	29.4	20.8	32 085	20 821	61.0	1.4	247 840	5.5	1.5	3 162
Mar	1 069 867	15 218	23.3	783 259	29.0	20.5	32 361	21 172	58.4	1.4	254 247	5.2	1.4	3 079
Apr	1 083 539	21 103	23.3	798 420	27.9	20.0	31 894	21 049	56.2	1.3	253 226	7.8	2.1	3 104
May	1 106 668	22 713	24.6	813 013	28.6	20.5	32 575	21 137	55.4	1.3	261 079	10.7	2.8	2 763
Jun	1 137 287	17 763	23.9	832 546	27.9	20.1	33 410	21 389	29.8	0.8	271 330	11.8	3.0	3 004
Jul	1 157 194	30 390	23.1	854 200	26.7	19.3	35 909	23 321	29.9	0.9	267 085	11.8	2.9	2 759
Aug	1 158 157	2 697	23.4	856 056	27.1	19.5	35 902	23 304	30.3	0.9	266 199	12.0	3.0	2 665
Sep	1 175 456	13 353	21.5	869 184	24.9	18.1	36 432	23 023	28.1	0.8	269 840	10.5	2.6	2 300
Oct	1 180 291	10 305	20.0	874 064	22.7	16.5	36 807	23 338	24.0	0.7	269 420	11.6	2.8	2 142
Nov	1 191 754	11 046	19.1	883 525	21.3	15.6	36 657	23 234	21.7	0.7	271 571	12.4	2.9	1 880
Dec	1 209 005	9 734	17.1	894 215	19.3	14.2	36 534	22 951	18.1	0.5	278 256	10.3	2.4	1 166
08 Jan	P 1 216 641	7 659	16.6	900 622	18.5	13.6	36 607	22 766	18.3	0.5	279 412	10.6	2.5	1 108
Feb	P 1 223 528	6 906	16.1	904 907	18.0	13.2	36 530	22 562	13.9	0.4	282 091	10.5	2.5	1 004

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.

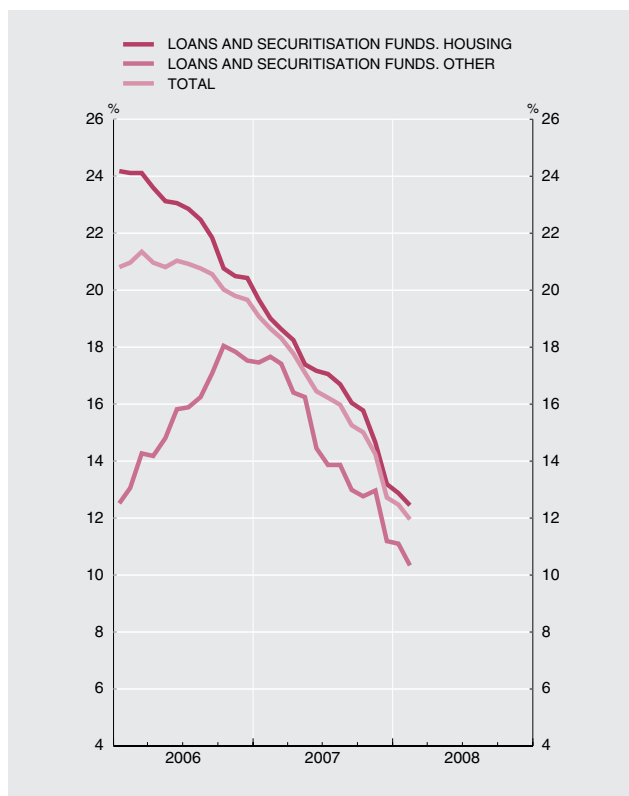
8.7. FINANCING OF HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

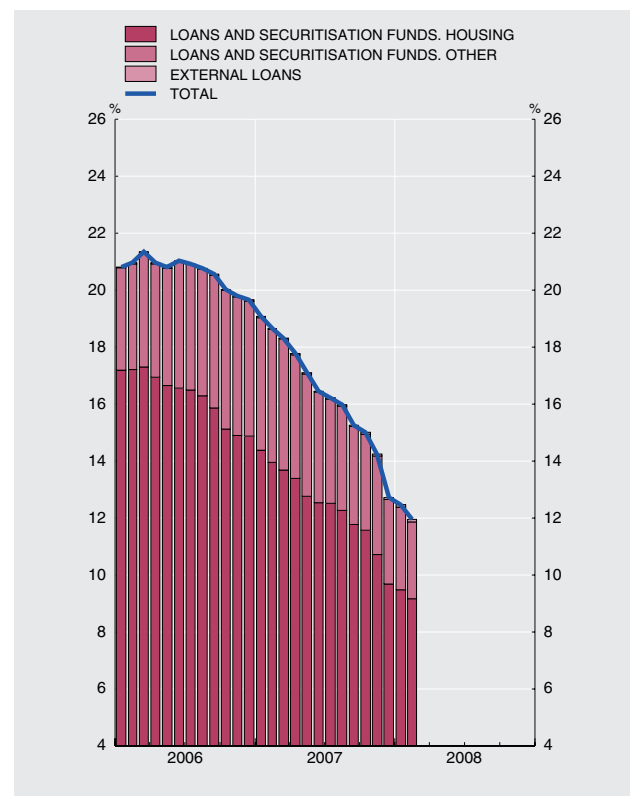
EUR millions and %

	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
05	650 997	112 498	20.9	474 499	24.3	17.2	175 571	12.5	3.6	927	7.7	0.0	28 527	3 030
06	778 372	127 886	19.6	571 325	20.4	14.9	205 872	17.5	4.7	1 175	26.7	0.0	26 937	3 421
07	875 905	98 997	12.7	646 121	13.2	9.7	228 017	11.2	3.0	1 766	50.4	0.1	27 909	5 802
06 Nov	767 603	15 939	19.8	561 518	20.5	14.9	204 953	17.8	4.8	1 132	25.2	0.0	26 587	3 250
Dec	778 372	10 912	19.6	571 325	20.4	14.9	205 872	17.5	4.7	1 175	26.7	0.0	26 937	3 421
07 Jan	782 779	4 463	19.1	575 791	19.6	14.4	205 814	17.5	4.7	1 174	18.7	0.0	26 423	3 416
Feb	790 516	7 779	18.7	581 809	19.0	13.9	207 527	17.7	4.7	1 180	18.7	0.0	25 735	3 638
Mar	803 647	13 232	18.3	592 049	18.6	13.7	210 362	17.4	4.6	1 236	23.2	0.0	25 708	3 196
Apr	812 276	8 729	17.8	598 772	18.2	13.4	212 254	16.4	4.3	1 250	19.9	0.0	26 108	3 333
May	821 190	8 925	17.1	604 835	17.4	12.8	215 069	16.2	4.3	1 286	21.2	0.0	25 294	5 101
Jun	838 589	17 534	16.4	616 513	17.2	12.5	220 775	14.4	3.9	1 301	19.6	0.0	27 819	5 143
Jul	845 511	6 956	16.2	625 074	17.0	12.5	219 063	13.9	3.7	1 374	25.1	0.0	27 842	5 208
Aug	849 569	4 101	16.0	628 701	16.7	12.3	219 399	13.9	3.7	1 469	32.0	0.0	28 675	5 120
Sep	854 766	5 463	15.3	632 594	16.0	11.8	220 652	13.0	3.4	1 520	35.2	0.1	27 971	6 211
Oct	863 443	8 736	15.0	638 006	15.8	11.6	223 838	12.7	3.4	1 600	42.7	0.1	27 708	6 170
Nov	875 890	12 526	14.2	643 572	14.7	10.7	230 657	13.0	3.5	1 661	46.7	0.1	27 565	6 049
Dec	875 905	553	12.7	646 121	13.2	9.7	228 017	11.2	3.0	1 766	50.4	0.1	27 909	5 802
08 Jan	P 879 016	3 080	12.5	649 168	12.9	9.5	228 039	11.1	2.9	1 809	54.1	0.1	27 588	5 738
Feb	P 883 624	4 670	12.0	653 434	12.4	9.2	228 338	10.3	2.7	1 852	56.9	0.1	29 106	5 661

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.

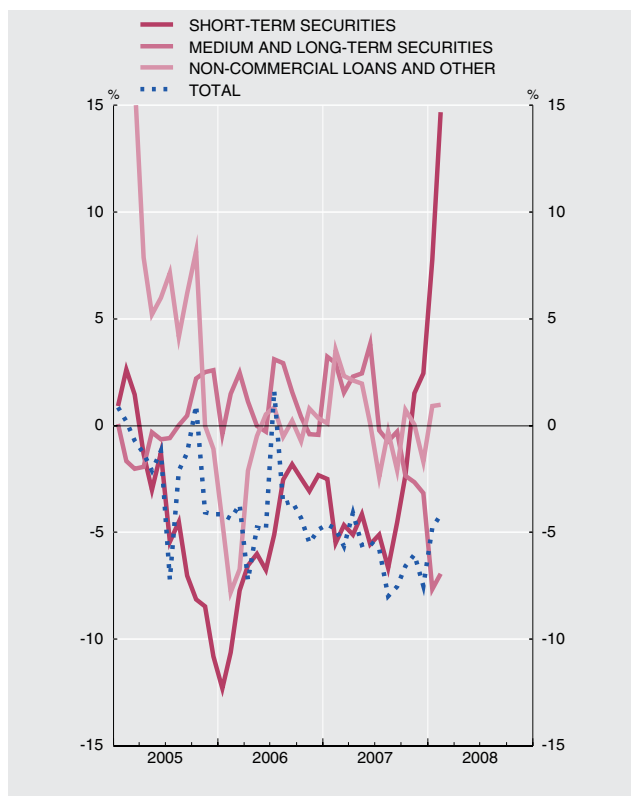
8.8. NET FINANCING OF SPAIN'S GENERAL GOVERNMENT

■ Series depicted in chart.

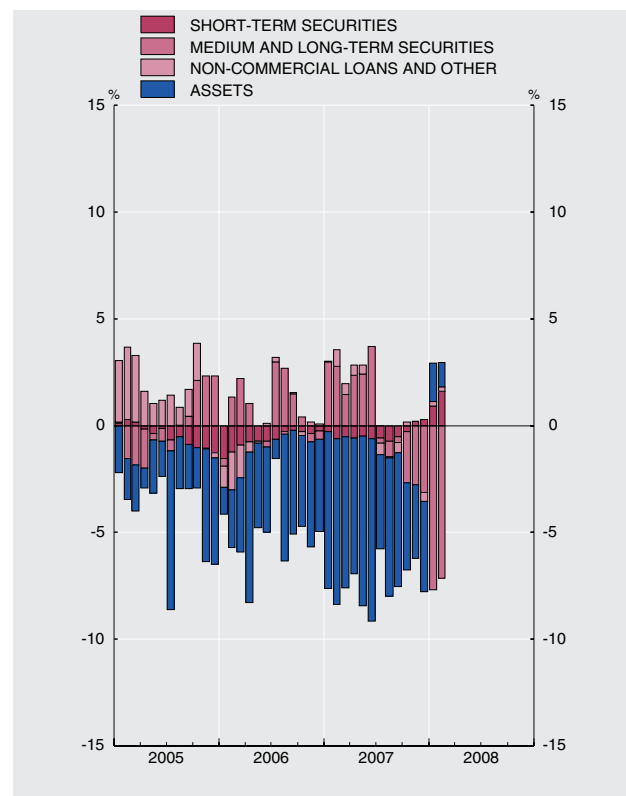
EUR millions and %

	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		
	Total	Securities		Non-commercial loans and other (b)	Deposits at the Banco de Espana	Other deposits (c)	Total	Securities		Non-commercial loans and other (a)	Securities			Non-commercial loans and other (a)				
		Short-term	Medium and long-term					Short-term	Medium and long-term		Short-term	Medium and long-term						
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
04	317 189	-879	-0.3	6 813	-2 491	1 510	7 794	-1 817	9 509	1.8	-6.2	0.5	12.9	12.1	-0.8	0.5	2.5	-2.4
05	303 987	-13 202	-4.2	2 573	-4 042	7 366	-751	-695	16 470	0.7	-10.8	2.6	-1.1	22.2	-1.3	2.3	-0.2	-5.0
06	P 289 152	-14 835	-4.9	-1 754	-770	-1 218	234	1 780	11 301	-0.4	-2.3	-0.4	0.3	15.0	-0.3	-0.4	0.1	-4.3
07	P 267 466	-21 686	-7.5	-9 451	792	-9 090	-1 153	2 973	9 262	-2.4	2.4	-3.1	-1.7	12.2	0.3	-3.1	-0.4	-4.2
06 Sep	P 293 633	-742	-3.6	4 955	1 968	1 450	1 537	-101	5 797	1.0	-1.8	1.6	0.2	17.8	-0.2	1.5	0.0	-4.9
Oct	P 277 245	-16 387	-4.3	-7 387	-1 988	-4 174	-1 226	-5	9 005	-0.0	-2.5	0.4	-0.7	13.0	-0.3	0.4	-0.2	-4.3
Nov	P 275 998	-1 247	-5.5	3 619	1 588	1 817	214	-190	5 057	-0.4	-3.1	-0.4	0.8	14.6	-0.4	-0.4	0.2	-4.9
Dec	P 289 152	13 154	-4.9	982	-1 781	618	2 145	32	12 203	-0.4	-2.3	-0.4	0.3	15.0	-0.3	-0.4	0.1	-4.3
07 Jan	P 292 606	3 454	-4.6	4 434	1 638	4 151	-1 354	926	54	2.2	-2.5	3.2	0.1	28.8	-0.3	3.0	0.0	-7.4
Feb	P 286 533	-6 073	-4.8	640	-3 007	2 607	1 041	71	6 643	2.3	-5.5	2.9	3.5	27.8	-0.6	2.8	0.8	-7.8
Mar	P 288 300	1 767	-5.6	1 563	2 379	-1 631	815	422	-626	1.1	-4.6	1.5	2.3	25.2	-0.5	1.5	0.5	-7.1
Apr	P 269 297	-19 003	-4.1	-3 204	-2 692	-124	-389	13 375	2 424	1.6	-5.1	2.3	2.1	16.9	-0.6	2.3	0.5	-6.3
May	P 273 809	4 512	-5.6	1 210	2 267	35	-1 091	131	-3 433	1.8	-4.1	2.4	2.0	23.8	-0.5	2.4	0.4	-7.9
Jun	P 282 230	8 421	-5.4	3 142	-2 643	5 649	136	-4 295	-985	2.4	-5.5	3.8	0.1	28.6	-0.6	3.7	0.0	-8.6
Jul	P 278 994	-3 236	-5.8	-9 922	1 892	-10 458	-1 357	-6 321	-365	-1.0	-5.1	-0.2	-2.4	13.7	-0.6	-0.2	-0.5	-4.4
Aug	P 270 862	-8 132	-8.0	-4 508	-1 808	-2 043	-657	-158	3 782	-1.2	-6.7	-0.7	-0.3	20.5	-0.7	-0.7	-0.1	-6.5
Sep	P 271 533	671	-7.5	5 676	2 582	2 769	325	-72	5 077	-1.0	-4.5	-0.3	-2.1	18.7	-0.5	-0.3	-0.5	-6.2
Oct	P 259 032	-12 500	-6.6	-10 610	-1 178	-10 088	656	1 512	378	-1.8	-2.3	-2.3	0.7	10.5	-0.3	-2.4	0.2	-4.1
Nov	P 259 363	331	-6.0	3 464	2 868	842	-246	-2 152	5 285	-1.8	1.5	-2.7	0.0	8.5	0.2	-2.8	0.0	-3.4
Dec	P 267 466	8 102	-7.5	-1 337	-1 505	-800	967	-468	-8 971	-2.4	2.4	-3.1	-1.7	12.2	0.3	-3.1	-0.4	-4.2
08 Jan	A 278 654	11 188	-4.8	-5 323	3 506	-9 229	400	-1 772	14 739	-4.9	7.8	-7.7	0.9	-5.2	0.9	-7.7	0.2	1.8
Feb	A 274 517	-4 137	-4.2	4 598	-1 089	4 587	1 100	1 046	7 690	-3.9	14.7	-6.9	1.0	-3.0	1.6	-7.2	0.2	1.1

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 Depósitos.

c. Tax collection accounts are not included.

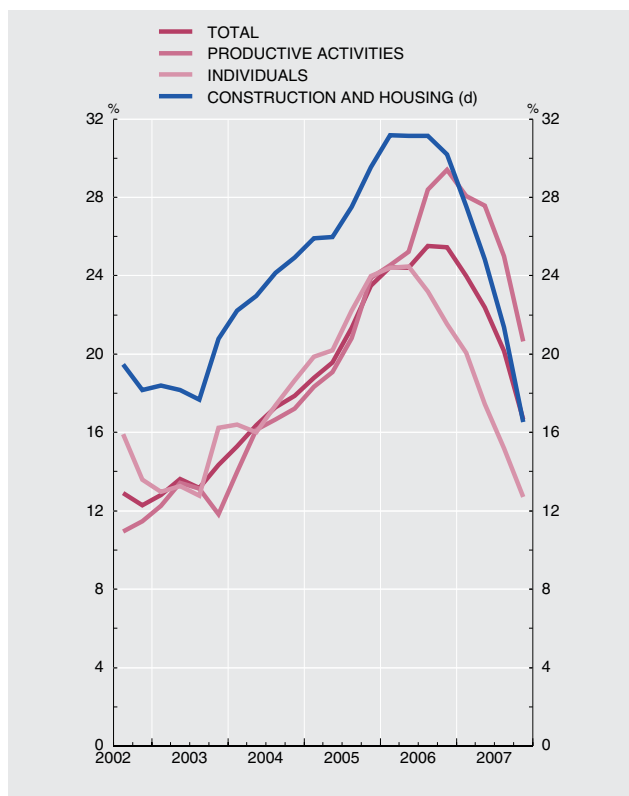
8.9 LENDING BY CREDIT INSTITUTIONS TO OTHER RESIDENT SECTORS. BREAKDOWN BY END-USE.

■ Series depicted in chart.

EUR millions and percentages

	Total (a)	Financing of productive activities							Financing of individuals				Financing of private non-profit institutions	Unclassified	Memo-randum item: construction and housing (d)	
		Total	Agriculture and fisheries	Industry excluding construction	Construction	Services		Total	Home purchases and improvements	Purchases of consumer durables	Other (b)					
						Of which										
						Total	Real estate activities									
												Total				Purchases
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	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	1 131 241	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	1 652 352	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
	Q3	1 706 126	910 001	25 085	140 332	150 341	594 243	292 599	768 197	604 623	577 337	54 035	109 539	6 106	21 822	1 047 563
	Q4	1 760 213	943 086	25 245	141 571	153 453	622 818	303 497	789 250	618 212	590 600	56 576	114 462	6 089	21 788	1 075 162

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 Boletín 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.

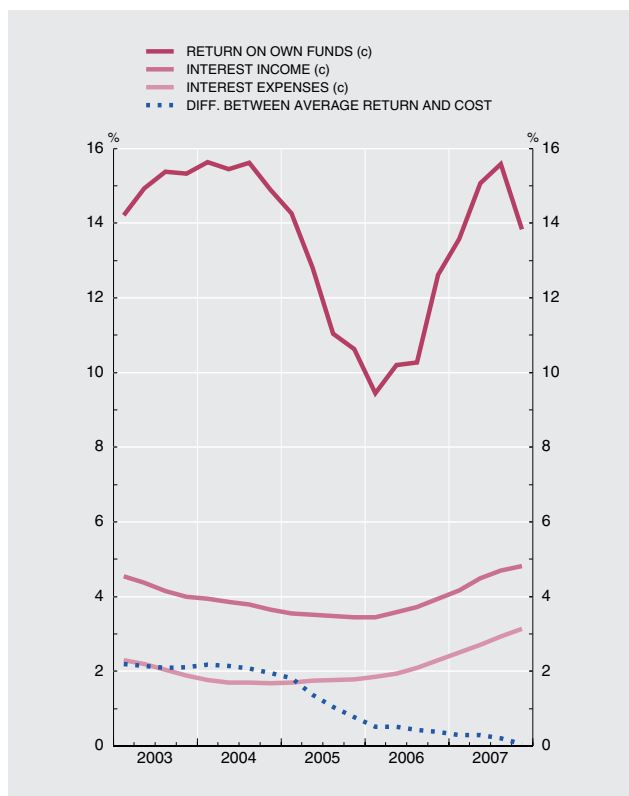
d. Including: construction, real estate activities and home purchases and improvements

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 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
05 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
05 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
05 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
06 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
06 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
06 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
07 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
07 Q3		4.7	3.2	1.5	0.6	2.1	1.0	0.6	1.0	-0.2	0.8	10.0	3.4	3.2	0.2
07 Q4		5.0	3.5	1.5	1.0	2.5	1.1	0.7	1.4	-0.3	1.0	12.4	3.5	3.5	0.1

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 average return and cost.

c. Average of the last four quarters.

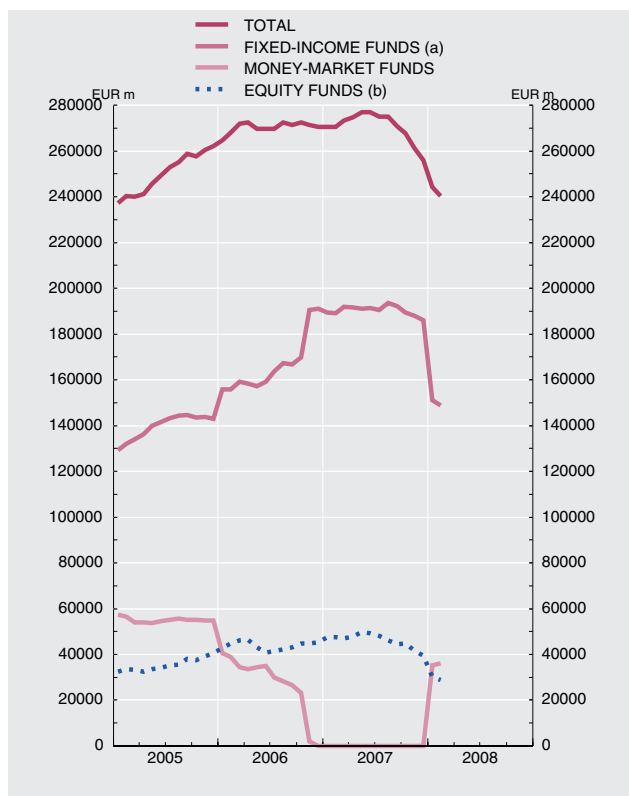
8.11. MUTUAL FUNDS RESIDENT IN SPAIN

■ Series depicted in chart.

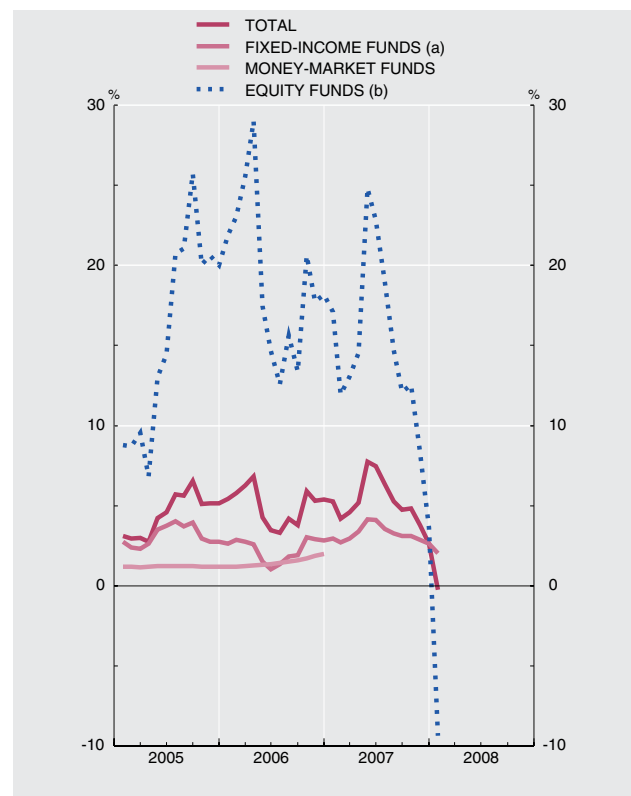
EUR millions

	Total				Money-market funds				Fixed-income funds (a)				Equity funds (b)				Others funds (c)
	Net asset value	Monthly change	Net funds invested	Return over last 12 months	Net asset value	Monthly change	Net funds invested	Return over last 12 months	Net asset value	Monthly change	Net funds invested	Return over last 12 months	Net asset value	Monthly change	Net funds invested	Return over last 12 months	Net asset value
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
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
07	256 055	-14 352	-22 008	2.6	-	-106	-106	...	185 963	-5 039	-8 287	2.6	39 449	-5 916	-7 179	3.6	30 643
06 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	275 034	-1 971	-1 101	6.3	-	-	-	...	190 493	-943	-950	3.6	48 196	-1 038	-190	19.0	36 346
Aug	275 016	-19	-242	5.3	-	-	-	...	193 565	3 073	2 697	3.3	46 136	-2 060	-1 421	14.7	35 314
Sep	270 736	-4 279	-5 439	4.8	-	-	-	...	192 289	-1 277	-1 624	3.1	44 560	-1 576	-1 877	12.1	33 887
Oct	267 586	-3 151	-6 069	4.8	-	-	-	...	189 387	-2 902	-3 907	3.1	44 816	255	-1 196	12.5	33 383
Nov	261 331	-6 255	-4 310	3.8	-	-	-	...	188 057	-1 330	-1 536	2.9	41 620	-3 196	-1 640	8.3	31 654
Dec	256 055	-5 276	-4 537	2.6	-	-	-	...	185 963	-2 094	-1 919	2.6	39 449	-2 171	-1 417	3.6	30 643
08 Jan	P 244 286	-11 769	-6 863	-0.3	35 111	35 111	1 027	...	151 093	-34 870	531	2.0	30 184	-9 265	-5 341	-9.4	27 898

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.

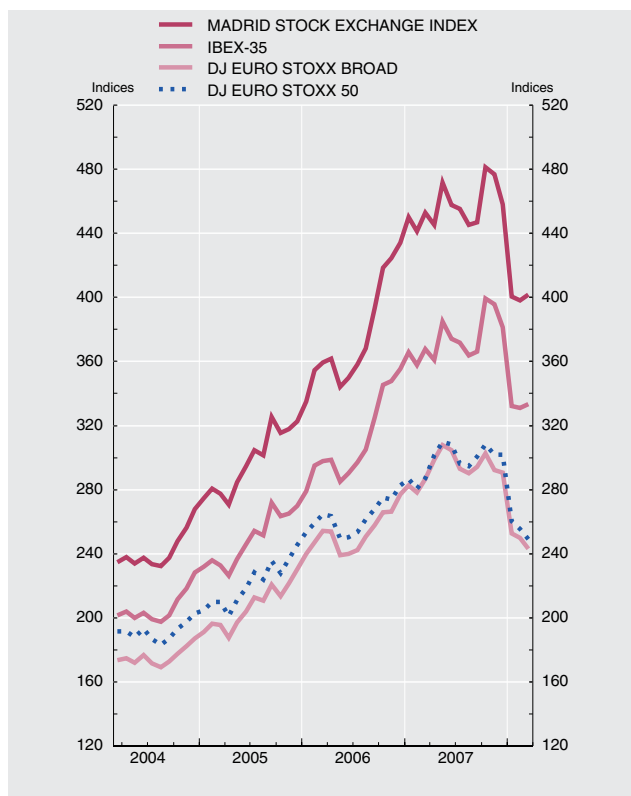
8.12. SHARE PRICE INDICES AND TURNOVER ON SECURITIES MARKETS. SPAIN AND EURO AREA

■ Series depicted in chart.

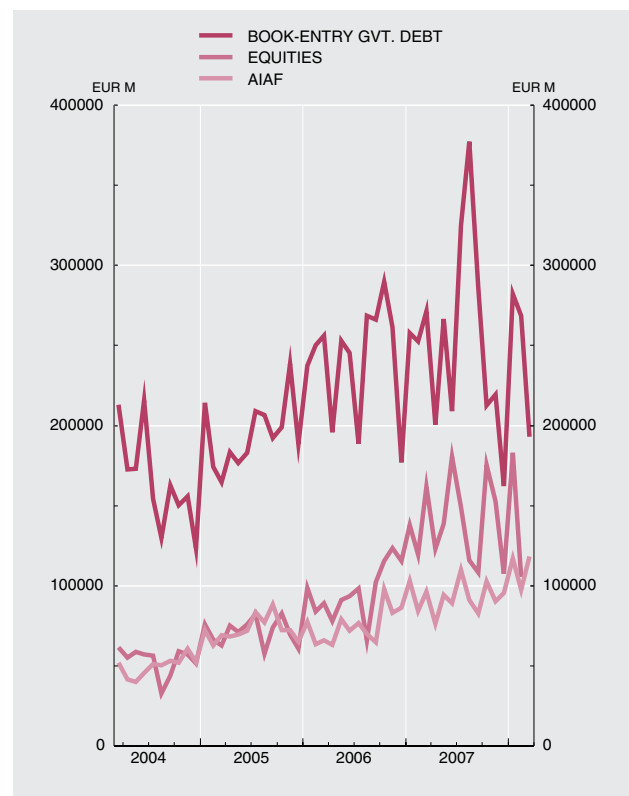
Indices, EUR millions and thousands of contracts

	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
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	1 637.50	14 899.46	419.02	4 344.48	1 670 178	89 600	3 040 244	1 115 708	-	14 161	-	8 722
08	A 1 433.59	13 223.95	354.73	3 714.91	288 429	13 631	743 599	332 911	-	4 000	-	2 127
06 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	1 600.90	14 576.50	419.92	4 381.71	108 347	6 150	286 110	82 760	...	1 334	...	740
Oct	1 724.44	15 890.50	432.10	4 489.79	175 472	8 313	212 587	102 545	...	1 139	...	724
Nov	1 708.19	15 759.90	417.26	4 394.95	152 642	8 272	219 320	90 490	...	1 685	...	734
Dec	1 642.01	15 182.30	414.90	4 399.72	107 346	6 163	162 213	95 535	...	1 719	...	549
08 Jan	1 435.24	13 229.00	360.56	3 792.80	183 005	6 080	282 093	117 244	...	1 274	...	844
Feb	1 425.98	13 170.40	356.76	3 724.50	105 424	7 551	268 415	97 445	...	1 260	...	650
Mar	P 1 439.06	13 269.00	346.99	3 628.06	...	...	193 092	118 222	...	1 466	...	633

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 and 4); AIAF (column 8) and Spanish Financial Futures Market (MEFFSA) (columns 9 to 12)

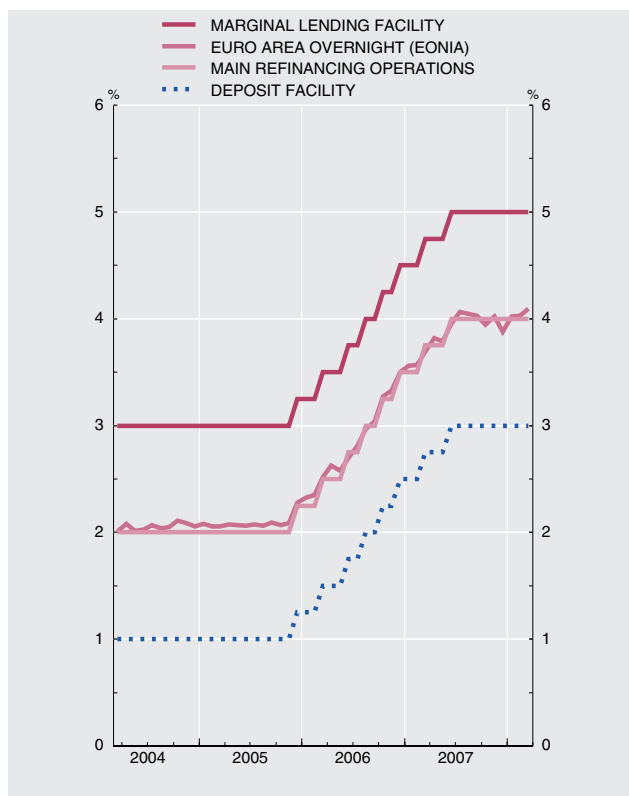
9.1. INTEREST RATES. EUROSISTEM AND MONEY MARKET. EURO AREA AND SPAIN

■ Series depicted in chart.

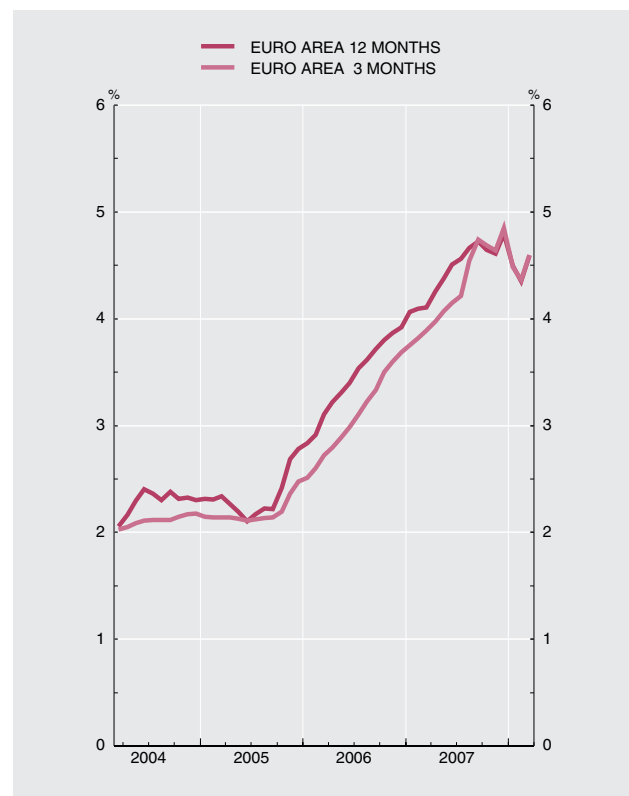
Averages of daily data. Percentages per annum

	Eurosistem monetary policy operations				Money market														
	Main refinancing operations: weekly tenders	Longer term refinancing operations: monthly tenders	Standing facilities		Euro area: deposits (Euribor) (a)					Spain									
			Marginal lending	Deposit	Over-night (EONIA)	1-month	3-month	6-month	1-year	Non-transferable deposits					Government-securities repos				
										Over-night	1-month	3-month	6-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	18	
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	3.23	3.44	2.75	2.82	2.93	3.28
07	A	4.00	4.00	5.00	3.00	3.866	4.09	4.28	4.35	4.45	3.85	4.08	4.27	4.33	4.44	3.78	3.85	3.90	4.11
08		-	4.44	5.00	3.00	4.047	4.23	4.48	4.49	4.48	4.02	4.21	4.47	4.44	4.45	3.97	3.96	3.93	3.59
06 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	3.80	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	3.87	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	3.93	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	4.00	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	4.10	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	4.20	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	4.27	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	4.30	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	4.53	4.64	3.86	3.97	4.06	4.37
Sep		4.00	4.50	5.00	3.00	4.029	4.43	4.74	4.75	4.73	3.99	4.38	4.72	4.70	4.72	3.94	4.00	4.00	-
Oct		4.00	-	5.00	3.00	3.941	4.24	4.69	4.66	4.65	3.90	4.24	4.65	4.69	4.64	3.88	3.96	3.98	4.04
Nov		4.00	4.65	5.00	3.00	4.022	4.22	4.64	4.63	4.61	4.01	4.25	4.64	4.57	4.59	3.96	3.97	3.99	4.00
Dec		4.00	4.00	5.00	3.00	3.879	4.71	4.85	4.82	4.79	3.85	4.74	4.82	4.79	4.78	3.80	3.94	3.92	-
08 Jan		4.00	4.21	5.00	3.00	4.022	4.20	4.48	4.50	4.50	3.98	4.17	4.46	4.44	4.42	3.90	3.94	3.93	3.60
Feb		4.00	4.16	5.00	3.00	4.028	4.18	4.36	4.36	4.35	4.00	4.17	4.34	4.30	4.33	3.99	3.97	3.93	3.58
Mar		4.00	4.44	5.00	3.00	4.091	4.30	4.60	4.59	4.59	4.07	4.28	4.58	4.57	4.58	4.01	3.99	3.94	-

EUROSISTEM: 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

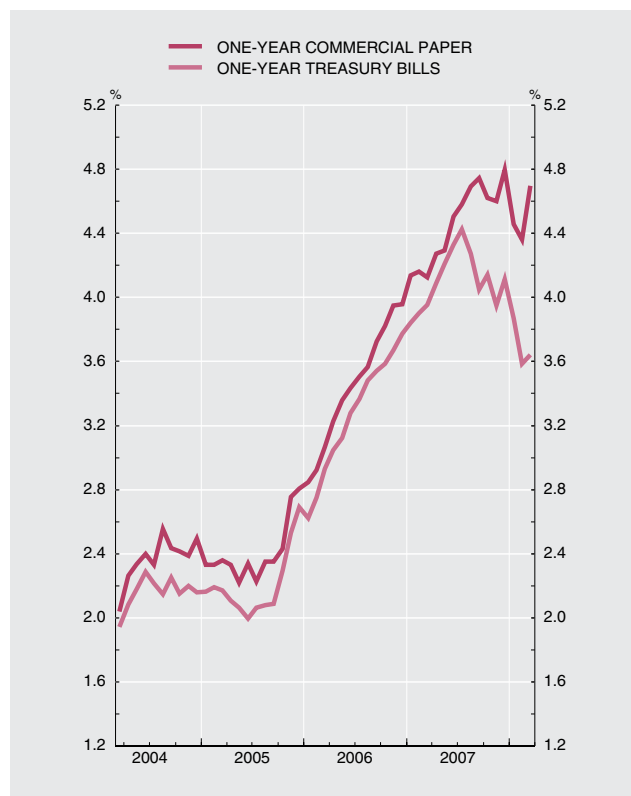
9.2. INTEREST RATES: SPANISH SHORT-TERM AND LONG-TERM SECURITIES MARKETS

■ Series depicted in chart.

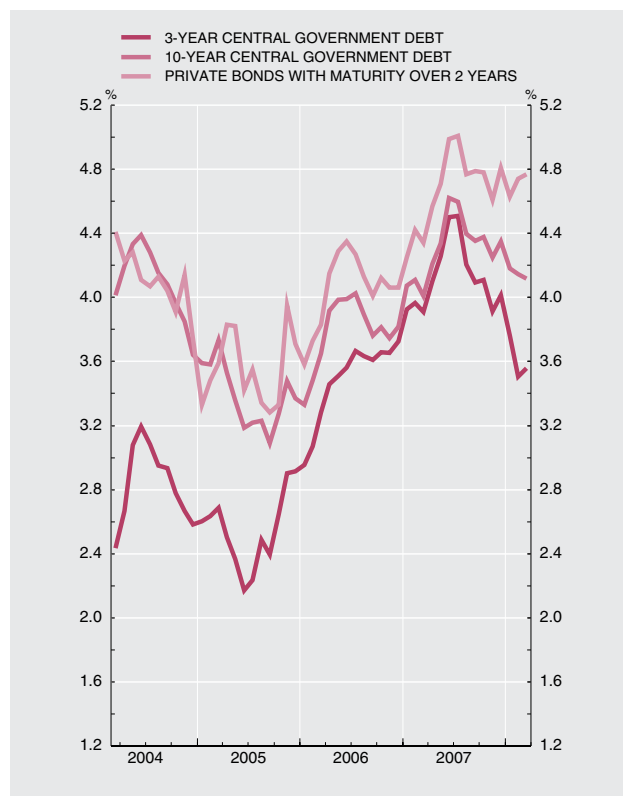
Percentages per annum

	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	
06		3.27	3.26	3.45	3.44	3.36	3.57	3.76	-	4.04	3.48	3.79	4.05
07		4.11	4.07	4.46	4.49	4.00	4.16	4.24	-	4.49	4.13	4.31	4.67
08	A	3.70	3.70	4.51	4.55	3.94	3.98	4.20	-	4.79	3.61	4.15	4.71
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	4.74	4.82	-	4.20	-	-	4.70	4.09	4.35	4.79
Oct		4.14	4.02	4.62	4.75	-	-	-	-	-	4.11	4.38	4.78
Nov		3.95	4.02	4.60	4.67	-	-	4.26	-	-	3.91	4.25	4.61
Dec		4.11	4.03	4.80	4.88	4.05	-	-	-	-	4.01	4.35	4.81
08 Jan		3.87	3.76	4.46	4.58	3.97	4.00	-	-	-	3.76	4.18	4.63
Feb		3.59	3.61	4.36	4.43	-	-	4.20	-	-	3.50	4.14	4.74
Mar		3.64	3.71	4.70	4.62	-	-	-	-	-	3.56	4.12	4.77

PRIMARY MARKET



SECONDARY MARKET



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

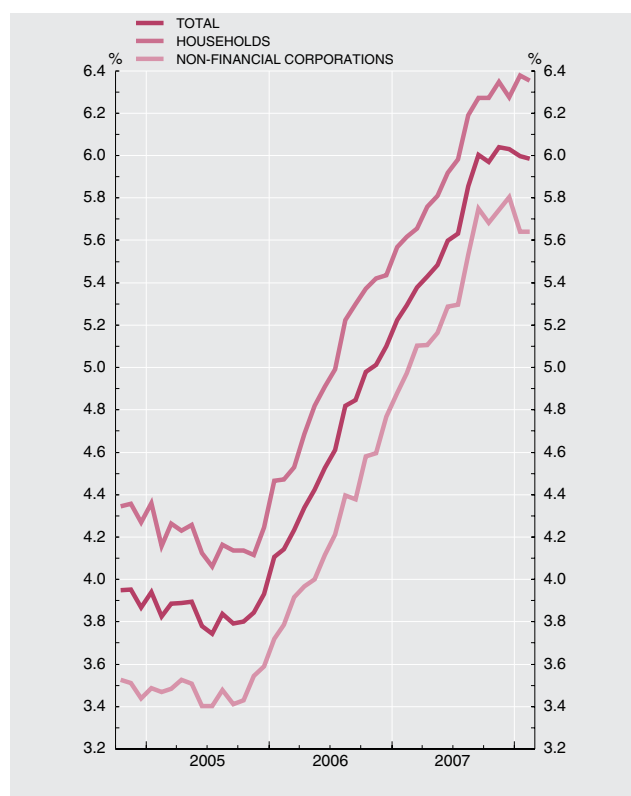
9.3. INTEREST RATES ON NEW BUSINESS. CREDIT INSTITUTIONS. (CBE 4/2002)

■ Series depicted in chart.

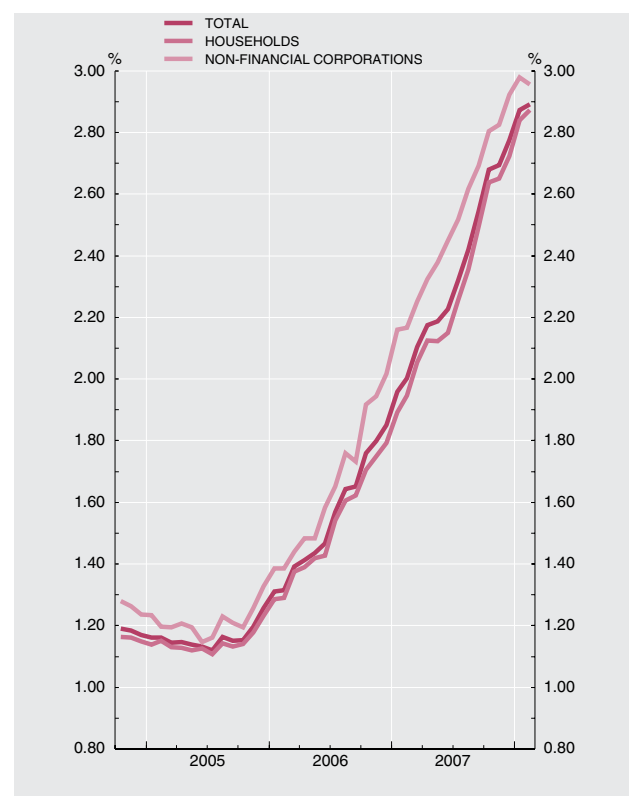
Percentages

	Loans (APRC) (a)							Deposits (NDER) (a)									
	Syn- thetic rate (c)	Households and NPISH			Non-financial corporations			Syn- thetic rate (c)	Households and NPISH				Non-financial corporations				
		Syn- thetic rate	House pur- chase	Con- sump- tion and other	Syn- thetic rate	Up to EUR 1 million	Over EUR 1 million (b)		Syn- thetic rate	Over- night and re- deema- ble at notice	Time	Repos	Syn- thetic rate	Over- night	Time	Repos	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
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		6.03	6.28	5.53	8.34	5.80	6.32	5.50	2.77	2.72	0.70	4.41	3.72	2.92	1.94	4.42	3.92
08	A	5.99	6.35	5.59	8.49	5.64	6.13	5.23	2.89	2.87	0.74	4.51	3.81	2.96	1.97	4.27	4.02
06	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	5.86	6.19	5.43	8.32	5.53	5.92	5.22	2.42	2.36	0.67	3.91	3.76	2.62	1.65	4.08	3.99
	Sep	6.00	6.27	5.49	8.47	5.75	6.14	5.47	2.54	2.50	0.69	4.15	3.83	2.69	1.67	4.33	4.02
	Oct	5.97	6.27	5.57	8.24	5.68	6.21	5.27	2.68	2.64	0.71	4.31	3.81	2.80	1.82	4.24	3.97
	Nov	6.04	6.35	5.59	8.41	5.74	6.22	5.33	2.69	2.65	0.71	4.29	3.81	2.82	1.87	4.22	4.02
	Dec	6.03	6.28	5.53	8.34	5.80	6.32	5.50	2.77	2.72	0.70	4.41	3.72	2.92	1.94	4.42	3.92
08	Jan	6.00	6.38	5.56	8.64	5.64	6.24	5.23	2.87	2.84	0.72	4.52	3.77	2.98	1.96	4.43	3.94
	Feb	5.99	6.35	5.59	8.49	5.64	6.13	5.23	2.89	2.87	0.74	4.51	3.81	2.96	1.97	4.27	4.02

**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.

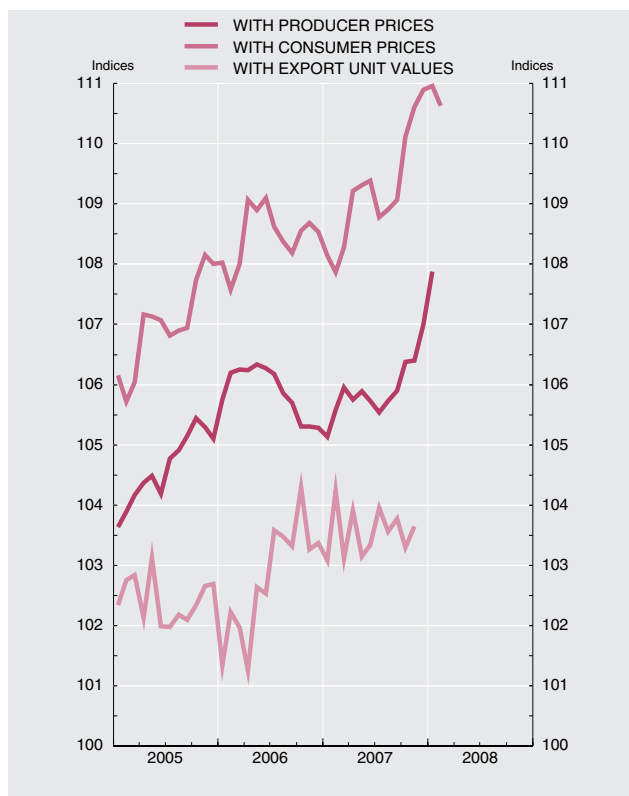
9.4 INDICES OF SPANISH COMPETITIVENES VIS-À-VIS THE EU-27 AND THE EURO AREA

■ Series depicted in chart.

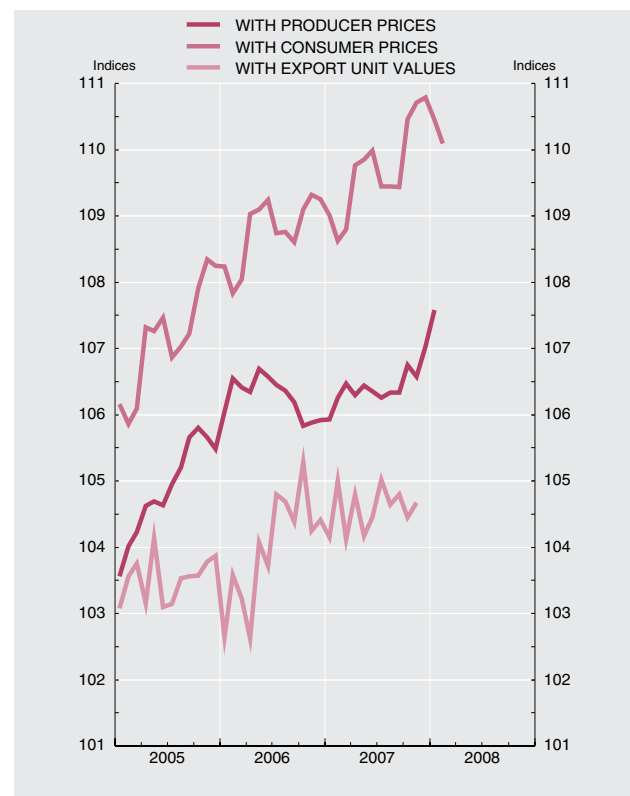
Base 1999 Q1 = 100

	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
05	104.6	107.0	105.4	102.4	100.1	104.6	106.9	105.3	102.4	104.8	107.1	106.5	111.7	103.5
06	105.9	108.5	106.7	102.8	100.0	105.9	108.5	106.7	102.8	106.2	108.8	108.0	113.8	104.0
07	105.9	109.2	107.8	...	99.9	106.0	109.3	107.9	...	106.3	109.7	109.4	114.6	...
06 Q1	106.1	107.9	106.5	101.8	100.0	106.0	107.8	106.5	101.8	106.2	108.0	107.7	115.3	103.1
Q2	106.3	109.0	106.8	102.1	100.1	106.2	108.9	106.6	102.0	106.5	109.1	107.9	114.2	103.5
Q3	105.9	108.4	106.2	103.5	100.0	105.9	108.4	106.2	103.5	106.2	108.7	107.5	112.0	104.6
Q4	105.3	108.6	107.2	103.6	99.8	105.5	108.8	107.4	103.9	105.8	109.2	108.9	113.6	104.7
07 Q1	105.6	108.1	107.5	103.5	99.7	105.9	108.4	107.8	103.7	106.1	108.8	109.3	116.0	104.4
Q2	105.8	109.3	107.5	103.5	99.8	106.0	109.5	107.7	103.6	106.3	109.8	109.1	113.4	104.5
Q3	105.7	108.9	107.4	103.8	99.8	105.9	109.1	107.6	103.9	106.2	109.4	109.1	113.3	104.8
Q4	106.6	110.5	108.7	...	100.3	106.3	110.3	108.5	...	106.7	110.6	110.1	115.8	...
07 Jun	105.7	109.4	...	103.3	99.8	105.9	109.6	...	103.5	106.3	110.0	...	...	104.4
Jul	105.5	108.8	...	104.0	99.7	105.8	109.1	...	104.2	106.2	109.4	...	...	105.0
Aug	105.7	108.9	...	103.6	99.8	105.9	109.1	...	103.7	106.2	109.4	...	...	104.6
Sep	105.9	109.1	...	103.8	100.0	105.9	109.1	...	103.8	106.2	109.4	...	...	104.8
Oct	106.4	110.1	...	103.3	100.1	106.3	110.1	...	103.2	106.7	110.4	...	...	104.5
Nov	106.4	110.6	...	103.6	100.3	106.1	110.3	...	103.4	106.5	110.7	...	...	104.7
Dec	107.0	110.9	...	...	100.5	106.5	110.4	...	...	106.9	110.8	...	...	...
08 Jan	107.9	111.0	...	...	100.9	107.0	110.0	...	...	...	...	...	...	...
Feb	...	110.6	...	...	100.9	...	109.7	...	...	...	...	...	...	...
Mar	...	...	...	...	101.2	...	...	...	...	...	...	...	...	...

INDICES OF SPANISH COMPETITIVENESS VIS À VIS THE EU-27



INDICES OF SPANISH COMPETITIVENESS VIS À VIS THE EURO AREA



Source: BE.

- Outcome of multiplying nominal and cost/price components. A decline in the index denotes an improvement in the competitiveness of Spanish products.
- Geometric mean calculated using a double weighting system based on 1995-1997 (until 1999) and 1999-2001 (since 1999) manufacturing foreign trade figures.
- Relationship between the price indices of Spain and of the group.
- The index obtained drawing on Manufacturing Labour Costs has been compiled using base year 2000 National Accounts data.

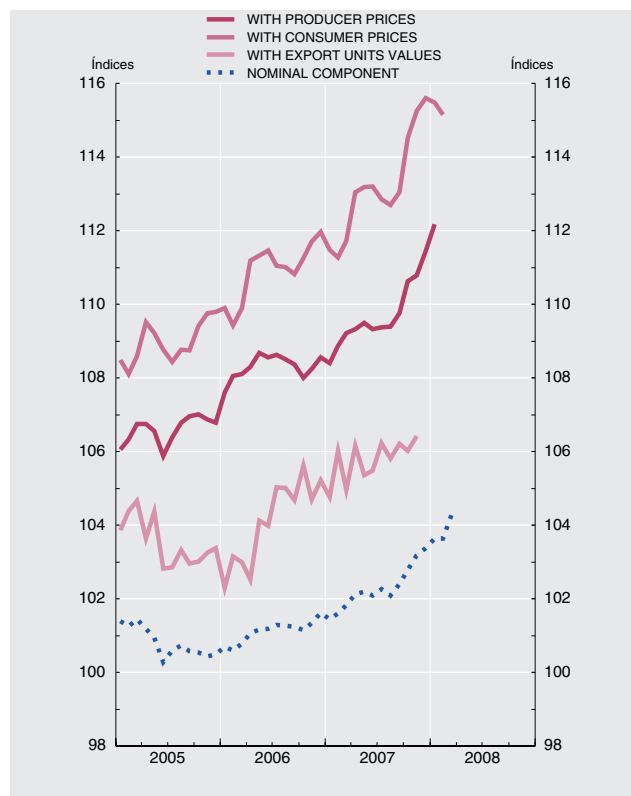
9.5 INDICES OF SPANISH COMPETITIVENESS VIS-À-VIS THE DEVELOPED COUNTRIES AND INDUSTRIALISED COUNTRIES

■ Series depicted in chart.

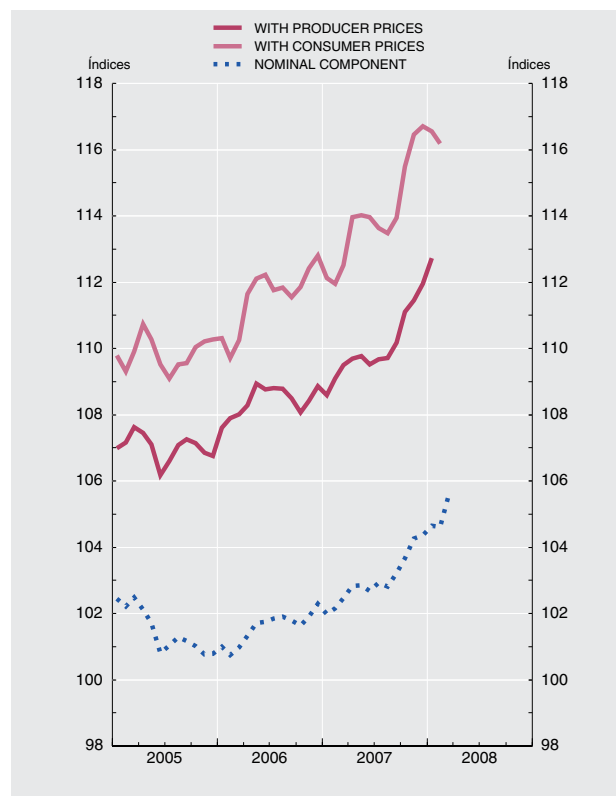
Base 1999 Q1 = 100

	Vis-à-vis developed countries									Vis-à-vis industrialised countries				
	Total (a)				Nominal component (b)	Prices component (c)				Total (a)		Nominal component (b)	Prices component (c)	
	Based on producer prices	Based on consumer prices	Based on manufacturing unit labour costs (d)	Based on export unit values		Based on producer prices	Based on consumer prices	Based on manufacturing unit labour 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		6	7	8	9	10	11		13	14
05	106.6	109.0	113.8	103.5	100.8	105.7	108.1	112.8	102.7	107.0	109.9	101.5	105.5	108.3
06	108.3	110.9	115.6	104.1	101.1	107.1	109.7	114.3	103.0	108.4	111.5	101.6	106.7	109.8
07	109.7	113.2	117.6	...	102.3	107.2	110.6	115.0	...	110.0	114.0	103.0	106.8	110.7
06 Q1	107.9	109.8	116.9	102.8	100.7	107.2	109.0	116.1	102.1	107.8	110.1	100.9	106.9	109.1
Q2	108.5	111.3	116.2	103.5	101.1	107.3	110.1	114.8	102.4	108.7	112.0	101.6	106.9	110.2
Q3	108.5	111.0	114.0	104.9	101.3	107.1	109.6	112.6	103.6	108.7	111.7	101.8	106.7	109.7
Q4	108.3	111.6	115.5	105.2	101.4	106.8	110.1	113.9	103.8	108.5	112.4	101.9	106.4	110.2
07 Q1	108.8	111.5	118.0	105.2	101.6	107.1	109.7	116.1	103.5	109.1	112.2	102.2	106.7	109.8
Q2	109.4	113.1	116.4	105.7	102.1	107.1	110.8	113.9	103.5	109.7	114.0	102.8	106.7	110.9
Q3	109.5	112.9	116.3	106.1	102.2	107.1	110.4	113.7	103.8	109.9	113.7	103.0	106.7	110.4
Q4	111.0	115.1	119.9	...	103.1	107.6	111.7	116.2	...	111.5	116.2	104.1	107.1	111.6
07 Jun	109.3	113.2	...	105.5	102.1	107.1	110.9	...	103.3	109.5	114.0	102.7	106.7	111.0
Jul	109.4	112.8	...	106.2	102.3	107.0	110.4	...	103.9	109.7	113.6	102.9	106.5	110.4
Aug	109.4	112.7	...	105.8	102.1	107.1	110.4	...	103.6	109.7	113.5	102.8	106.7	110.4
Sep	109.8	113.1	...	106.2	102.4	107.2	110.4	...	103.7	110.2	113.9	103.2	106.7	110.4
Oct	110.6	114.5	...	106.0	102.8	107.6	111.4	...	103.2	111.1	115.5	103.7	107.2	111.4
Nov	110.8	115.3	...	106.4	103.2	107.4	111.7	...	103.1	111.5	116.5	104.3	106.9	111.7
Dec	111.4	115.6	...	...	103.4	107.8	111.8	...	...	112.0	116.7	104.4	107.3	111.8
08 Jan	112.2	115.5	...	...	103.6	108.2	111.4	...	...	112.7	116.6	104.7	107.7	111.4
Feb	...	115.2	...	...	103.6	...	111.1	...	...	...	116.2	104.6	...	111.1
Mar	...	...	...	...	104.3	...	...	...	...	...	...	105.6	...	...

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



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



Source: BE.

- Outcome of multiplying nominal and cost/price components. A decline in the index denotes an improvement in the competitiveness of Spanish products.
- Geometric mean calculated using a double weighting system based on 1995-1997 (until 1999) and 1999-2001 (since 1999) manufacturing foreign trade figures.
- Relationship between the price indices of Spain and of the group.
- The index obtained drawing on Manufacturing Labour Costs has been compiled using base year 2000 National Accounts data.

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