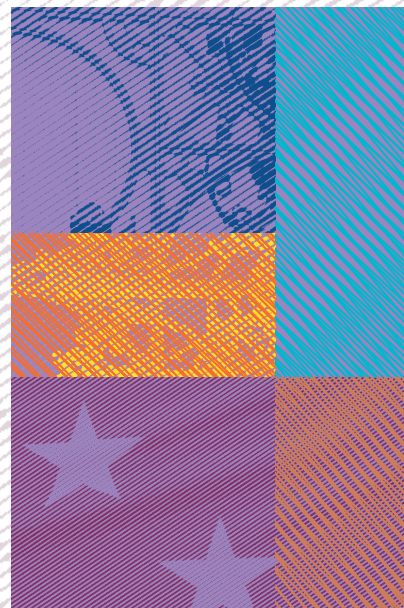


**ECONOMIC BULLETIN**

**01/20ž(**

**BANCO DE ESPAÑA**  
Eurosistema





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## 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 <sup>9</sup> ).
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.

## ECONOMIC BULLETIN JANUARY 2008

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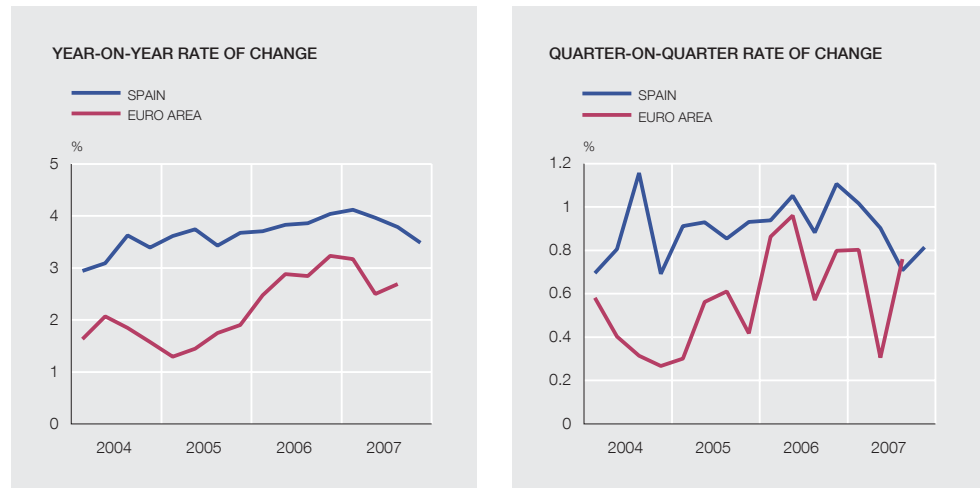
## 1 Overview

During the first three quarters of 2007, growth in the Spanish economy held at a rate that was high, though on a slightly declining trend, taking the annual rate of change to 3.8% in Q3. On the latest available information, this pattern is expected to have held in 2007 Q4, with GDP estimated to be standing at 3.5% year-on-year. Behind the mild slowdown in activity over the year lies a decline in the rate of increase of national demand, to a year-on-year rate of 3.6% in Q4, and an improvement in the contribution of net external demand, which stood at –0.3 pp in the final quarter.

Estimates for Q4 place GDP growth for the whole of 2007 at 3.8%, 0.1 pp down on 2006. This is the result of a slightly sharper reduction in the growth rate of national demand than that seen in 2006, and of a further and significant correction in the negative contribution of net external demand, which is expected to stand at –0.7 pp. All the domestic demand components posted somewhat lower increases than in 2006 with the exception of residential investment, which registered a slightly more marked slowdown, and of investment in capital goods, whose already high growth rate the previous year stepped up during the course of 2007. On the supply side, employment held at a high growth rate of around 3% for the year on average, although it exhibited a slowing profile throughout the year, in step with the loss of momentum of activity in the construction sector. The notable generation of employment in 2007 once again enabled the sizable increases in the labour force to be absorbed, while there were fresh cuts in the unemployment rate, which dipped to a low of 8% mid-year, although it edged back up to 8.6% in Q4. On the inflation front, the growth rate of the CPI stood at 2.8% for the year on average, below the average figure for 2006 (3.5%); however, from the summer it moved on a progressively quickening path, ending the year at a growth rate of 4.2% year-on-year, placing the inflation differential with the euro area at 1.2 pp. The rise in oil prices in the closing months of 2007 and the high increases in specific food products compounded the effects of the profile inherited from the previous year, leading to a deterioration in the inflationary situation in the second half of 2007.

As regards the international economic scene, the financial turbulence that commenced in the summer further to the US sub-prime mortgage crisis extended into and stepped up during 2007 Q4. Signs of a clear weakening in US economic activity have begun to be perceptible, driven by the crisis in the real estate sector and by the attendant financial pressures. Nonetheless, figures released for Q4 point to the sustained buoyancy of the world economy as a whole, underpinned by the continuing strength of the emerging economies and by the resilience of most European economies. However, the climate of uncertainty has spread to many of the industrialised countries, bearing particularly on those where the business cycle is more dependent on real estate activity. Against this background, the growth outlook for the world economy has been revised downwards and the accompanying uncertainty has heightened.

On the international financial markets, one of the key aspects of this bout of instability has been the persistence of pressures on the money markets, despite the extraordinary liquidity-providing operations conducted by the main central banks, some on a coordinated basis, and accompanied in certain cases by cuts in intervention rates. The Federal Reserve shaved 25 bp off its intervention rate in December (and cut it once again by 75 bp on 22 January, meaning there has been a total reduction of 175 bp since the start of this episode) while the Bank of England also cut its official rate by 25 bp that same month. At the same time, the upward revision of credit risk premiums continued during the quarter, and stock market values fell further,



SOURCES: ECB, INE and Banco de España.

a. Seasonally adjusted series.

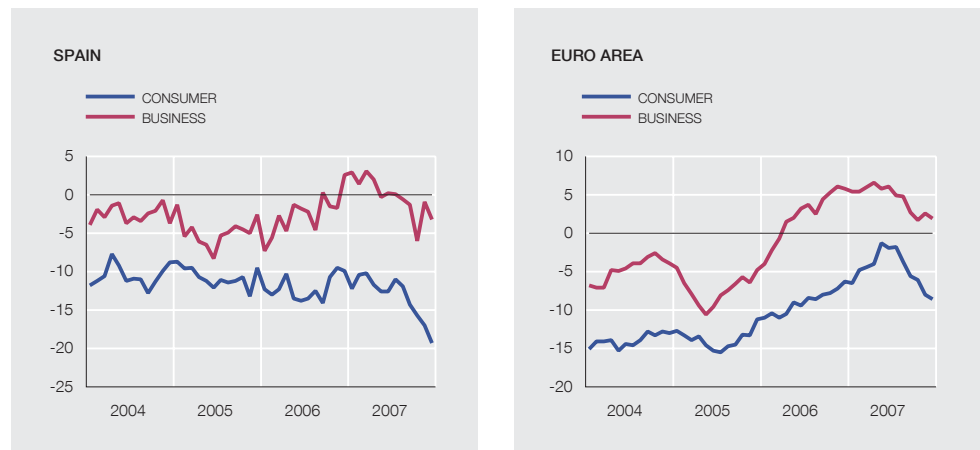
with such movements intensifying in January to date. On the foreign exchange markets, the dollar held on the depreciating trajectory that it had followed since the start of the year. Finally, there were further increases in the price of oil in the closing months of 2007 and in early 2008, up to a high of over \$90 per barrel at the close of the year, though it has turned down slightly in recent weeks.

As earlier commented, despite the strong deterioration in the financial climate in the developed countries, the world economy continued showing signs of dynamism in the final quarter. In the United States, in contrast, following the relatively favourable GDP figure for Q3, the partial information available for Q4 points to a substantial weakening in activity, with the slowdown in consumption and employment compounding the greater intensity of the real estate adjustment. Accordingly, the US growth outlook for the coming quarters has worsened significantly, leading the authorities to announce the adoption of a major package of fiscal measures. Economic prospects have also worsened in Japan and the United Kingdom.

Despite this weakening in activity, inflation rates increased in the closing months of the year owing to the rebound in oil prices and the rise in food prices, in response to a prolonged period of substantial increases in agricultural commodity prices. Behind this latter development are various factors, some more conjunctural, linked to weather-related factors, and others more structural, linked to changes in consumption patterns or in the land set aside for crops. The outcome has been excess demand for these types of products, the effect of which on agricultural commodity prices may persist for some time.

In the euro area, activity in Q3 proved relatively expansionary, underpinned by the buoyancy of domestic demand (in particular, investment in equipment), the strength of industry and favourable employment developments. The latest indicators point to an easing in the pace of GDP in Q4, with a loss of momentum in private consumption and exports, although investment in equipment should remain somewhat more dynamic.

As in other geographical areas, inflation rose notably in the euro area in the closing months of the year owing to the impact on consumer prices of higher energy and food commodity prices, which were offset only in part by the appreciation of the euro. Overall, and despite the greater



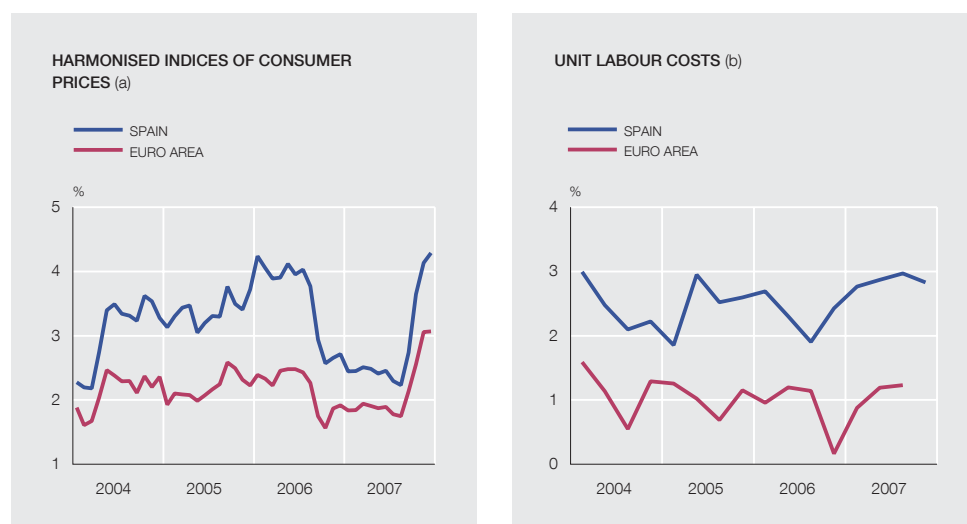
SOURCE: European Commission.

stability of services prices, the upward course of core inflation during the quarter steepened, ending the year at an annual rate of change of 2.3%. The HICP posted a year-on-year rate of change of 3.1% in December.

The assessment of the inflation outlook by the ECB in recent months portrays a relatively unfavourable picture, since increases in the HICP are forecast to hold at over 2% for a certain number of months. However, the ECB also perceives a high risk that further price increases will occur. And these, combined with the potential emergence of wage pressures and with the forceful dynamism of monetary and credit aggregates, might pose a threat for price stability in the medium term. Nonetheless, the prolongation of the episode of financial turbulence adds considerable uncertainty to the scale of the impact it may exert on the euro area economy. These considerations have led the ECB to hold its intervention interest rates at 4%, unchanged since August 2007. But it remains, in turn, determined to act pre-emptively, so as to prevent second-round effects on wages from materialising and to keep inflation expectations firmly anchored.

Developments in the Spanish economy have, during the last quarter, therefore unfolded against the background of a slowing international environment and continuing financial tensions. With minor oscillations during this period, money market rates have held at relatively high levels and corporate credit spreads have once again risen. Stock market prices, which had proven considerably resilient in 2007 Q4, while on a highly volatile trajectory, posted heavy falls in the opening weeks of January which were partly corrected subsequently. Yet the prolongation of this episode of instability on financial markets in Q4 has, to date, had a relatively limited impact on private-sector borrowing conditions. In the real estate sector, the adjustment initiated some quarters back continued, whereby house prices continued gradually to slow, ending the year at a year-on-year rate of increase of 4.8% in Q4 and average growth of 5.8% (compared with respective rates of 9.1% and 10.4% in the same period a year earlier).

Despite some worsening in the climate of uncertainty and in agents' confidence, household spending during the quarter moderated to a similar extent to that of the previous period. And, once again, this easing was more marked in the residential investment component. As a result, the growth rate of household consumption continued to draw closer to that of disposable income, in a setting in which increases in both financial and real estate wealth were more limited. In turn, the rate of expansion of disposable income fell moderately, despite the dynamism of



SOURCES: Eurostat, ECB and INE.

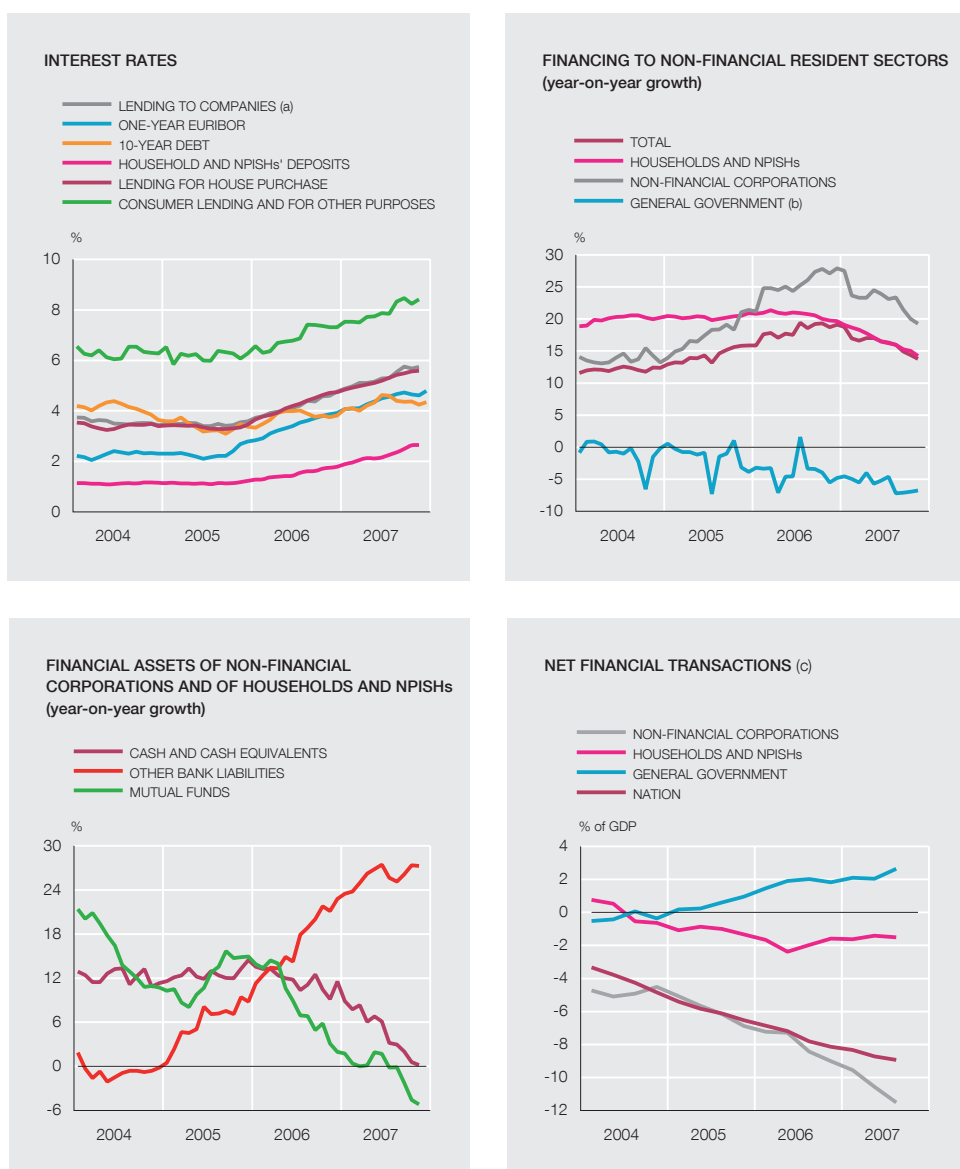
a. Year-on-year rate of change.

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

wage income, given that the high growth of direct tax takings and the increase in interest payments exerted a contractionary effect, while the rise in inflation reduced household purchasing power in the closing months of the year.

Residential investment continued to slow in Q4, confirming the change in cycle in the real estate sector. Adding to the trigger factors (basically the tightening of borrowing conditions and diminishing expectations of a rise in property prices) behind this adjustment have, in recent months, and amid the financial turbulence already described, been the increase in uncertainty and the deterioration in agents' confidence. Naturally, given the slowdown in household spending, the demand for credit eased off further. Consequently, the year-on-year growth of credit to households stood in November at around 14%, 1 pp less than in September. This reduction is due to the decline in the pace of house-purchase loans, since loans for consumption and other purposes did not undergo appreciable changes. Further to this set of decisions, the year 2007 will foreseeably close with the household saving rate holding stable, and with increases in the household debt-service and – to a lesser extent – debt ratios.

Business investment continued to advance firmly in Q4, although there was a reduction in the pace of both investment in capital goods and, above all, in non-residential construction compared with the previous quarter. However, spending on capital goods was once again the most dynamic component of domestic demand, underpinned by the high growth rates of corporate earnings, continued expectations of favourable returns following the good results in Q3 and the dynamism of final demand. Also discernible in this case is an easing in the expansion of external financing, which posted a year-on-year growth rate of close to 19% in November. The slowdown in corporate liabilities during Q3 reflected the loss of momentum of funds raised to finance real estate services and construction activities, since the financing earmarked for other activities remained very dynamic, especially in relation to industry. Despite this deceleration in the resort to borrowed funds, the debt and debt-service ratios increased moderately in the final months of 2007, and an increase in the sector's net borrowing, which stood at 11.5% of GDP in Q3 (in cumulative 12-month terms), is forecast for the year as a whole.



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.

The general government sector contributed in 2007 to the expansion in expenditure, both through government consumption and via the investment component. Investment was concentrated in the opening months of the year, when sizeable civil engineering projects were completed, coinciding with the holding of regional and local elections. The buoyancy of activity throughout 2007 was also reflected in a notable increase in tax revenue, mainly from direct taxes, despite the reform of personal and corporate income tax. As a result, on the latest official figures, the general government balance in 2007 ran an above-budget surplus of 1.8%. For the next three years, the government's fiscal projections set out in the Updated Stability Programme approved in late 2007 point to the attainment of fiscal surpluses of 1.2% of GDP in each year of the forecasting horizon (2008-2010).

In 2007 Q4 the contribution of net external demand to output growth improved by an additional 0.3 pp, meaning that its contribution to the increase in GDP stood at -0.3 pp, furthering the correction initiated in 2005. This improved contribution of net external demand during 2007 came about in a setting in which world trade flows remained considerably buoyant, albeit lower than the previous year, owing to the slightly slacker growth of demand from United States and from other developed economies. The habitual indicators of price competitiveness worsened on a scale similar to that seen in previous years, due mainly to the appreciation of the euro over the course of the year. A significant exception here were the indicators calculated using unit labour costs, which improved marginally.

The partial information available in Q4 points to the continuing buoyancy of exports, upheld by the sound march of the emerging countries, and to somewhat less expansive imports, in the face of the mild slowdown in final demand. The relatively differentiated behaviour of goods exports and services exports is expected to have continued. This is particularly so in the case of exports of tourist services, which were once again relatively sluggish, perhaps reflecting the effect of the loss of competitiveness. As a result of these developments in trade in goods and services, the trade deficit continued to widen in the closing months of the year, albeit at a lesser pace than in the past, as did the nation's net borrowing, which stood in Q3 at a figure equivalent to 9 % of GDP (in cumulative four-quarter terms).

On the supply side, the slowdown in value added in the market economy in Q4 was due to the loss of momentum of activity in the construction sector and, to a lesser extent, in manufacturing industry, prolonging in both cases the tendency that had become perceptible in prior quarters. In the case of construction, the slowdown in activity came about above all in the residential construction component, which had begun to respond to the diminished buoyancy of the demand for housing. In the case of industry, the gradual loss of steam observed since the start of the year might be due to the ongoing deceleration in final demand, compared with the figures attained the previous year, and, above all, to the construction-sector cycle, which may have prompted an appreciable decline in the demand for certain industrial products. Finally, mention should be made of the strong growth in services activity during 2007, with a growth rate of over 4% in both the market and non-market components.

The slowdown in GDP in the year as a whole fed through with similar intensity to the pace of job creation, meaning that the growth in employment in 2007 on average may be standing at around 3%, 0.2 pp below the rate recorded in 2006. Across the productive branches, the loss of dynamism in job creation in Q4 was sharper in construction, while in industry and in non-market services the slowdown was more moderate. Employment in the market services branch remained notably resilient. According to EPA figures, the temporary employment ratio dipped significantly in Q4 to 30.9% (33.8% a year earlier).

Developments in labour costs in 2007 made for a rise in compensation per employee in the market economy for the year on average to a rate of 3.8%, compared with 3.3% in 2006. On this estimate, and unlike in previous years, the increase in compensation per employee outpaced wages under collective bargaining agreements, where settlements stood at 3.2% (an agreed increase of 2.9% for the year and 0.3 pp more further to the application of the indexation clauses). As a result, wage drift should have ceased to act as a factor of wage moderation, despite the fact that in 2007 the characteristics of new labour market entrants did not change substantially. The acceleration in compensation per employee has passed through to unit labour costs in a similar proportion, since these rose to 2.5% (compared with 2% in 2006), although their growth rate has drawn closer to the growth of costs in countries with which Spain competes internationally. This behaviour of labour costs, along with the continuing widening of

margins (albeit less intensely than in recent years) and the successive shocks that have affected the prices of products basic to productive processes and consumption, has meant that there were no appreciable improvements in the inflationary situation in 2007. In this respect, the core inflation rate held at 2.7% for the year on average (compared with 2.9% in 2006), although the sizeable slowdown in non-energy industrial goods prices during the year should be viewed favourably. Yet the rise in the CPI at year-end to a growth rate of 4.2% year-on-year is a cause for concern; despite being due in principle to temporary factors, it may ultimately generate permanent effects on cost and price formation processes via the indexing mechanisms in place.

The Spanish economy ended 2007 with notable growth, after having undergone a mild slowdown similar in intensity to that forecast at the start of the year. The year has seen further progress in the rebalancing of the economy's sources of growth, with a significant correction in the contribution of net external demand to GDP growth and a restructuring of domestic spending towards productive investment. A slowdown in lending extended to households and firms has begun, in line with the course of their fundamentals, enabling a more sustainable trend in private-sector debt to be envisaged. Sufficient factors are therefore in place so that the Spanish economy may face the foreseeable slowdown in the coming quarters and see such a deceleration unfold on a gradual path. However, this outlook is shrouded in greater uncertainty than in the past, owing to the episode of financial turbulence besetting the world economy since last summer, the true scale and duration of which is only now becoming apparent.

## 2 The external environment of the euro area

During the last quarter the international economic environment continued to be marked by the behaviour of the financial sector. From mid-October, the tensions on credit and money markets worsened, spurred by several factors. These included most notably the announcement of heavy losses linked to sub-prime mortgages by leading global – and in particular US – financial institutions, which confirmed their sizeable exposure to sub-prime mortgage market-related assets and other structured products; the further downgrading of these products; and the continuing deterioration of the US housing market. Against this background, the Federal Reserve agreed on two cuts, each for 25 bp, at its October and November meetings. Moreover, to ease money market pressures, heightened by year-end seasonal factors, the main central banks conducted extraordinary liquidity-providing operations, some on a coordinated basis, and the Federal Reserve announced the creation of a new instrument, the TAF (Term Auction Facility). After a short lull, financial volatility worsened in early January following the adverse figures on economic activity and the reporting of negative banking results for Q4 in the United States. On this occasion, the impact on stock markets and on corporate credit spreads was particularly marked. Overall, the weakening in indicators and growth prospects coupled with the deterioration in financial conditions prompted a significant additional cut of 75 bp to interest rates by the Federal Reserve, one week ahead of its scheduled meeting. The emerging markets, which had been showing greater resilience in the face of the turbulence than in previous episodes, also saw financial conditions worsening. As a result, sovereign spreads widened in 2007 Q4, marking a two-year high, and stock markets fell sharply. Brent oil prices increased strongly, reaching an all-time high of around \$98 per barrel in early January, although the worsening US economic outlook has led to an adjustment to below \$90 in recent days. The rise in energy prices and, above all, in food prices fed through to inflation rates, which rose across the board (see Box 1).

In the United States, the final GDP estimate for Q3 showed annualised quarterly growth of 4.9%, up on the initial estimate. However, the higher frequency indicators point to signs of a slowdown in Q4. Consumer confidence indicators continued to worsen, although consumer spending was not significantly affected until December, when retail sales declined sharply. All the housing market indicators reflected the scale of the adjustment the residential sector is undergoing; in particular, the indicators of business confidence in the construction industry fell to historical lows. The PMI services index remained in positive territory and industrial production held stable in November and December, although the PMI manufacturing index fell into negative territory in the latter month, posting its lowest level since April 2003. Finally, the labour market, which had proven notably resilient to the slowdown, showed signs of weakening in December. Employment creation fell to 18,000 net jobs, the lowest figure since August 2003, and the unemployment rate rose from 4.7% to 5%, the highest level since November 2005. Inflation surged notably, driven by energy and food prices, and ended 2007 at a year-on-year rate of 4.1%, compared with 2.7% in September, while the core inflation rate stood at 2.4%. In the light of this, and as indicated, the Federal Reserve cut its federal funds target rate by 75 bp ahead of the FOMC meeting scheduled for end-January, making for a total reduction of 175 bp since the start of the turbulence, with further cuts expected.

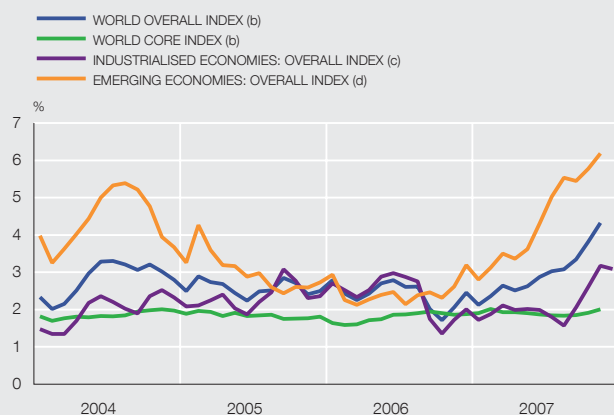
In Japan, the latest indicators suggest some loss of dynamism in industrial activity in recent months. There was a significant deterioration in the business confidence indices for Q4 and a decline in industrial production in November. Nonetheless, the PMI manufacturing index rose in December. On the demand side, the consumer spending indicators continue to trend favourably in November, but the consumer confidence indicators fell to a four-year low, set against a

One of the key characteristics of recent quarters has been the world-wide rise in inflation, driven by the high growth of international commodity prices. Given the current uncertainty surrounding the international economic outlook, this rise might trigger monetary policy dilemmas in some countries, developed and emerging alike. This box reviews the global rise in inflation in 2007 and its relationship to food and energy price developments.

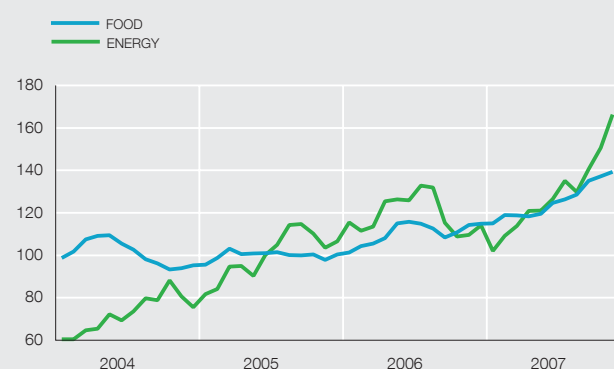
During 2007 global inflation grew significantly, rising in year-on-year terms from 2.4% at end-2006 to 4.3% in November (see Panel 1). In contrast, core inflation - which excludes energy and food prices<sup>1</sup> - held

1. The lack of homogeneity in the construction of the core inflation series in the different countries means that the aggregate core inflation series depicted in Chart 1 may include processed food in some countries, Spain and the euro area among them.

1 CPI: OVERALL AND CORE INDICES (a)



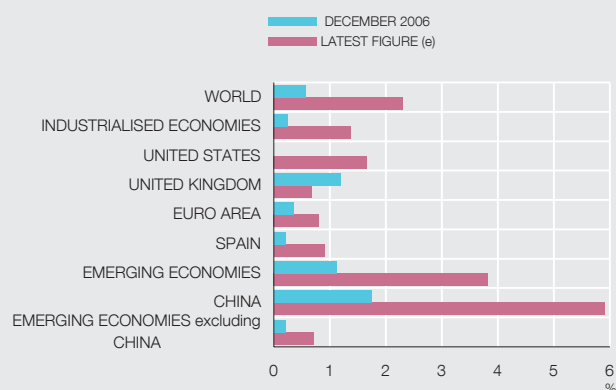
3 COMMODITY PRICE INDICES (f)



in a narrow range around 2%, and with little difference between developed and emerging countries. A similar episode, involving a rise in overall inflation and unchanged core inflation, occurred in the first half of 2004, but on that occasion the gap was smaller. Indeed, the difference between both rates at present, at 2.3 pp, is at a five-year high.

As can be seen in Panel 1, the course of prices in the emerging economies accounts for approximately two-thirds (1.1 pp) of the increase in global inflation to November 2007. It should be clarified that most of the rise seen in Panel 1 for the emerging economies (3 pp) can be explained by inflation developments in China, given the sizable weight (60%) of this economy in the aggregate of emerging countries and the strong surge in Chinese inflation. Specifically, China accounts for 2.5 pp of the inflation increase in the emerging countries and 0.9 pp of the world total. However, in other emerging economies, such as Chile or certain Eastern European countries, prices have also risen significantly, while in

2 HEADLINE AND CORE INFLATION. INFLATION GAP



4 CHANGE IN INFLATION AND WEIGHT OF FOOD AND ENERGY IN THE CPI (x-axis) (g)



SOURCES: IMF, national statistics and Banco de España.

a. Year-on-year rates of change.

b. Aggregate calculated drawing on data from 39 countries accounting for more than 70% of global GDP.

c. United States, Canada, Japan, euro area, United Kingdom, Denmark, Norway and Sweden.

d. Brazil, Chile, Mexico, Colombia, Venezuela, Peru, Poland, Hungary, Bulgaria, Romania, Czech Republic, Estonia, Latvia, Lithuania, Slovakia, China, Korea, Thailand and South Africa.

e. November 2007 for emerging countries and world total, and December for the rest.

f. IMF Commodity Food Price Index and Commodity Fuel (energy) Index. The latter includes oil, coal and natural gas. For both indices, 2005 = 100.

other countries the rises have not been so marked although they are of interest from a qualitative standpoint. For instance, Brazil's overall inflation, after having moved for several years on a declining trend, began to rise in the second half of 2007, outpacing core inflation.

In most areas and countries there has been an observable widening of the gap between overall and core inflation since end-2006 (see Panel 2). The difference increased from 0.6 pp at end-2006 to 2.3 pp in November last year. In the developed economies, the gap widened by 1.1 pp to 1.4 pp in this period. In the United States it was 1.7 pp, while in the euro area it was 0.5 pp. The United Kingdom is an exception, since the gap has narrowed relative to that in place at end-2006. In the emerging economies, the increase in the gap was 2.7 pp (on data to November), with the figure for China (4.2 pp) standing out. Without China, the increase in the aggregate of emerging economies was less than that in the developed countries, since overall and core inflation trended similarly in Latin America, and in Eastern Europe core inflation also rose in 2007.

The widening gap between overall and core inflation can be accounted for by dearer food and energy, the prices of which have risen significantly on international markets. Food prices have grown at a year-on-year rate in excess of 10% since mid-2006, while energy prices have been more volatile, stabilising in the first eight months of the year, but posting a year-on-year growth rate in December of close to 45% (see Panel 3). The impact of these rises on each country's inflation depends on two things: i) the extent to which they pass through to domestic consumer prices, and ii) the weight of food and energy in the CPI, i.e. the composition effect.

Regarding i), there is some evidence that food consumer prices have grown more in the emerging economies than in the industrialised countries. Specifically, according to the IMF<sup>2</sup>, the year-on-year rate of food prices increased by around 2 pp more in the emerging countries in the first four months of 2007.

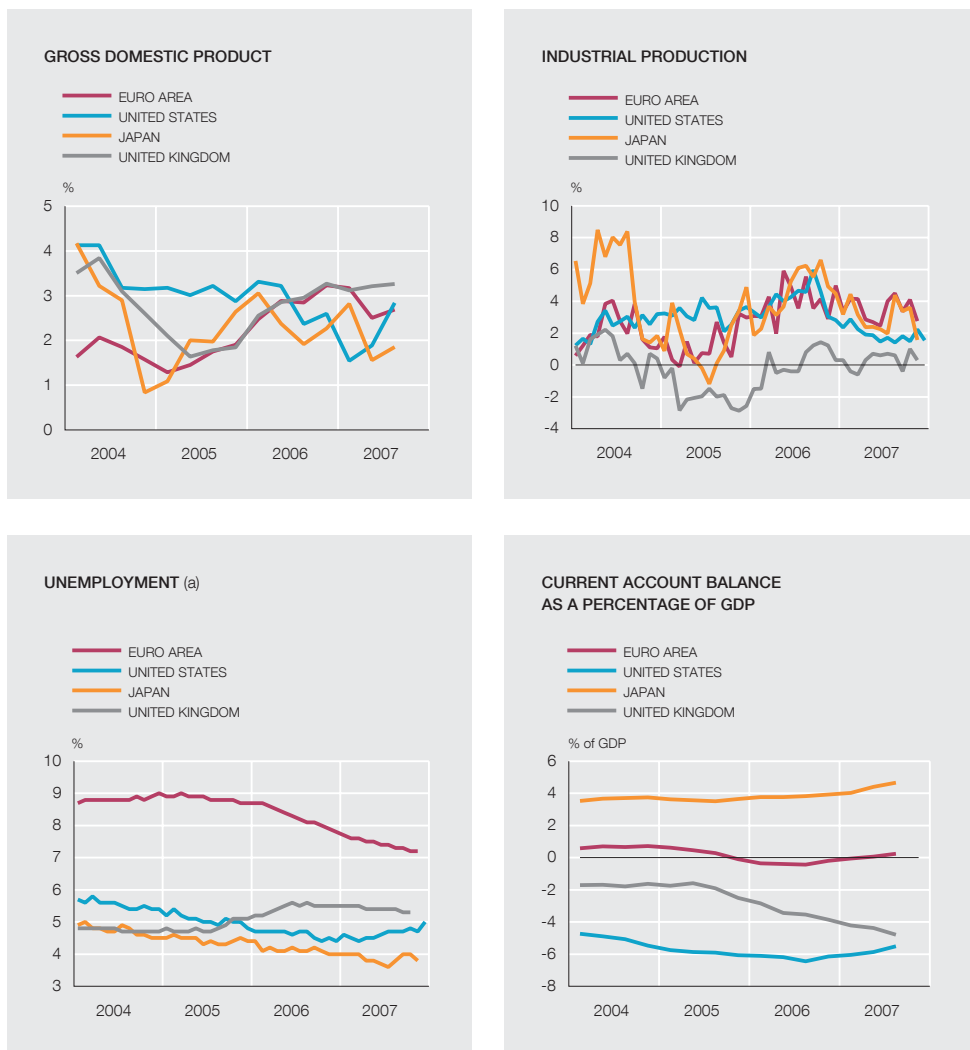
Panel 4, which shows the relationship between the rise in inflation in the past year and the weight of food and energy in the price index, provides evidence on the composition effect. The sample includes data on the weight of food in 58 countries (19 of which industrialised, and 39 emerging and developing) and data on the weight of energy in 33 countries (18 industrialised, and 15 emerging and developing). The panel illustrates the positive and statistically significant relationship between the weight of food and the rise in overall inflation during 2007. This relationship may, however, be affected by the fact that the weight of food is greater in the less developed economies, which usually also have higher structural inflation. Moreover, higher inflation will foreseeably be accompanied by greater volatility and, therefore, a sharper rise.

In the case of energy, fewer data are available and the relationship, though positive, has a lesser slope and is not significant; accordingly, with the sample available, it could not be stated that the greater the weight of energy in the CPI, the higher the rise recorded. The moderate trend of energy prices for most of the year may have contributed to this lack of a statistical relationship.

2. *World Economic Outlook*, September 2007: Box 1.1, "Who is Harmed by the Surge in Food Prices?"

worsening labour market. Here there was a further decline in the ratio of vacancies to job-seekers, which is indicative of a potential easing in the pace of job creation, and a moderate fall in wages. The construction industry continued to contract, as a result of the enactment of new regulations, but there were signs that the adjustment might be nearing its end, which would allow for some normalisation in the coming months. On the external front, there was a slow-down in exports in November and a rise in imports, linked to dearer oil. The year-on-year rate of change of consumer prices rose in November, standing at 0.6% for the overall index and at 0.4% for the core index, as a result of the rise in the prices of oil and oil derivatives and, to a lesser extent, of food. The Bank of Japan official interest rate held unchanged at 0.50%.

In the United Kingdom, GDP in Q3 posted a quarterly rate of 0.7% (3.3% year-on-year). In Q4, growth was 0.6% up on the previous quarter, which reduced the year-on-year rate to 2.9%, a somewhat better figure than expected. In fact, after a relatively sluggish start to Q4, the latest indicators of activity and demand showed an unexpected improvement, as testified by the increase in November retail sales and the rises in the PMI indices for services and construction in December. Conversely, the PMI manufacturing index dipped in December and orders fell heavily. Uncertainty persists over the housing market, where prices have eased back to rates of 5.2% and 4.8%, respectively, according to the Halifax and Nationwide indices. The latest mortgage loans figures reveal these have stagnated at the lower levels reached in October, far down on those of a year ago. The Bank of England



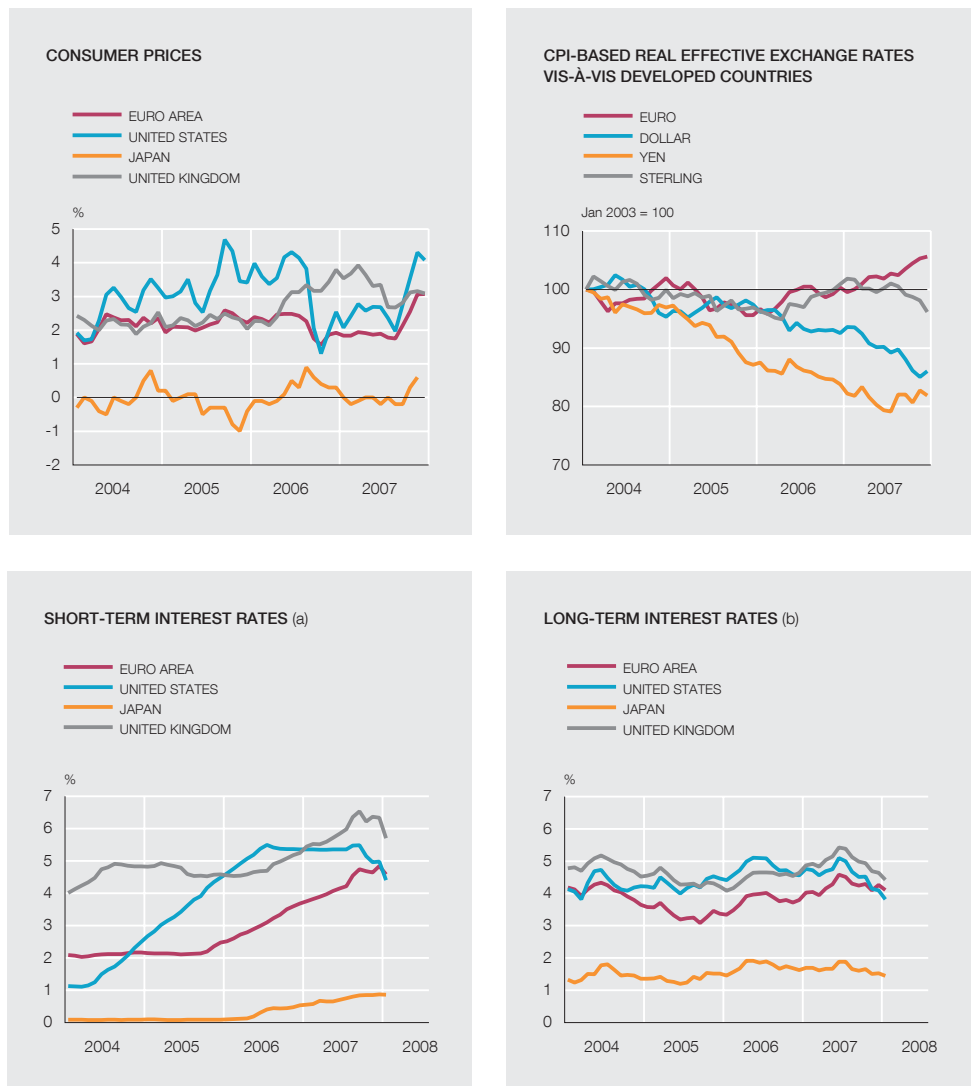
SOURCES: Banco de España, national statistics and Eurostat.

a. Percentage of labour force.

cut its official interest rate in December by 25 bp to 5.5%, holding it at this level at its January meeting.

The aggregate GDP of the new Member States of the European Union slowed slightly, as expected, to a year-on-year rate of 5.7%, compared with 6.2% the previous quarter. Of note was the weakness of Hungary, whose GDP grew by only 0.9% year-on-year. The indicators of industrial production and retail sales for Q4 show that moderation remains the keynote. Inflation rates – and their dispersion – continued to increase in November, in a range from 2.3% in Slovakia to 13.7% in Latvia. Official interest rates were held unchanged, with the sole exception of Romania, where they were raised by 50 bp to 8%. The currencies participating in the Exchange Rate Mechanism (ERM II) trended around their central parities, with the exception of the Slovak koruna, which has appreciated by close to 5%. In the political realm, Cyprus and Malta adopted the euro on 1 January 2008, raising the number of euro area member countries to 15.

In China, GDP grew by 11.2% year-on-year in 2007 Q4, 0.3 pp down on Q3. The rate for the year as a whole thus stood at 11.4%, compared with 11.1% in 2006. Industrial production and



SOURCE: Banco de España.

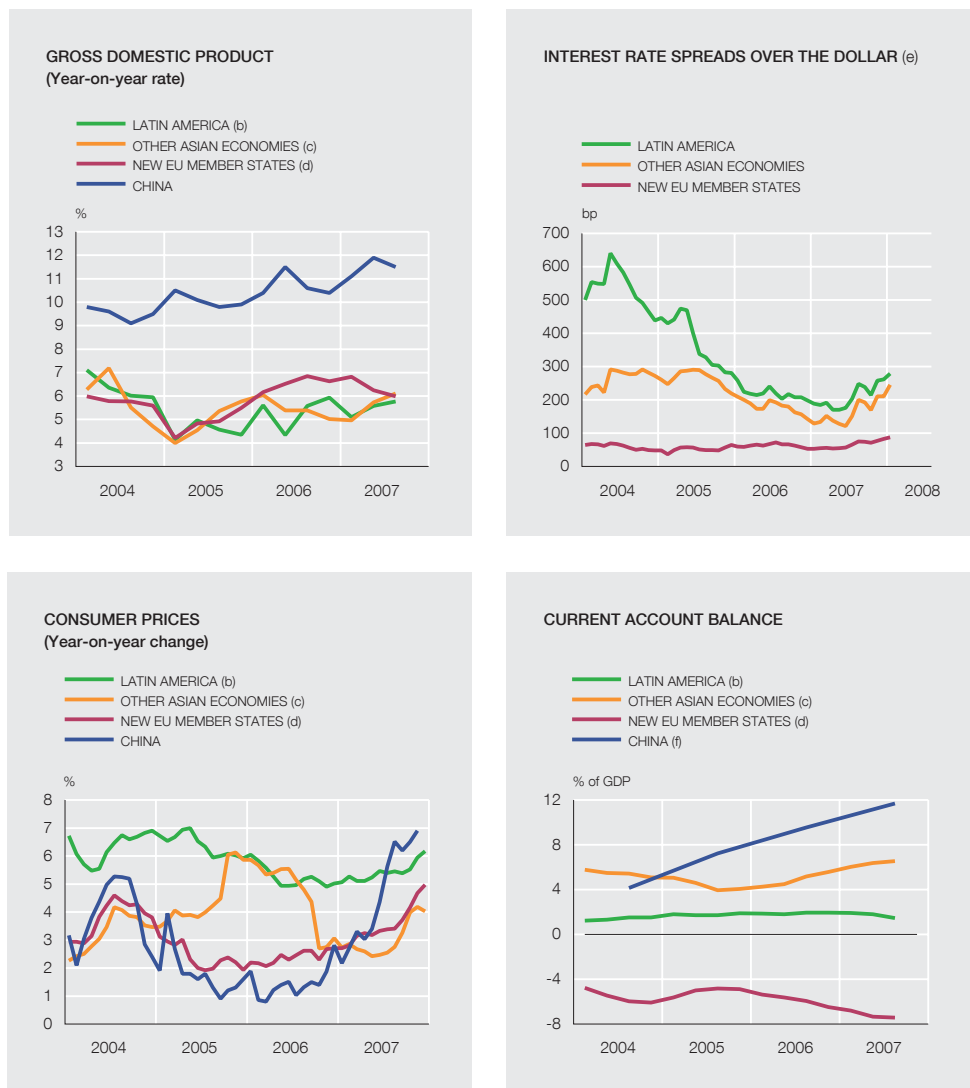
- a. Three-month interbank market interest rates.  
b. Ten-year government debt yields.

investment in fixed assets showed signs of easing at the end of the year, while retail sales quickened. The trade surplus continued to widen, and for 2007 as a whole it was 47.4% greater than that in 2006, although mention should be made of the mild slowdown in exports in the closing months of the year. The year-on-year growth of consumer prices eased slightly in December to 6.5%, 0.4 pp down on November, partly reflecting a base effect. Against this background, the economic authorities announced a change in monetary policy stance for 2008 (from moderate to restrictive), they raised the benchmark interest rates for loans and deposits (by 18 and 27 bp, respectively), they increased the bank reserve requirement on three occasions (to 15%), they allowed the renminbi to appreciate somewhat more rapidly, and they introduced taxes on cereal exports and selective price controls. In the rest of Asia, economic activity tended to slow slightly in 2007 Q4 and inflation continued to rise gradually, driven by higher energy and food prices. In December, Hong Kong and the Philippines cut their official rates by 25 bp.

GDP growth in Latin America in 2007 Q3 was 5.8% year-on-year, compared with 5.6% the previous quarter. Domestic demand accelerated – with investment remaining the most dynamic com-

**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, Slovakia, 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.

ponent in all the countries – and the contribution of external demand was more negative. All the countries, except Chile and Colombia, posted higher growth, which was particularly notable in Mexico, Venezuela and Uruguay. Indicators for Q4 suggest economic dynamism will hold firm in most of the countries. Concerning prices, regional inflation stood at 5.8% in December as a result of an across-the-board rise, markedly so in Chile and, above all, Venezuela. Core inflation edged up from 5.3% in September to 6.1% in December. As to monetary policy, during the quarter there was an increase in official rates of 50 bp in Chile, and of 25 bp in Colombia, Mexico, Peru and Uruguay. Finally, both Chile and Ecuador saw their credit ratings upgraded. In Brazil, the government announced expenditure-cutting measures and tax rises to offset the repeal of the tax on financial transactions. Mexico resorted to the international capital markets under favourable conditions. And in Argentina there were further episodes of the energy crisis.

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

The information available on activity in 2007 Q4 is consistent with significant moderation in the GDP growth rate. The persistence of high oil prices, the strength of the euro, the reduced buoyancy of the economies of the euro area's main trading partners and the prolongation of financial tensions form a somewhat less favourable scenario for 2008 than that considered in the October edition of this Bulletin. This is indeed apparent in the most recent forecasts by private bodies, which point to GDP growth at slightly below potential in the coming quarters. However, the euro area continues to enjoy sound fundamentals, employment is displaying a favourable trend and, externally, the emerging economies continue to drive the area's exports (see Box 2). That said, the uncertainty surrounding the rate of growth of activity in the medium term is very high and dominated by downside risks, which have been growing in recent months. Notable among them are the possibility that the re-pricing of risk on financial markets will be prolonged and will have a greater than expected macroeconomic impact, the potential for further increases in commodity prices and disorderly adjustment of international imbalances (see Box 3).

In 2007 Q4, inflation rose significantly, as a consequence of fresh increases in energy and food commodity prices. The latter affected underlying inflation, which stood at over 2% in December. The presence, in addition, of significant base effects on energy prices amplified the impact of the upward shocks in the quarter, which was only partially offset by euro appreciation. In the coming months inflation can be expected to remain at rates significantly above 2%, although it will foreseeably start to moderate gradually in the second half of 2008. However, two conditions must be met for this moderation to take place: there must be no further rises in commodity prices; and generalised second round effects on wage and price setting must not be triggered.

Against this background, the ECB's Governing Council decided to leave the key ECB interest rates unchanged at 4%, referring again to the presence of upside risks to medium-term price stability. The ECB also stated its determination to act pre-emptively so that second-round wage effects do not materialise and inflation expectations remain firmly anchored in line with its objective of price stability. As regards fiscal policy, the general government deficit was reduced in 2007 by 0.7 pp, to 0.8%, according to the aggregation of the deficits presented in the stability programmes. According to these sources, in 2007, for the first time since 2000, not a single country in the area recorded a deficit of more than 3%. However, implementation of the preventive arm of the Stability and Growth Pact has not been sufficient; while the economic boom and extraordinary revenues have created favourable conditions for progress towards medium-term objectives (MTOs), the structural impact of fiscal consolidation has been limited.

On 1 January 2008, Cyprus and Malta joined the Monetary Union. Both countries successfully completed adoption of the euro in January.

#### **3.1 Economic developments**

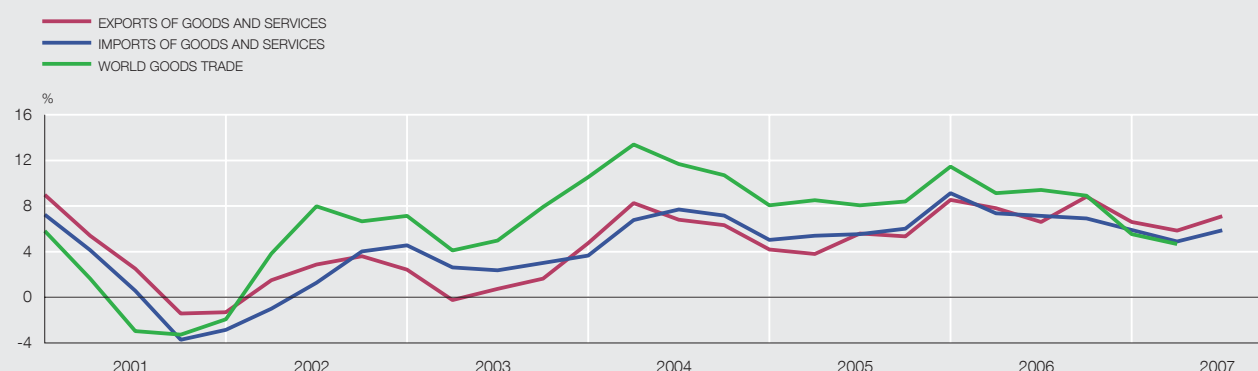
According to the second National Accounts estimate for 2007 Q3, euro area GDP grew by 0.8% quarter-on-quarter, 0.5 pp more than in the preceding period (see Chart 8). The acceleration in output stemmed from stockbuilding, which contributed 0.2 pp to growth, after deducting 0.3 pp from the previous quarter's GDP increase, and from the contribution of domestic demand, which increased to 0.7 pp (0.4 pp in the previous quarter). The strength of the latter was underpinned by gross fixed capital formation, as a result of the recovery in

According to National Accounts data available to Q3, euro area external trade flows decelerated in 2007, following their exceptional buoyancy in 2006 (see Chart 1). Exports of goods and services slowed, to an average growth rate of 6.5% between January and September (from 7.6% in the same period of 2006), as a consequence of lower world trade growth and the materialisation of the effects of the appreciation of the euro exchange rate which, in nominal effective terms, rose by more than 6% between the beginning of 2006 and September 2007. Imports, meanwhile, suffered a larger loss of momentum in

the same period, since their growth rate fell from 7.9% in 2006 to 5.6% in 2007. This was attributable to the smaller increase in euro area final demand, since, in the other direction, the appreciation of the euro reduced their relative price.

In relation to exports of goods, and based on data to September, the loss of momentum was greater in the case of intra-euro area sales than in that of those outside the euro area, so that the weight of the former within total exports continued to decline. With regard to geographical

# 1 EXTERNAL TRADE (a)



# 2 GOODS EXPORTS. BY AREA

	2006			2007				
	(%)	J-Dec	J-Sep	(%)	J-Sep	Q1	Q2	Q3
<b>TOTAL</b>	<b>6.6</b>	<b>6.3</b>		<b>4.9</b>	<b>5.8</b>	<b>4.1</b>	<b>4.9</b>	
INTRA-AREA	48.2	4.7	4.8	47.7	3.3	4.6	2.3	3.0
EXTRA-AREA	51.8	8.3	7.7	52.3	6.5	7.1	5.9	6.6
United Kingdom	8.1	2.3	2.5	8.0	1.9	1.8	0.2	3.6
United States	7.8	4.6	4.5	7.5	-1.5	-0.9	-1.7	-1.8
Russia	2.0	22.7	18.9	2.2	19.3	22.4	22.7	14.1
Japan	1.4	1.4	1.1	1.4	1.0	0.4	7.0	-3.9
China	2.0	19.4	17.6	2.1	10.1	7.6	15.0	8.1
South-east Asia	1.6	9.0	6.0	1.6	10.5	10.9	15.6	5.4
Latin America	2.2	14.0	14.1	2.3	11.4	11.1	10.9	12.2
Switzerland	2.7	6.0	3.3	2.7	5.2	9.2	4.2	2.3

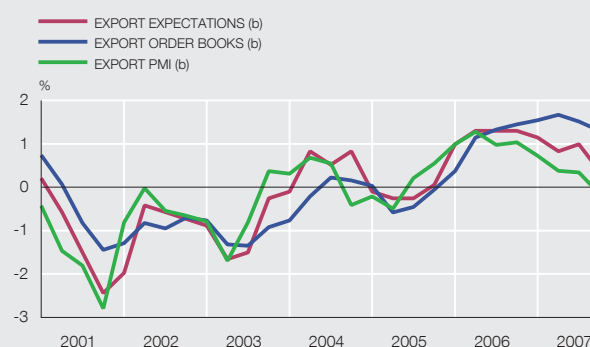
# 3 GOODS IMPORTS. BY PRODUCT

	2006			2007				
	(%)	J-Dec	J-Sep	(%)	J-Sep	Q1	Q2	Q3
<b>TOTAL</b>	<b>6.2</b>	<b>6.0</b>		<b>4.0</b>	<b>4.8</b>	<b>3.1</b>	<b>4.1</b>	
EXTRA-EURO AREA	51.3	6.8	6.7	51.5	4.2	5.8	2.8	4.1
Food	7.6	3.6	3.9	7.5	3.2	4.4	2.8	2.5
Commodities	4.1	9.6	7.5	4.1	4.2	10.3	4.6	-2.0
Oil	9.6	1.6	1.7	9.0	-4.5	-7.0	-3.0	-3.5
Manufactures	78.1	7.4	7.2	79.2	5.6	6.9	4.1	5.9
— Chemical products	14.0	7.2	6.6	14.8	9.5	11.4	7.5	9.7
— Transport equipment	38.4	7.2	7.5	37.9	4.0	4.1	2.3	5.7
— Other	25.9	7.8	7.0	26.5	5.8	8.5	4.9	4.0

# 4 EXTERNAL GOODS TRADE IN NOMINAL TERMS. RECENT DEVELOPMENTS (a)

	2006		2007				
			Q1	Q2	Q3	Oct	Nov
<b>EXPORTS</b>	<b>10.7</b>	<b>8.4</b>	<b>7.5</b>	<b>8.0</b>	<b>8.6</b>		
INTRA-AREA	9.4	8.0	6.3	6.7	6.6		
EXTRA-AREA	12.1	8.8	8.9	9.3	9.6		4.5
<b>IMPORTS</b>	<b>12.4</b>	<b>6.0</b>	<b>5.1</b>	<b>6.4</b>	<b>8.2</b>		
INTRA-AREA	10.2	7.2	7.4	7.7	8.6		
EXTRA-AREA	14.5	4.8	2.9	5.2	7.4		6.7

# 5 CONFIDENCE INDICATORS



SOURCES: Eurostat and IMF.

a. Year-on-year rates of change.

b. Normalised data.

destination, the data show that, among the most developed countries, sales to the United States contracted, while those to the United Kingdom and Japan grew at similar rates to the previous year, which were well below average. On the other hand, exports to emerging regions were highly buoyant, so that they maintained or, in some cases, intensified their role as the main recipients of European products. Notable within this group, were the exports to China, Latin America, south-east Asia and Russia, which grew at rates of over 10%.

According to data that is still provisional and only reaches the first half of 2007, the slowdown in world trade was stronger than that in euro area external sales, so that the euro area's loss of market share in international goods markets was curbed in 2007, despite the appreciation of the euro. A positive contribution to this phenomenon may have been made by the geographic diversification of European exports towards emerging countries with high economic growth rates, to the detriment of other more developed regions, whose markets are less dynamic and, moreover, more affected by the world economic slowdown.

Meanwhile, imports of goods, both intra and extra-euro area ones, lost momentum in the period analysed. As regards product types, the

growth rates of all goods categories, with the exception of chemical products, declined (see Table 3). The fall in imports of oil products, mainly concentrated in Q1, and the reduced buoyancy of manufactures and machinery and transport were notable. In fact, capital goods suffered the largest deceleration in the period January-September 2007, which may indicate that firms are expecting a smaller increase in future demand.

The still-incomplete Q4 data indicate that the strength of the external sector was maintained in that period. Thus, nominal exports and imports according to the trade balance and qualitative indicators, like the assessment of export order books and euro area producers' export expectations compiled by the European Commission, held at high levels in 2007 Q4 (see Table 4 and Chart 5). More in the medium term, the strength of exports will depend to a large extent on future developments in the euro area's external environment, which is currently subject to uncertainties relating to the extent of the effects of the financial turmoil. The euro area's external purchases, meanwhile, will continue to expand in line with final demand and will benefit from the appreciation of the euro.

construction investment and the continued buoyancy of equipment investment, since government and private consumption grew at rates of around 0.5%. Finally, net external demand deducted 0.1 pp from output growth, as against the positive 0.2 pp contribution of the previous period, as imports accelerated by more than exports. In year-on-year terms, the GDP growth rate was also stronger, at 2.7%. The breakdown of output by sector reveals particular strength in industry (1.4%) and in market services, while construction was subdued.

Developments in activity in the main euro area countries followed a similar pattern to the euro area as a whole. Thus, with the exception of Spain, where activity slowed moderately from very high growth rates, GDP in the largest countries grew at a higher rate than in the previous quarter. Gross fixed capital formation was generally highly buoyant. In Germany, output grew by 0.7%, its composition showing similar patterns to those of the aggregate for the area, while in France (where a 0.8% increase was observed) the strength of private consumption was notable. In Italy, GDP growth accelerated to 0.4%, well below the euro area average.

Employment grew in 2007 Q3 at a rate of 0.3%, half of that rate recorded in Q2 (see Chart 9). However, in year-on-year terms the rate was close to 2%, the highest since early 2001. Thus, labour productivity increased by 0.8%, so that the slowdown observed in the first half of the year halted. Labour costs, meanwhile, still showed no sign of wage pressures. Compensation per employee increased by 2% year-on-year, so that unit labour costs grew by 1.2%, a similar rate to that of the preceding quarter and below that of the GDP deflator. This entailed a further widening of margins.

The most recent indicators point to a reduction in the pace of real activity in 2007 Q4 (see Chart 10). On the supply side, the industrial production index (on data to November)

In 2007 Q4, the tensions that emerged in global credit and structured-product markets last summer intensified, against a background of deterioration in the US real-estate market and great uncertainty surrounding the eventual losses that financial intermediaries exposed to sub-prime mortgages and derivatives may suffer. Risk indicators deteriorated, especially those relating to financial firms (see Chart 1). Moreover, this further review of risk also affected covered bonds and mortgage-backed securities issued in the euro area, widening their yield spread. These are both instruments that have been playing an important role in the financing of mortgage lending.

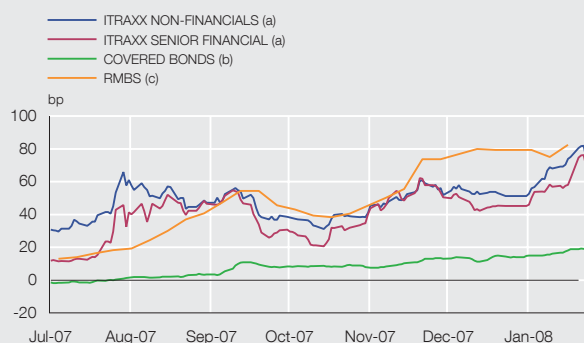
The increase in the cost of debt made it difficult for the euro area private sector to obtain medium and long-term funds on the markets. According to the information available to November, there was a decline in the issuance of debt securities by non-financial corporations (see Chart 2). In the case of monetary financial institutions, the rise in the cost of long-term issuance has prompted greater recourse to short-term instruments. By contrast, non-monetary institutions maintained relatively high volumes of long-term issuance, mainly of asset-backed securities. It is possible that the latter are being acquired by the same institutions that originate the loans, so that they have a larger amount of assets eligible as collateral in transactions with the Eurosystem.

Again, the tightening of pressures was particularly evident in the money markets,<sup>1</sup> since the higher fund requirements at the end of the year increased the institutions' fear of finding themselves short of liquidity, and interbank deposit rates rose notably from mid-November, especially when the term began to include the change of year (see Chart 3).

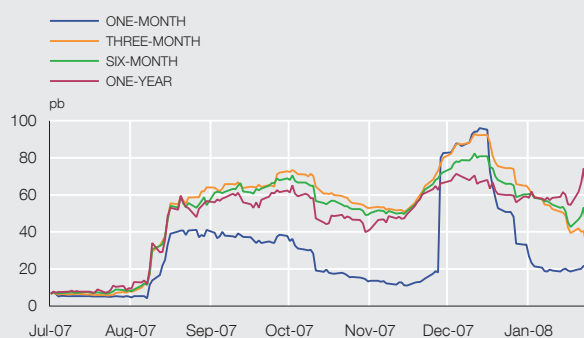
This situation led to further interventions by the ECB, sometimes in co-ordination with other central banks, like the possibility of offering dollar funding through a swap line with the Federal Reserve. In November, the ECB announced that it would satisfy liquidity demands beyond the neutral or benchmark amounts in its main refinancing operations, at least until the end of the year. In addition, the tender of 19 December, whose maturity was exceptionally two weeks, was preceded by the announcement that all bids at or above the weighted average rate of the last tender (i.e. 4.21%) would be satisfied, which entailed an allotment of €168 billion above the benchmark amount<sup>2</sup> (see Chart 4). These interventions were combined with subsequent liquidity-absorbing operations, so that the total lending

1. For a description of developments in the interbank market since the summer, see Box 3 of the October 2007 Quarterly Report.

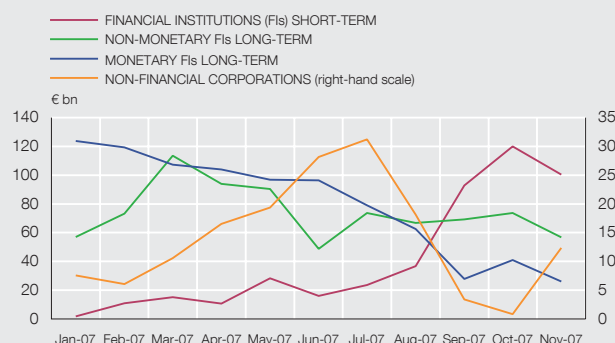
### 1 RISK INDICATORS



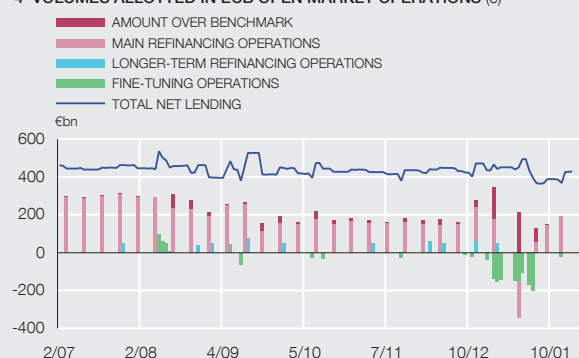
### 3 EURIBOR-REPO SPREAD



### 2 NET FIXED-INCOME ISSUANCE IN 2007 (d)



### 4 VOLUMES ALLOTTED IN ECB OPEN MARKET OPERATIONS (e)



SOURCES: European Central Bank, Datastream and JP Morgan.

- Traded indices of a basket of credit default swaps.
- Spread over swaps. Five-day moving averages.
- Euro-denominated AAA-rated mortgage-backed securities. Spread over three-month Euribor. Unweighted average of the indices available for countries.
- Cumulative three-month data.
- Includes regular one-week operations (main refinancing operations), three-month operations (longer-term refinancing operations) and non-regular fine-tuning operations.

granted in open market operations did not change significantly with respect to previous months. In this respect, the liquidity provided by the ECB since the summer has entailed a change in the maturities and in the rate at which institutions accumulate liquidity in the maintenance periods, but have not had an expansionary effect on monetary conditions, beyond what may be inferred from their impact on money market rates.

The announcement and implementation of these actions reduced the upward pressures on unsecured interbank deposit rates, especially at the shortest maturities. This gradual relaxation continued at the beginning of 2008, although the spread over deposits with agreed maturity backed by government securities (repos) is still at similarly high levels to last summer. Also, private-debt spreads and risk indicators continued to deteriorate in January.

slowed with respect to the preceding quarter. On a positive note, the weakening of industry would be partially compensated by the notable increase in industrial orders in the same period of time. The opinion indicators obtained from confidence surveys also fell in Q4, more sharply in the services sector than in industry. However, the levels of these opinion indices are currently at around their long-term average and compatible with growth in activity at close to potential. Finally, the employment indicators behaved more favourably than the production ones. Thus, in Q4 the euro area unemployment rate fell further, to 7.2%, and the opinion surveys components referring to intentions to create jobs only declined slightly.

The short-term spending-related indicators indicate a loss of buoyancy in private consumption (see Chart 10). Specifically, retail sales and new car registrations fell in October and November. Likewise, the confidence of retailers and consumers deteriorated in 2007 Q4. Notable in the second of these two indicators was the component of willingness to purchase consumer durables, which stands at very low levels. This may reflect the tightening of credit conditions seen in the latest bank lending surveys and the persistent uncertainty surrounding resolution of the current financial turbulence. Investment indicators, such as order books and, to a lesser extent, capacity utilisation, have continued the downward trend that began six months ago, when they were at very high levels, but their level is consistent with relatively strong equipment investment. Finally, the indicators relating to the external sector reveal that both assessments of order books and export expectations deteriorated, which would indicate the possibility of a further fall in external orders in the coming quarter and of a possible export slowdown (see Box 3).

The deterioration in the activity indicators seen in 2007 Q4 reflects the combined action of various factors: rising oil prices, euro appreciation, the worsening outlook for the world economy and the effects that episodes of financial instability may be having on economic agents' financing conditions and confidence. In 2008, according to the latest forecasts, output may grow at below potential, if the negative consequences of the shocks mentioned above are exacerbated, although there are still some factors conducive to growth, such as the resilience of the emerging economies, the favourable financial position of non-financial corporations and the positive employment developments. Moreover, the latest bank lending survey reports a significant tightening in credit standards. Looking forward, a further tightening of these standards or more persistent restrictive conditions might exert a stronger than expected drag on spending.

The increase in the HICP was 3.1% in the last two months of the year, one percentage point more than in September (see chart 11). This notable rise in inflation has been caused by the energy component and by the trend in processed food prices. In the case of energy, the base

	2006			2007			2008	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4 (a)	Q1 (b)
GDP								
Year-on-year growth	2.9	2.9	3.2	3.2	2.5	2.7		
Quarter-on-quarter growth	1.0	0.6	0.8	0.8	0.3	0.8		
IPI (c)	4.3	4.2	4.0	3.9	2.7	4.0	3.4	
Economic sentiment	106.8	108.2	109.9	110.0	111.6	109.3	105.2	
Industrial confidence	2.3	3.7	5.7	5.3	6.3	4.3	2.3	
Manufacturing PMI	57.1	56.9	56.7	55.5	55.3	54.2	52.3	52.6
Services confidence	18.7	19.0	19.7	20.7	22.3	20.0	15.0	
Services PMI	59.2	57.3	57.1	57.6	57.5	56.9	54.4	52.0
Unemployment rate	8.4	8.1	7.9	7.6	7.5	7.3	7.2	
Consumer confidence	-9.7	-8.3	-7.0	-5.3	-2.3	-4.0	-7.7	
HICP (annual growth) (d)	2.5	1.7	1.9	1.9	1.9	2.1	3.1	
PPI (annual growth) (d)	5.8	4.6	4.1	2.8	2.3	2.7	4.2	
Oil price in USD (d)	68.1	61.2	62.8	62.3	71.8	78.2	91.2	92.4
Loans to the private sector (annual growth) (d)	11.0	11.4	10.8	10.6	10.8	11.0	11.0	
Euro area ten-year bond yield	4.0	4.0	3.9	4.1	4.4	4.5	4.3	4.2
US-euro area ten-year bond spread	1.08	1.00	0.82	0.67	0.47	0.32	-0.03	-0.36
Dollar/euro exchange rate (d)	1.271	1.266	1.317	1.332	1.351	1.418	1.472	1.466
Appreciation/ depreciation of the euro (d)	7.8	7.3	11.6	1.1	2.5	7.7	11.8	-0.4
Dow Jones EURO STOXX Broad index (d)	4.2	11.9	20.3	3.4	9.9	6.1	4.9	-13.0

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 24 January 2008.

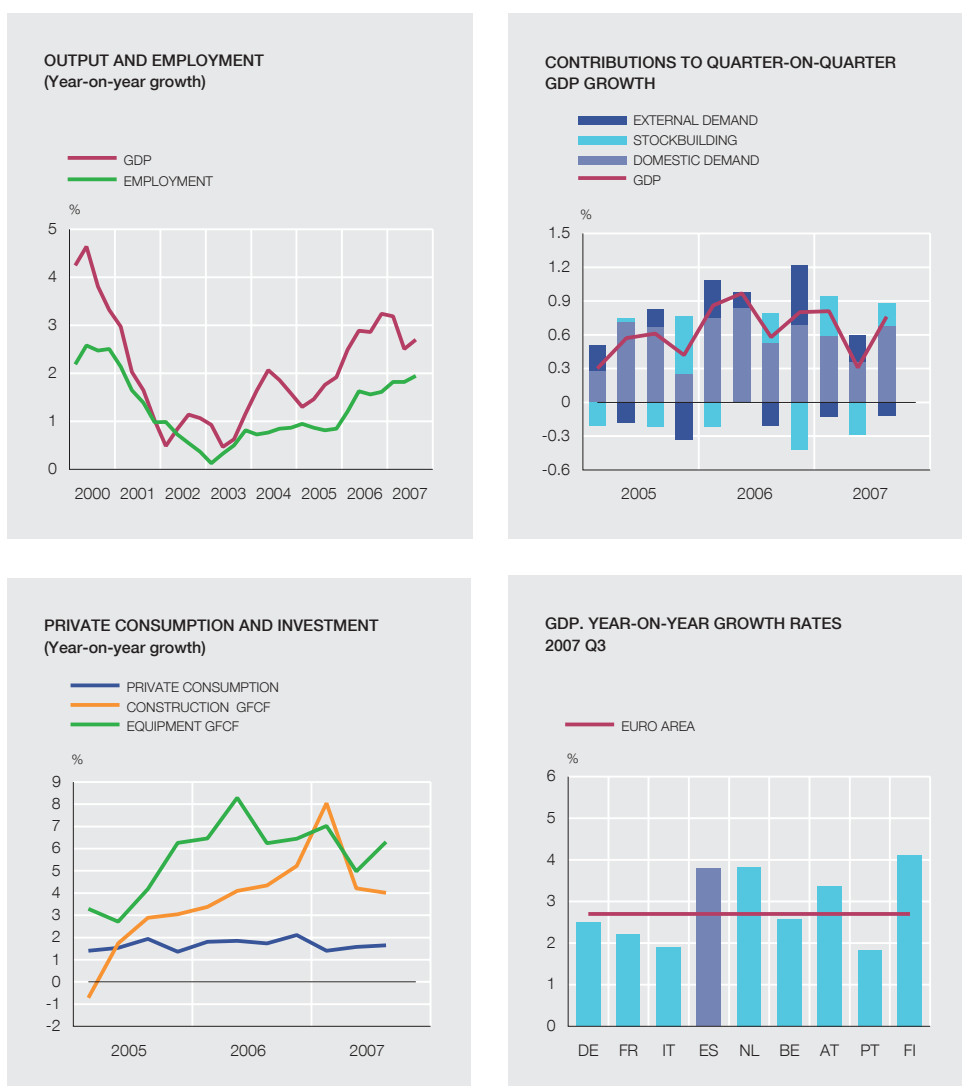
c. Year-on-year growth rates of working days adjusted data.

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

effect arising from the positive behaviour recorded in late 2006 has compounded the recent rise in the price of oil, which is currently at around 100 dollars per barrel of Brent. For their part, processed food prices accelerated constantly over the last five months, from 1.9% in July to 5.1% in December, owing to the notable increases in food commodity prices. This, in turn, was a result of the increase in demand (from the emerging economies, mainly China and India, and, to a lesser extent, from biofuel producers), but also of certain supply restrictions (e.g. in the case of cereals, owing to droughts). Thus, although the growth in services prices has remained steady in recent months, the upward trend in underlying inflation, evident since early 2006, has strengthened. Underlying inflation, as measured by the year-on-year rate of change in the HICP excluding unprocessed food and energy, ended 2007 at 2.3%, 0.7 pp above its December 2006 rate.

Producer prices accelerated in the second half, to a year-on-year rate of 4.1% in November, mainly as a result of the surge in energy prices. Also, the prices of non-durable consumer goods rose at progressively faster rates, owing to the behaviour of producer prices in the food industry. Nonetheless, the slowdown during the year in the prices of intermediate goods and, to a lesser extent, of capital goods counteracted the trend in the most inflationary components.

Headline inflation is expected to remain high in the coming months and to decline gradually during 2008 to levels more in line with price stability, provided that there are no further shocks. However, against the background of a relatively tight labour market, persistent high rates of inflation may lead to a deterioration in agents' expectations and activate second-round effects on wages. On

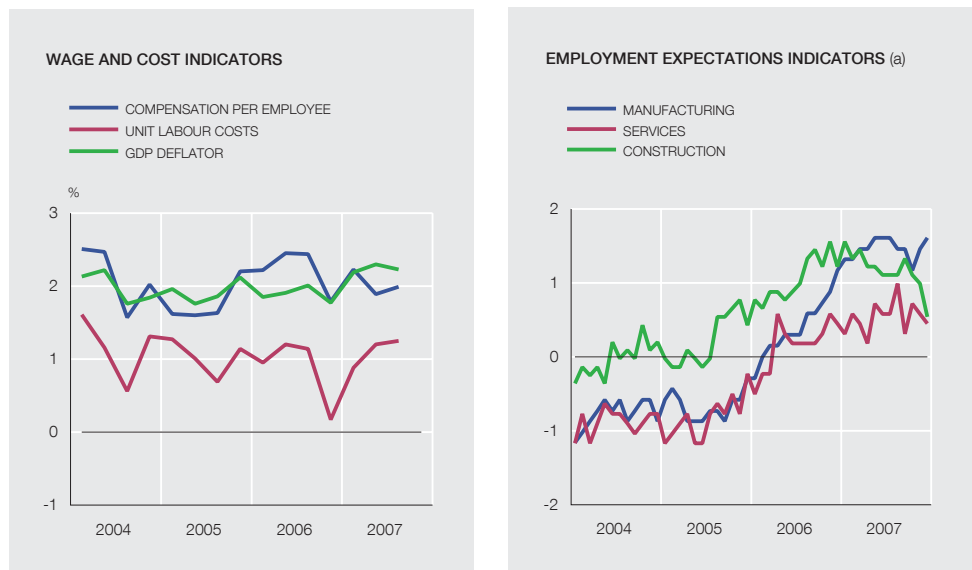


SOURCES: Eurostat and national statistics.

a more positive note, the structural labour market reforms of recent years have reduced the unemployment rate compatible with an absence of inflationary pressures (NAIRU), which would moderate the pressure on wages stemming from the fall in the actual rate of unemployment.

According to the estimates published by the ECB, the current account of the balance of payments recorded a surplus of €12.4 billion in 2007 (around 0.2% of GDP), as against a deficit of around 0.4% of GDP in the same period a year earlier. This improvement was mainly the result of a larger goods surplus (as exports increased by more than imports, with year-on-year increases of 9% and 5.2% respectively) and, to a lesser extent, of the improved services balance, which more than offset the increase in the income and current transfers deficit. At the same time, between January and October 2007 there were net capital inflows in the form of portfolio investment of €243 billion, 25% up on the same period of 2006. The net outflows of direct investment (€92.3 billion) were similar to those recorded the previous year. Thus, the basic surplus between January and October 2007 increased notably with respect to the same period a year earlier (see Chart 14).

According to the aggregated December 2007 stability programme updates, the euro area budget deficit is estimated to have fallen by 0.7 pp with respect to the previous year, to 0.8%



SOURCES: Eurostat and European Central Bank.

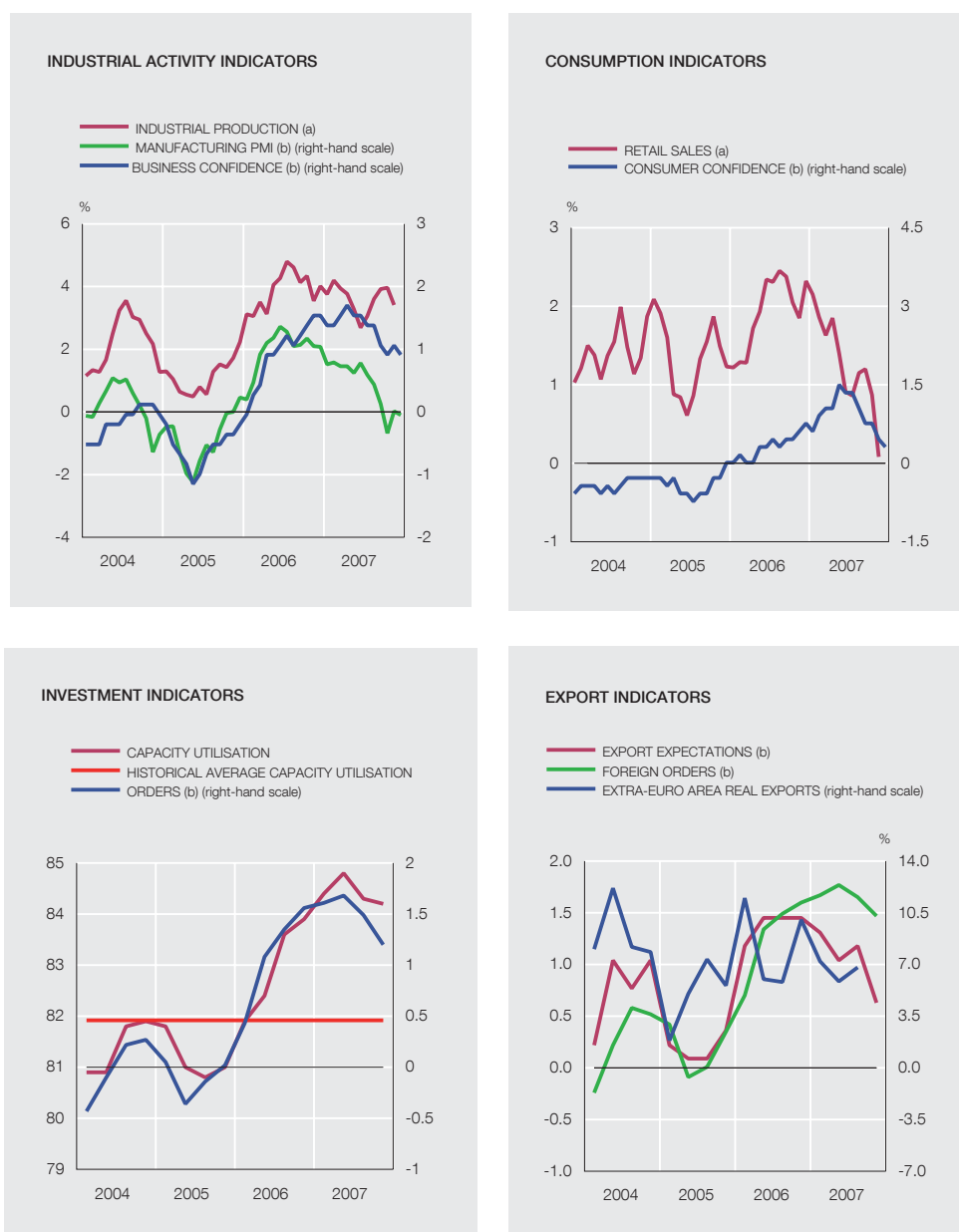
a. Expectations based on European Commission sentiment indicators. Normalised data.

of GDP (see Table 2). This figure coincides with the latest Commission forecasts, of autumn 2007. The decline in the deficit is largely due to a fall in public spending prompted by cyclical and temporary factors (in 2006 euro area spending was 0.3% higher, owing to the enforced refund of VAT receipts on certain products and the assumption of railway debt in Italy). Revenues held firm, as the cut in direct taxes and social security contributions was made up for by an increase in indirect taxes. The correction in the structural deficit was smaller, from 1.1% of GDP in 2006 to 0.7% in 2007.

Notably, for the first time since 2000, not a single country in the euro area had a budget deficit exceeding the limit established in the Stability and Growth Pact (including Italy and Portugal, which are subject to excessive deficit procedures). However, of the ten euro area countries that have still not fulfilled the medium-term objectives, only Germany, Italy and Portugal have reduced their structural deficit by at least 0.5%, as agreed in the SGA. France is running a budget deficit, despite the favourable macroeconomic situation, largely on account of a discretionary tax cut following the May 2007 presidential elections. As for Italy, the sharp fall in the deficit estimated for 2007 has mainly been caused by temporary factors (already mentioned in the previous paragraph), and by the increase in direct tax receipts. In 2007, the public debt/GDP ratio in the euro area is estimated to have fallen to 66.5% (from 68.6% in 2006).

Greater fiscal consolidation efforts are not expected this year. According to the Commission's autumn report and the aggregated stability programmes, the budget deficit is projected to remain unchanged (at 0.9% of GDP). The reduction in spending as a percentage of GDP will be offset by a reduction in receipts due to cuts in taxes (corporation tax in Germany) and social security contributions (in Germany and in France). Moreover, some governments plan to use part of the extraordinary income to increase spending, instead of to reduce the deficit and debt.

Accordingly, the preventive arm of the Stability and Growth Pact is not being sufficiently implemented. Although the economic boom and extraordinary temporary revenues have created



SOURCES: Eurostat and European Commission.

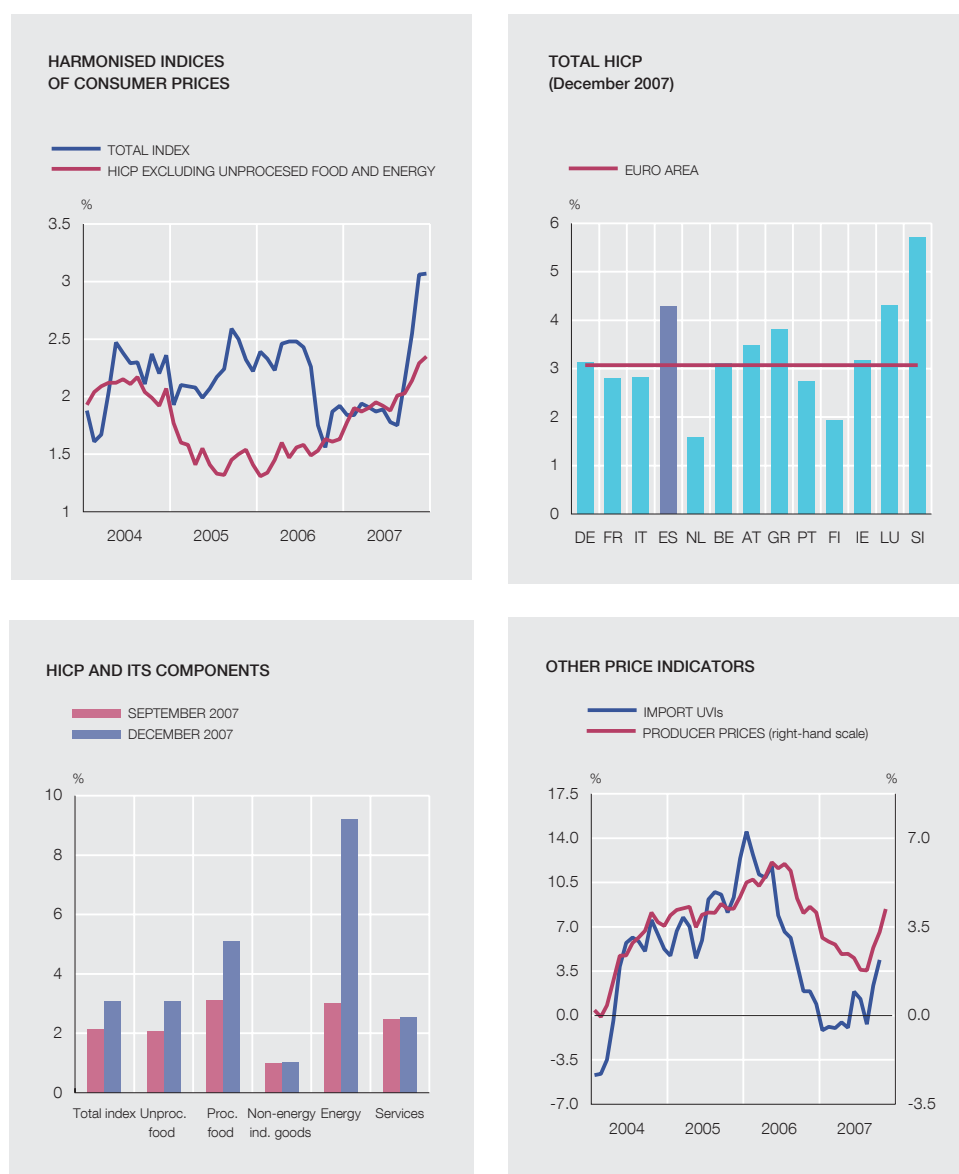
a. Non-centred annual percentage changes, based on the quarterly moving average of the seasonally adjusted series.

b. Normalised data.

favourable conditions for rapid progress towards the MTOs in those countries that have still not fulfilled them, fiscal consolidation efforts falling short in structural terms.

### 3.2 Monetary and financial developments

In 2007 Q4, the financial tensions triggered last summer by the problems in the American sub-prime mortgage market heightened. During this period, and especially at the end of the year, all markets were dominated by high levels of volatility, the reappraisal of risk intensified and market liquidity problems (particularly in the interbank market) worsened. Compounding these shocks were the rises in the prices of energy and food commodities, and fresh data on the slowdown in the US economy. These events triggered stock market corrections and downward pressures on the US dollar.



SOURCES: Eurostat and European Central Bank.

Against this background, the ECB's Governing Council left the key ECB interest rates unchanged at 4%, given the uncertainty regarding the potential impact on the euro area economy of the ongoing reappraisal of risk in financial markets. However, at the same time, it stressed that the information available fully confirmed the upside risks to price stability in the medium term, in a context of sound economic fundamentals and highly vigorous money and credit growth. In addition, the Governing Council indicated its readiness to act pre-emptively so that second-round effects do not materialise and, consequently, medium and long-term inflation expectations remain firmly anchored in line with the objective of price stability.

In the interbank markets the tension observed since August, stemming from the reluctance of banks to lend each other funds for more than one week (see Chart 12), mounted over the quarter. As a result, although the EONIA fluctuated around 4% with some volatility, interest rates on deposits with an agreed maturity of one month or more rose again to 4.9%

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

TABLE 2

% of GDP								
	BUDGET BALANCES (a)						DEBT (b)	
	2006	2007 (c)	2007 (d)	2008 (c)	2008 (d)	2009 (d)	2007 (d)	2008 (d)
Belgium	0.4	-0.2	-0.3	-0.4	-0.4	-0.4	84.6	81.7
Germany	-1.6	0.0	0.1	-0.5	-0.1	0.2	64.5	62.6
Greece	-2.5	-2.7	-2.9	-1.6	-1.8	-1.8	93.7	91.1
Spain	1.8	1.8	1.8	1.2	1.2	0.6	36.3	34.6
France	-2.5	-2.4	-2.6	-2.3	-2.6	-2.7	64.3	64.1
Ireland	2.9	0.5	0.9	-0.9	-0.2	-0.6	25.2	26.9
Italy	-4.4	-2.4	-2.3	-2.2	-2.3	-2.3	104.3	102.9
Luxembourg	0.7	1.0	1.2	0.8	1.0	1.4	6.6	6
Netherlands	0.6	-0.2	-0.4	0.5	0.5	1.3	46.8	44.8
Austria	-1.4	-0.7	-0.8	-0.6	-0.7	-0.4	60	58.4
Portugal	-3.9	-3.0	-3.0	-2.4	-2.6	-2.4	64.4	64.7
Slovenia	-1.2	-0.6	-0.7	-0.9	-1.0	-0.8	25.6	24.5
Finland	3.8	4.5	4.6	3.7	4.2	4.0	35.7	32.4
Malta	-2.5	-1.6	-1.8	-1.2	-1.6	-1.0	63.1	61.3
Cyprus	-1.2	1.5	-1.0	0.5	-0.8	-0.6	60.5	53.3
MEMORANDUM ITEMS: euro area (including Malta and Cyprus)								
Primary balance	1.3	2.2	2.1	2.1	2.0	2.0		
Total balance	-1.5	-0.8	-0.8	-0.9	-0.9	-0.8		
Public debt	68.6	66.6	66.5	64.8	65.0	63.4		

SOURCES: European Commission and national stability programmes.

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

b. Public debt as a percentage of GDP. The debts that exceed 60% of GDP have been shaded.

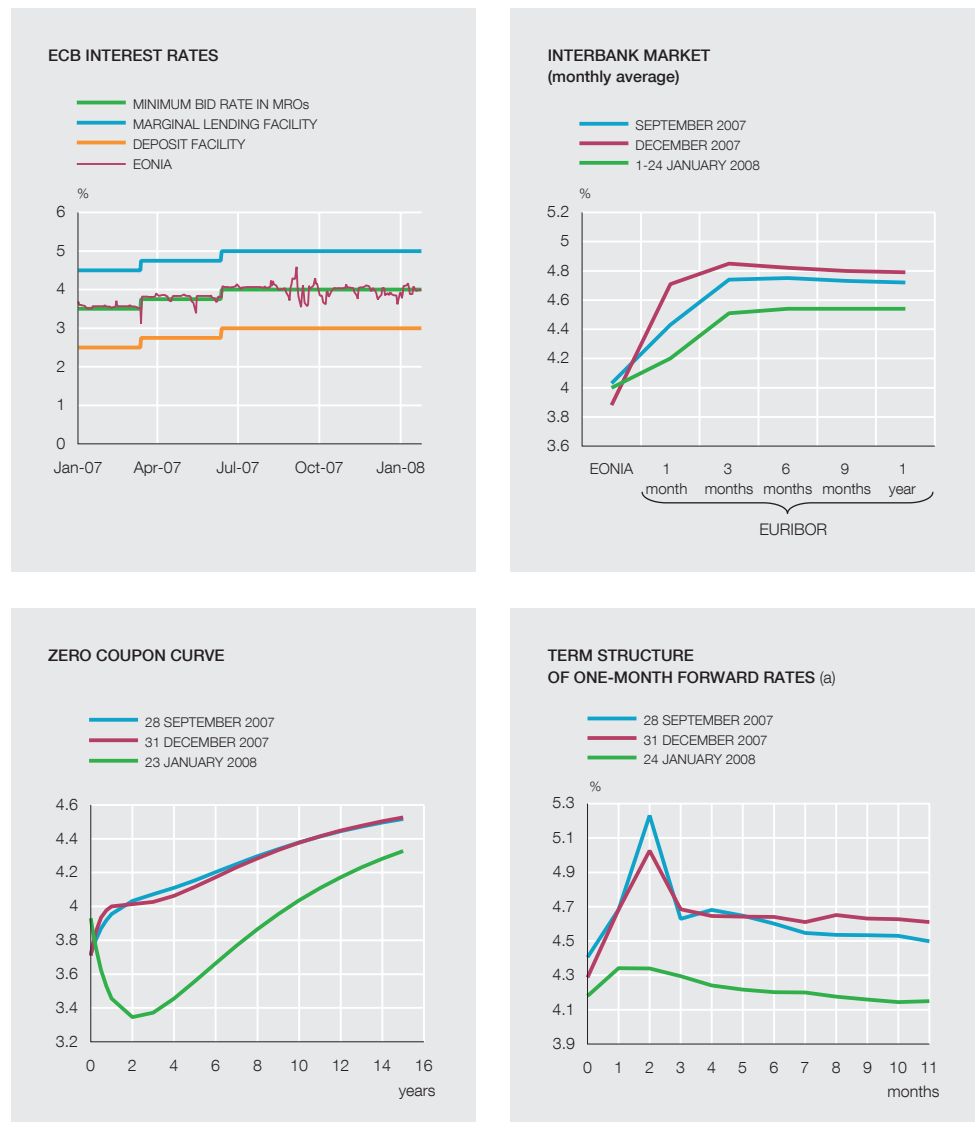
c. Targets of the stability programmes presented in late 2007 and early 2008

d. European Commission autumn 2007 forecasts.

in mid-December, partly because of a year-end calendar effect. As explained in Box 3, these tensions led to intervention by the ECB, which managed partially to correct the situation in the markets, so that interest rates on deposits with an agreed maturity of over one month are currently fluctuating at around 4.3%, i.e. some 30 bp below their end-October levels.

Ten-year government bond yields were somewhat volatile in 2007 Q4, in line with movements of funds in search of a safe haven and the rise in inflation expectations (see Chart 13). Since the beginning of 2008 they have fallen by somewhat more than 30 bp and stand, as this Bulletin goes to press, at around 4.1%. On the private bond markets, as illustrated in Box 3, the gradual widening of yield spreads continued. This, along with the lack of liquidity, made it difficult to obtain medium and long-term funds.

Stock market indices in Q4 were characterised by the absence of any clear trend and levels of volatility that were relatively high, albeit below those observed in the preceding quarter. Thus, in 2007 as a whole the EURO STOXX broad index rose almost 5%. However, in January to date there have been several days of losses, which intensified with the sharp correction across world stock markets on 21 January. That day alone the EURO STOXX broad index fell 6.5%, so that since the beginning of the year it has fallen by more than 13%. In any event, it is still early to make a balanced assessment of this latest episode of turbulence. Price adjustment continued in the construction and financial services sectors, which have recorded notably larger falls since October than the overall indices.



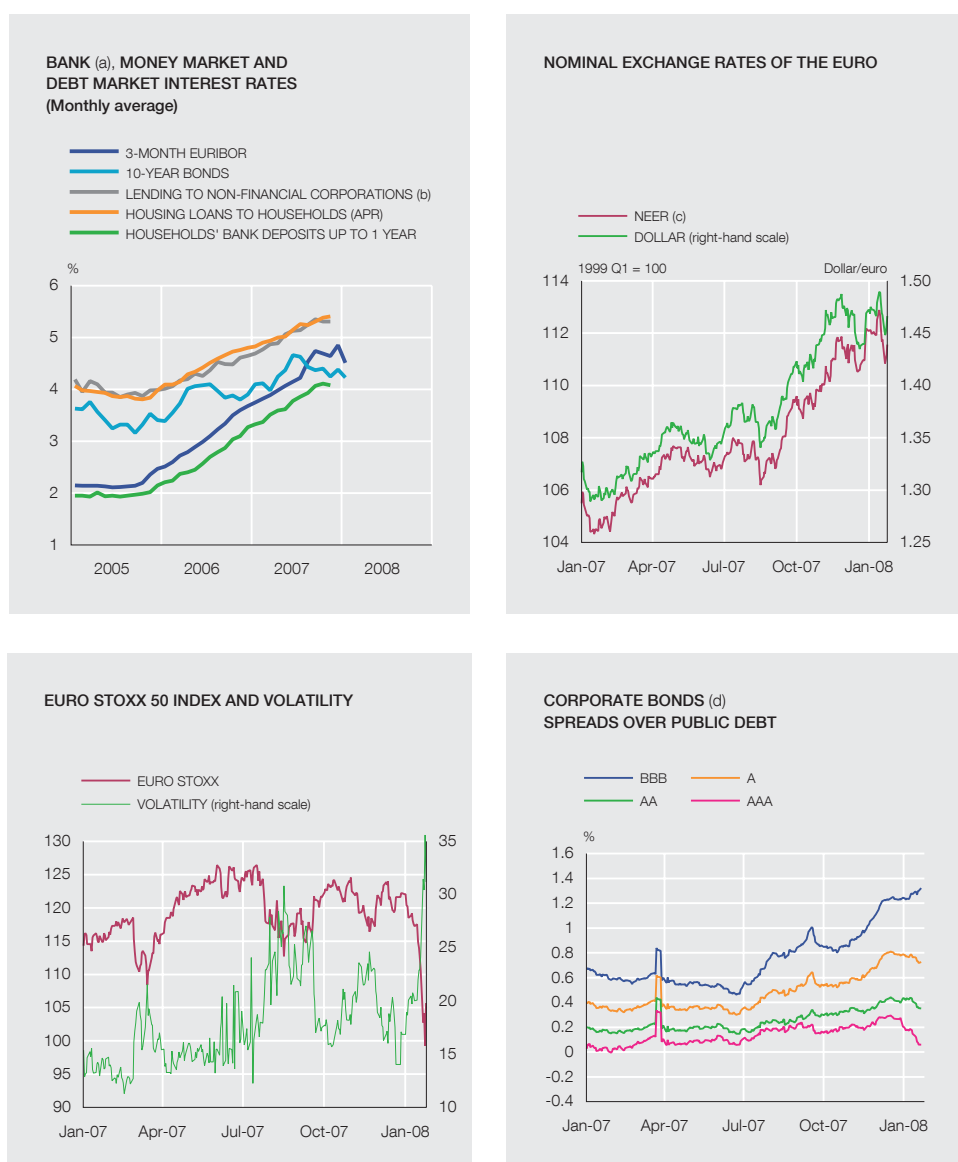
SOURCES: European Central Bank and Banco de España.

a. Estimated using Euribor data.

The euro exchange rate was also affected by the episodes of financial instability, the slowdown in the US economy and the prospects of divergence between the interest rates in the United States and in the euro area. As this Bulletin went to press, the euro had appreciated since the end of September by 2% in effective terms, and by almost 3.4% against the dollar (see Chart 13).

The demand for safe and liquid assets remained relatively strong against the background of a roughly flat yield curve and an increase in perceived risk levels. On data to November, M3 grew at high year-on-year rates, of over 12% (see Chart 14). Within the broadest aggregate, the most liquid components (cash and short-term deposits) decelerated, while marketable securities grew at rates of over 20%.

Lending to the private sector remained highly buoyant in Q4. By component, loans to non-financial corporations quickened, to 14% in November, while those to households slowed across all purposes, to a rate of 6.5%. As regards the latter, loans for house pur-

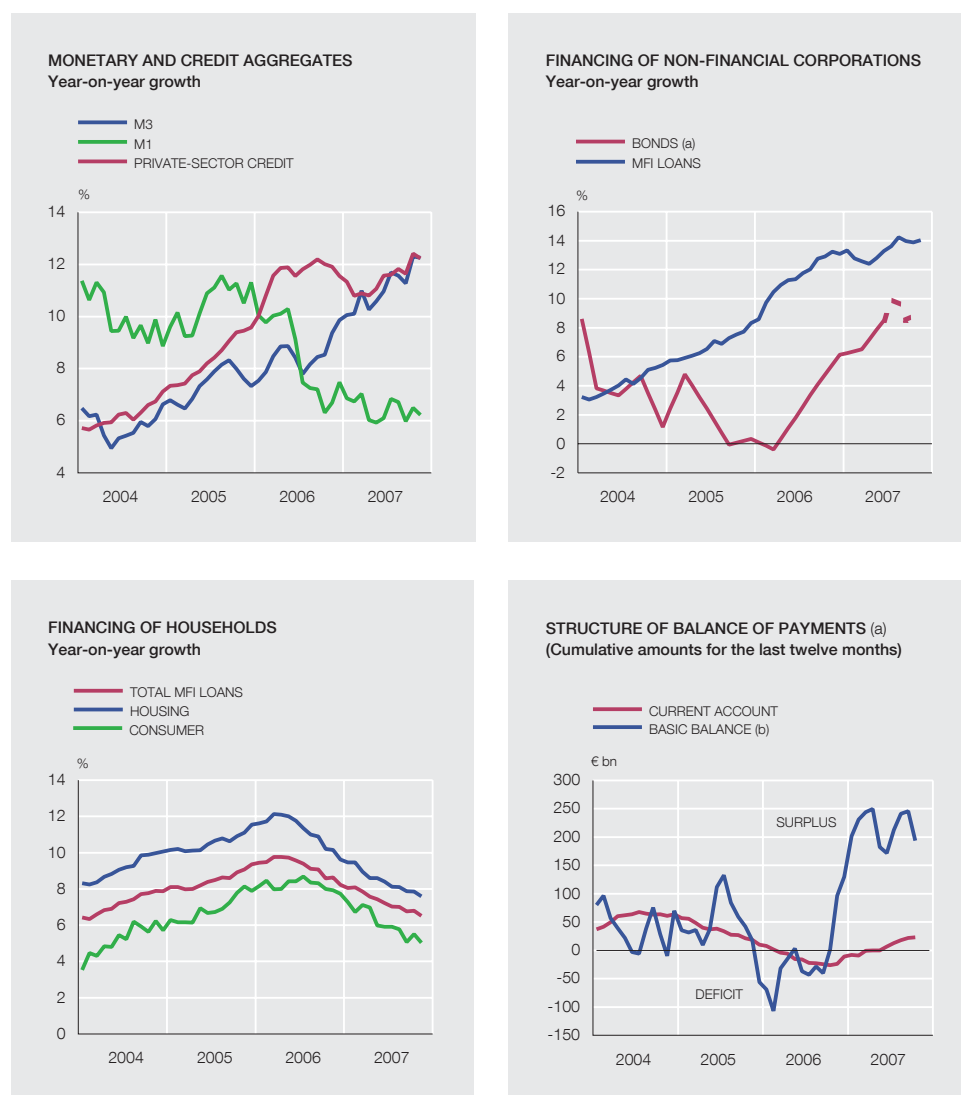


SOURCES: European Central Bank and Banco de España.

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

chase grew by 7.6%, while consumer loans grew by 5%. For their part, loans to non-monetary financial institutions accelerated to a rate of over 23%. This component, whose weight in the total is not significant, probably owed its dynamism to the difficulty these institutions are having, in the context of the current liquidity crisis, financing themselves on the market and to their resort to the renewal or extension of their credit lines with banks.

In any event, despite the buoyancy of credit in the period to November, the January Bank Lending Survey (relating to 2007 Q4) recorded a further tightening of the credit conditions applied by banks to non-financial corporations and households, against a background of deteriorating expectations regarding the general economic situation. The restriction affected larger firms and loans with longer maturities to a greater extent. As for households, the condi-



SOURCES: European Central Bank and Banco de España.

a. The broken line is an estimate calculated using fixed income held by MFIs.

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

tions for obtaining loans also became stricter owing, apart from economic expectations in general, to the deterioration in the housing market outlook (in the case of loans for house purchase) and the perception of a deterioration in the credit quality of consumers (in the case of consumer loans).

## 4 The Spanish economy

On QNA estimates, GDP grew in 2007 Q3 by 3.8% year-on-year, 0.2 pp less than in Q2. That meant a continuation of the slight slowdown seen since the start of the year which was accompanied by further progress in the rebalancing of the respective contributions of the domestic and external components of spending. In quarter-on-quarter terms the slowdown was on the same scale, and the related rate of increase was 0.7%. The information available for 2007 Q4 suggests that the trends witnessed during the year have remained in place, meaning that the year-on-year rate of growth of output may be expected to have slowed by a further 0.3 pp to 3.5%, with a quarter-on-quarter rate of increase 0.1 pp up on that in Q3. This easing in the buoyancy of activity will have arisen from the loss of momentum of national demand (the growth rate of which is expected to have declined by 0.5 pp to 3.6%), while the contribution of the external sector to GDP growth will have continued improving, to stand at -0.3 pp (see Chart 15).

With this estimate for 2007 Q4, GDP growth for the whole of the year is expected to be 3.8%, 0.1 pp down on the 2006 figure. This slight easing in the rate of increase in the economy's output came about due to the lesser dynamism of national demand, which grew at a rate of 4.3%, 0.5 pp down on the previous year's figure, while the contribution of the net external balance to GDP growth improved by this same amount to -0.7% of GDP. Among the national demand components, the loss of momentum was patent in the case of private consumption and, in particular, in that of investment in construction, while the dynamism of investment in capital goods increased in relation to 2006. The improvement in the net external balance was the outcome both of the notable thrust of exports and of the slowdown in imports, in line with the diminished robustness of final demand.

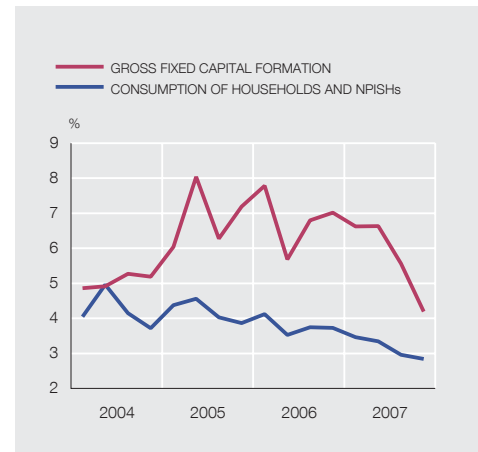
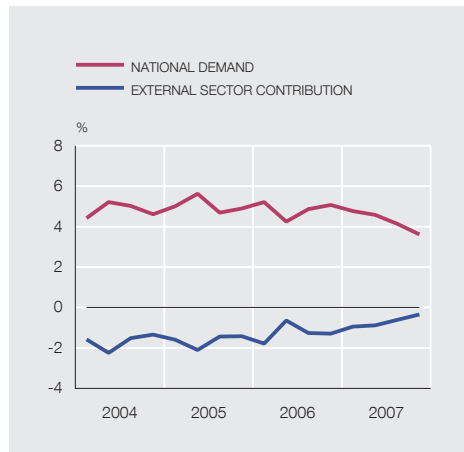
On the supply side, it is estimated that the slowdown in value added was extensive in Q4 to all the productive branches, with the exception of energy. That said, market and non-market services activity was notably robust. The employment indicators also point to some loss of momentum, on a scale somewhat greater than that in output. Accordingly, apparent labour productivity is expected to have risen, growing in the economy as a whole at a rate of around 1%. Compensation per employee is also estimated to have expanded at a similar rate to that posted since the start of the year, meaning that unit labour costs will have grown at below 3%. As regards consumer prices, there was a surge in Q4 in the year-on-year rate of increase of the CPI, which ended the year at 4.2%, compared with 2.7% in September. This unfavourable development was due, as in other countries, to dearer energy goods and processed food.

### 4.1 Demand

In 2007 Q3, the final consumption spending of households and NPISHs grew by 3% year-on-year, 0.3 pp down on the previous quarter, extending the gradual downturn of the preceding quarters. The latest conjunctural information points to a continuation of this trend in the final quarter of the year (see Chart 16). Specifically, the consumer and retail trade confidence indicators posted significant declines in Q4, compared with Q3, probably influenced by the uncertainty created by the turbulence on financial markets. Among the quantitative indicators, the tax authorities' data for October and November on large corporations' domestic sales of consumer goods and services suggest less dynamism, once adjusted for certain anomalies observed in this period. The real retail trade index slowed substantially in this same period on the previous quarter, consistent with the diminished confidence of retail traders. Lastly, under the heading of consumer durables, new car registrations performed better in Q4, although this result is affected by the positive figure for December. Purchases were probably brought forward to this latter month ahead of the entry into force in 2008 of the new car registration tax.

## MAIN DEMAND AGGREGATES (a)

CHART 15

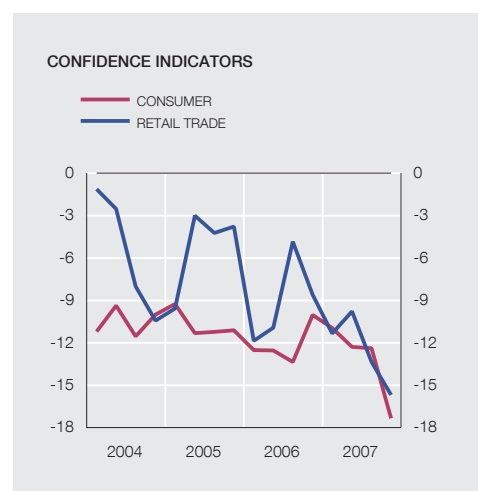
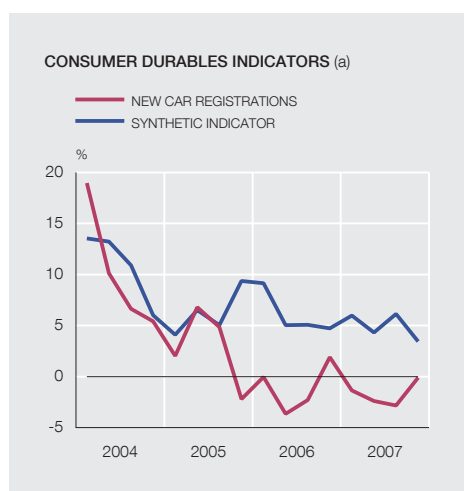
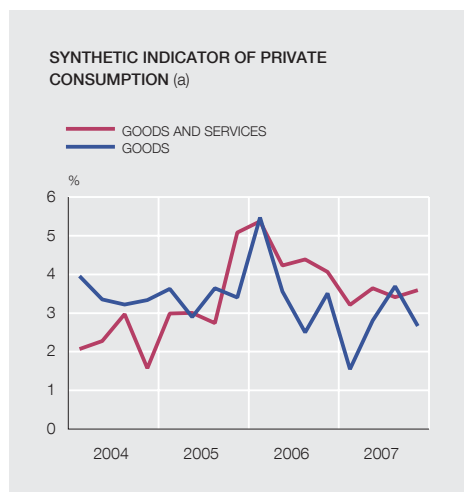


SOURCES: INE and Banco de España.

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.

The moderate worsening of the outlook for private consumption in the final part of the year is consistent with this variable's determinants. While household disposable income is expected to have continued growing in a sustained fashion in nominal terms as a result of the strength of job creation, the inflationary rise in the closing months of the year will have dented such income in real terms. Further, the reduction in the rate of increase of household wealth, real and financial alike, along with diminished household confidence and tighter financial conditions might have begun to be conducive to the stabilisation of the household saving rate, following its decline in recent years. However, the non-financial accounts of the institutional sectors for 2007 Q3 reveal that, until then, the declining trend had not been interrupted. The dynamism of general government final consumption increased in 2007 Q3 to a year-on-year rate of 5.8% (0.8 pp up on Q2). The information available from the State budget outturn on net purchases of goods and services augured a continuation of the vigorous growth of this demand component in the last three months of 2007.

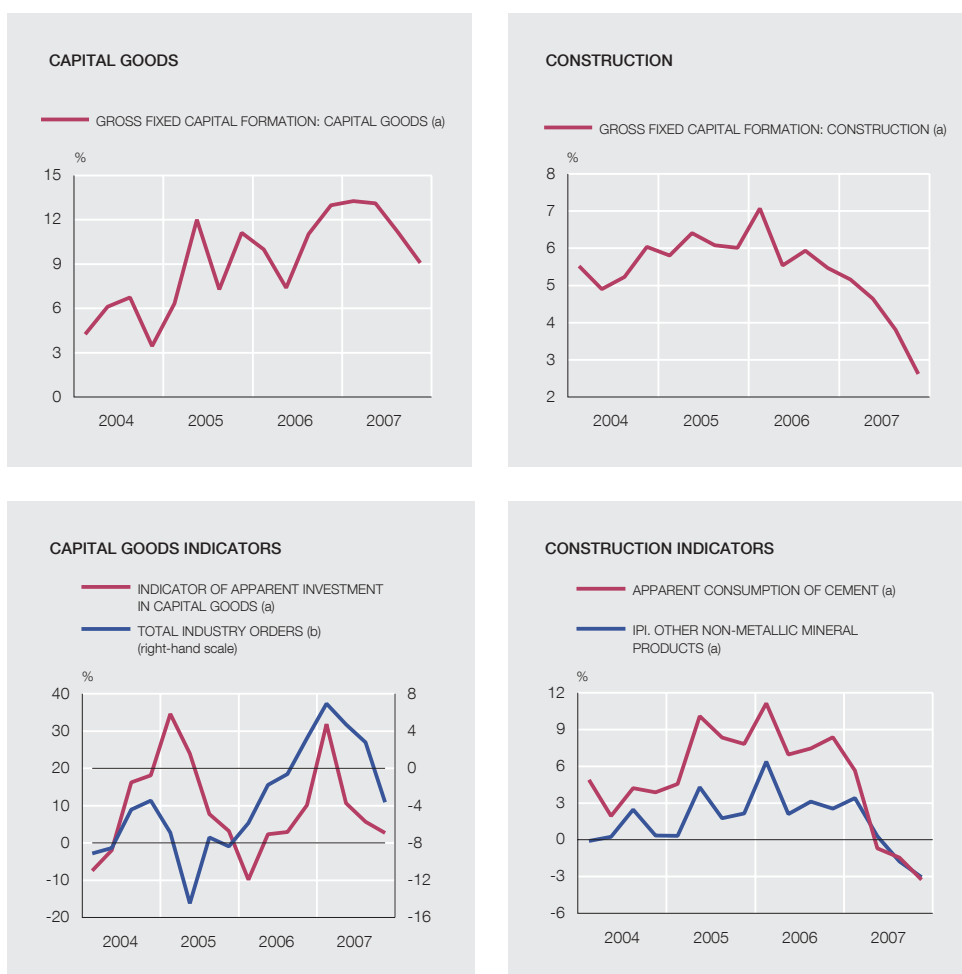
While on a notably forceful course, gross fixed capital formation showed less momentum in 2007 Q3. It posted growth of 5.6%, 1 pp less than in Q2. This was the outcome of the slowdown in all its components, somewhat more sharply so in the case of investment in capital goods, whose growth rate eased by 1.9 pp to 11.2% (see Chart 17). Investment in construction and in other products slowed by 0.8 and 0.7 pp, respectively, posting growth of 3.8% and 3.5%. Drawing on the information from the indicators for 2007 Q4, this trend should continue, with a further easing in the pace of growth of the various components of gross fixed capital formation.

The indicators of spending on equipment suggest the prospects for this component, which continues to be the most dynamic demand variable, remain strong. The indicator of apparent investment in equipment, calculated with incomplete data for 2007 Q4, has continued to trend in the recent period on the moderating path initiated at the start of the year, the result of the easing in the rate of increase of the domestic production of this type of good and of the recovery in exports. The business confidence indicator for the equipment industry rose in October and November as a result of the improvement in expectations of future output. Moreover, there was also a rise in the forecast order book.

In the recent period investment in equipment has continued to be underpinned by the relative strength of final demand, in a setting in which the high growth rate of corporate earnings is providing for the availability of own funds to finance spending. Nonetheless, the slight reduction in the level of capacity utilisation in Q4 is a sign that the gradual slowdown in demand might begin to temper corporate investment plans. In addition, the application of such plans might be hampered by the increase in the financial burden stemming from the growing resort to external sources of financing (as highlighted by the gradual increase in the net borrowing of overall non-financial corporations, which amounted to 10.6% of GDP in cumulative four-quarter terms to 2007 Q3), against a background of rising lending rates. Finally, the current environment of instability on credit markets might entail a tightening of credit extension conditions.

The weakening in investment in construction seen since 2006 Q2 continued into the summer months, despite which this demand component remained considerably dynamic. Specifically, on QNA figures, the growth of this variable in 2007 Q3 was 3.8%, 0.8 pp down on the previous quarter. This loss of steam was common to residential investment and to other construction, the rates of increase in which fell by 0.8 and 0.9 pp to 2.9% and 4.8%, respectively.

The latest available indicators point to a continuation of these trends in the final quarter of the year, owing to the diminished dynamism shown by residential and non-residential building alike. Pointing in this direction are the indicators of employment and inputs for the sector,

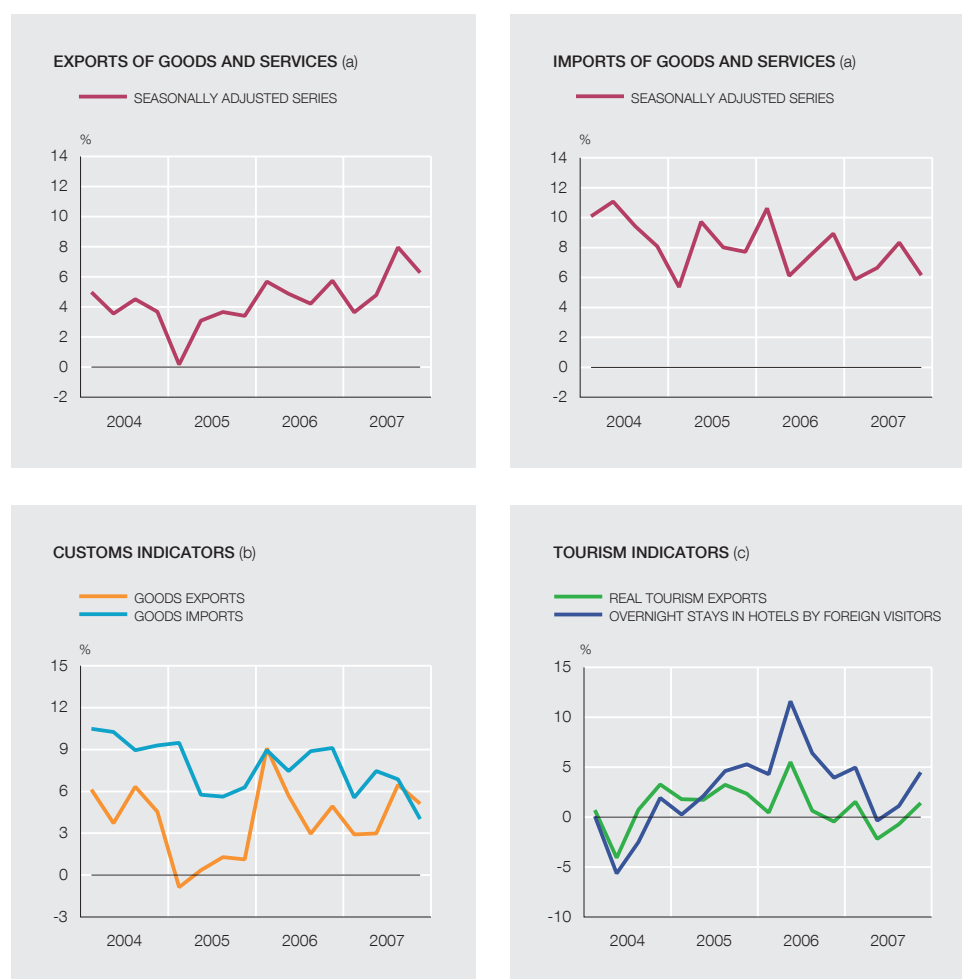


SOURCES: INE, European Commission, Ministerio de Fomento, OFICEMEN, INEM and Banco de España.

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

whose contemporaneous nature helps assess the situation of the construction sector as a whole. On one hand, the slowdown in the number of Social Security-registered employees in this branch apparent at the end of Q3 intensified in Q4, posting a year-on-year rate of close to zero. At the same time, registered unemployment in construction increased significantly during the quarter. On the other hand, the pace of the contraction of intermediate products evident in the previous months quickened, while cement consumption was as depressed in Q4 as it was in Q3. Finally, the business confidence indicator for the industry worsened notably in the closing months of the year, posting its lowest value since August 2002.

In the case of residential investment, the figures available to October drawn from the series of new housing approvals continued to show a sharp pace of contraction in year-on-year terms, although they remained distorted by the entry into force in 2006 of the Spanish Technical Building Code. Moreover, the decline in housing starts augurs greater moderation in investment in housing in the future, consistent with the lesser momentum of demand discernible from the recent fall-off in the number of transactions. In the case of non-residential building, the outlook is somewhat more positive since, although the number of officially approved projects has also shrunk, this has been less intense than in the case of housing. Finally, civil engineering works are expected to maintain the dynamism shown in the final months of 2007,



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

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

albeit on a possibly more moderate course judging by the recently observed slide in tenders for new projects.

On the latest QNA figures, net external demand subtracted 0.6 pp from GDP growth in 2007 Q3, 0.3 pp less than in the first half of the year, meaning that the correction initiated in mid-2005 continues. This improvement came about against a background of more dynamic foreign trade flows, especially in goods and services exports, whose year-on-year growth rate increased by 3.2 pp to 8% (see Chart 18). Imports also accelerated, albeit on a lesser scale, posting a growth rate of 8.3%, 1.7 pp up on the figure for the previous quarter. Nonetheless, these results have come about in a setting of slowing world trade which, after having grown at over 9% the previous year, has fallen back to around 6% in 2007 Q3. This is due both to the lesser momentum of imports from some of Spain's main markets – such as Germany and the United Kingdom – and to the easing in demand from the US market and from other developed economies, while the emerging countries have remained substantially dynamic. Given the appreciation of the euro, the price-competitiveness indicators calculated with consumer prices deteriorated in Q3, although those based on unit labour costs (both for the whole economy and for manufacturing) improved.

The still-incomplete information available for 2007 Q4 suggests the buoyancy of exports will continue, underpinned by the soundness of the emerging markets; that said, their growth rates may have been curbed somewhat by the appreciation of the euro and some loss of steam in European markets. Despite the cheaper prices resulting from the euro's appreciation, imports of goods and services are expected to have continued to be less expansionary, in line with the diminished strength of final demand. As a result of these developments in trade flows, the contribution of net external demand to GDP growth is expected to have improved further in 2007 Q4, standing at -0.3 pp of GDP.

The year-on-year rate of increase of real goods exports was up by 1.6 pp to 6.4% in 2007 Q3 on QNA figures, extending the improving profile initiated the previous quarter. According to foreign trade figures from the customs authorities, real goods exports grew by 8.2% in the October-November period, a step-up on the more expansionary behaviour shown by this indicator in 2007 Q3 (in which the rate of increase was 6.7%), following the greater slackness in the first half of the year. By geographical area, the growth rate of exports to both the euro area and to the EU as a whole eased in real terms to below 2%. In non-European markets, in contrast, the increases were much bigger, with high rates observed in exports targeted on China, Russia, the United States and the OPEC countries, areas which, however, account overall for a proportion of less than 10% of total sales abroad. By product group, exports of capital goods were more dynamic, while sales of intermediate goods remained on the expansionary course shown in Q3. According to customs data, the growth rate of real goods exports eased over the course of the first ten months of the year to 4.8%, compared with 5.6% on average in 2006. In terms of product groups, this is in response to the less expansionary course of foreign sales of consumer and capital goods.

On QNA figures, the performance of real exports of tourist services was once again contractionary in 2007 Q3, though less so than in the three previous months, in line with the moderately improving profile of the main real indicators of tourism during the summer. Specifically, this variable declined by 0.7%, compared with the rate of -2.2% in Q2. The sectoral indicators point to the continuation of this more expansionary profile in the closing months of the year. In this respect, both inflows of foreign tourists into Spanish territory and the number of overnight hotel stays remained on a rising path in Q4. However, total spending by these tourists grew in Q4 at an identical nominal year-on-year rate to that in Q3, as a result of the slowdown in average spending per tourist.

Real exports of non-tourist services were very buoyant in 2007 Q3, growing by 22.8%, far above the figure of 11.9% for the previous quarter. In particular, according to the nominal balance of payments indicator, there was a notable surge in receipts from business services, and other headings of less weight in the export structure, such as IT, financial and insurance services, gathered considerable momentum. The scant information available on other services in Q4, which is confined to the nominal balance of payments figures for October, points to a continuation of the strongly expansionary behaviour of receipts under this heading.

In 2007 Q3, the pace of real goods imports stepped up by 1 pp to a rate of 7.2%, according to QNA figures. The related customs data for October and November suggest a notable slowdown to 3.5%, as a result of the diminished vigour of purchases abroad of consumer and intermediate goods (energy and non-energy alike). In contrast, imports of capital goods gained in momentum, resuming a positive rate of increase following the decline in Q3. This easing in imports in the final part of the year is consistent with the slowdown in final demand and in industrial production. As regards the first ten months of 2007, real goods imports grew by 6%, according to customs figures, 2.6 pp below the average increase observed in 2006. This de-

celeration was due to the intermediate (both energy and non-energy) and non-food consumer goods components. Conversely, capital goods imports rose forcefully over the period.

Lastly, the QNA figures show an acceleration in real services imports in 2007 Q3 to 12.8% year-on-year (4.3 pp up on the previous quarter). The greater robustness of this import component was essentially due to the notable momentum of the non-tourist services component, the year-on-year rate of which quickened by 5 pp to 14.3%. According to the balance of payments indicator, the dynamism of nominal payments for other services was boosted by the transport and business services headings, while other smaller items, such as financial and construction services, also accelerated. Likewise, royalties increased notably, in contrast to their continuing slide in the four previous quarters. On the latest balance of payments figures for October, the buoyancy of nominal payments for other services is expected to have increased during that month. As to real imports of tourist services, these also quickened in Q3, with their year-on-year growth rate standing at 6% (4.5% in Q2).

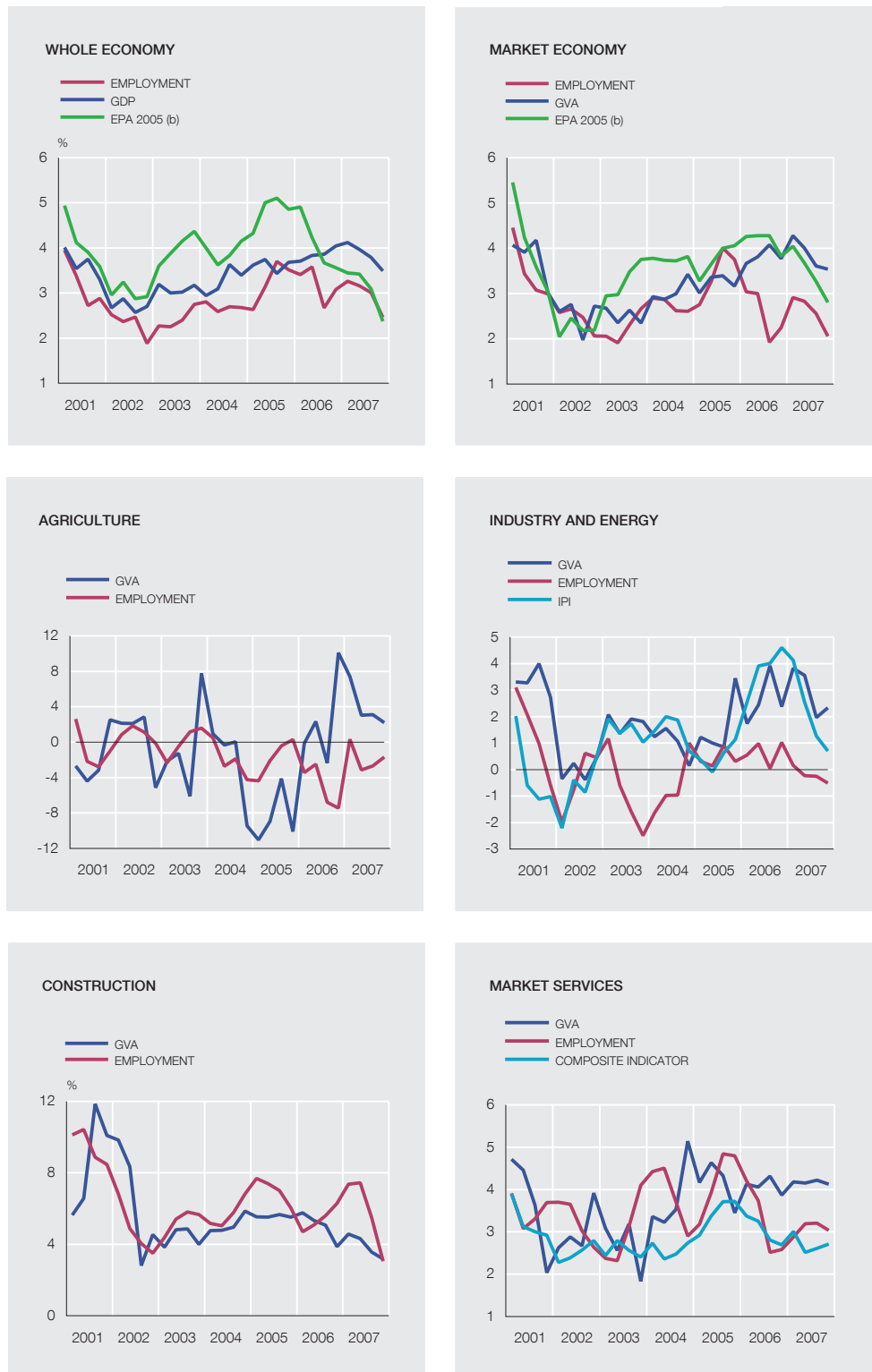
## **4.2 Output and employment**

In 2007 Q3, activity in the market economy slowed, meaning that the growth rate of its gross value added declined, on QNA figures, by 0.4 pp in relation to Q2 to 3.6% (see Chart 19). Behind this development was the weakening in the rate of expansion of industry and energy and of construction, while agriculture and fisheries and market services grew at very similar rates to those in Q2. The information available for Q4 suggests a further moderation in value added in the market branches, which is expected to be of greater intensity in construction and in industry.

In the agriculture and fisheries branches, the dynamism observed in 2007 Q3 was similar to that shown in the three previous months, on which there was a 0.1 pp rise in the related growth rate to 3.1%. Pending figures for Q4, the year 2007 proved expansionary, underpinned both by arable production and by the recovery in animal farming output. However, there were declines in relation to 2006 in some crops (such as pulses, vegetables, fruit and vines), as a result of bouts of bad weather.

Turning to production in the industrial and energy branches in 2007 Q3, there was a notable steepening of the slowing profile previously observed – much more modestly – in Q2, and there was a 1.6 pp decline in the year-on-year rate of increase to 2%. The loss of momentum was more marked in the case of the energy sector, where value added slowed by 3.7 pp, posting a decline of 0.3%. This fall-off is in response to a base effect prompted by the high summer temperatures in 2006, which required higher electricity consumption for air conditioning. As to the industrial sector, there was a 1.2 pp decline in its rate of increase to 2.4%, the outcome of the lesser momentum of national demand. In this branch, the slowing profile continued into 2007 Q4, according to the conjunctural information available. With regard to the quantitative indicators, the behaviour of the industrial production index (IPI) was notable; its non-energy component slowed in October and November, with its growth rate turning negative in the latter month, a similar trend to that of domestic sales of industrial goods by large corporations in the same period. The opinion-based surveys also provide signs of weakness concerning industrial activity. The European Commission's confidence indicator fell by 2 pp in Q4, while the PMI manufacturing index did so by 2.2 pp. In any event, the external setting continues to contribute to upholding the prospects for the industrial sector. The Spanish business assessment of the foreign order book thus remains at the highest level seen in recent years.

Construction activity in Q3 continued to move on the slowing path initiated in Q2. Specifically, it grew at a rate of 3.6% in the summer months, 0.7 pp down on the April-June period. As indicated on analysing investment in construction, this tendency to lose steam persisted in the closing months of the year, as start-ups of new residential and non-residential building projects



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

a. Year-on-year percentage rates based on seasonally adjusted series. Employment in terms of full-time equivalent jobs. EPA in terms of persons. For incomplete quarters, the year-on-year rate for the period available within the quarter is taken.

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

fell off and the momentum behind civil engineering works began to decline, despite which it still remains considerably buoyant.

The rate of increase in gross value added in the services branch as a whole rose to 4.4% in 2007 Q3, after having held stable at 4.2% in the four preceding quarters. While both market and other services evidenced this greater dynamism, the acceleration in activity (by 0.5 pp to 5%) was greater in the latter case. As regards market services, growth of 4.2% was recorded, up 0.1 pp on the previous quarter. In Q4, the momentum of market services held at a similar level to that in Q3, if regard is had to the stability seen in the pace of job creation, based on the number of Social Security registrations. Other conjunctural data, such as the indicators of activity in the services sector and the composite market services indicator, also portray a favourable picture for the closing months of the year. Set against this, the growth rate of large corporations' services sales, in real and calendar-adjusted terms, declined in October and November in relation to Q3. Moreover, the European Commission's confidence indicators for the services sector and for the retail trade fell off in the closing months of the year, as did the PMI index. Overall, the growth of market services is expected to have held virtually stable in Q4, since the lesser dynamism shown by wholesale and retail trade and transport is liable to have been offset by the greater momentum in the communications and the hotel and restaurant sectors.

On QNA data, the moderate pace of job creation observed in 2007 Q2 continued into Q3. Specifically, the year-on-year rate of increase in employment stood at 3% in the economy as a whole and at 2.6% in the market economy. In both cases, this entailed growth that was 0.2 pp down on the previous quarter. The mild slowdown in employment was on a somewhat lesser scale than that in economic activity, meaning that apparent labour productivity growth dipped by 0.1 pp to 0.8% in the economy as a whole, and to 1% in the market economy.

The information for 2007 Q4 shows that the tendency of employment growth to moderate has intensified somewhat. Specifically, the year-on-year increase in Social Security registrations, calculated with average data, slowed by 0.3 pp in the final quarter of last year to 2.6%. Further, the rate of decline of INEM-registered new hires quickened in Q4, posting a year-on-year rate of -2.1% (compared with the decline of 0.7% the previous quarter). Finally, the EPA data for 2007 Q4 show a slowdown of 0.7 pp in the pace of job creation to a rate of 2.4%.

As to the breakdown of QNA data for Q3 by productive branch, there was a sharp slowdown in employment in construction, the year-on-year rate of which was cut to 5.5%, almost 2 pp less than at the end of the first half of the year. However, this branch continued to be that showing the highest rate of employment generation. In services, numbers employed grew, as in Q2, by 3.2% in the market branches, while employment quickened by 0.3 pp to 4.9% in the non-market branches. Finally, employment in industry and agriculture posted negative year-on-year growth for the second quarter running. Judging by the indicators available for Q4, the diminished buoyancy of activity in this period gave rise to a slowdown in employment, which was sharper in the case of construction. According to the EPA figures, employment in this branch slowed by 2.2 pp in 2007 Q4 to 2.7%. In services, the slowdown – by 0.7 pp to 3.5% – was slacker, essentially as a result of developments in non-market services, since market services remained notably robust (5%). The EPA data confirm the pattern of moderate declines in employment in industry observable throughout 2007 (-1.2% in Q4). Lastly, employment in agriculture improved slightly, although it continued to fall in year-on-year terms to a rate of -1.7%. Overall, employment in the market economy grew at a rate of 2.8% during Q4, showing a slightly less marked path of deceleration than that seen in the economy as a whole.

In Q3, on QNA figures, dependent employment remained more dynamic than self-employment. Specifically, the growth of dependent employment in this period was 3.4% economy-wide and 3% in the market economy, while the increase in the numbers of self-employed was 0.5%. According to the Q4 figures on Social Security registrations, the creation of dependent employment (2.6%) remained more intense in this period than self-employment (1.6%), although registrations of dependent employees have tended to slow, with the opposite trend apparent in the case of self-employed registrations. The EPA data for Q4 reveal, however, a loss of buoyancy in the case of the self-employed, too.

The EPA data for Q4 infer that, although the slowdown in employment affected both Spanish nationals and foreigners alike, the latter continued to post much higher growth rates. As regards contract duration, permanent employment retained substantial momentum during 2007 Q4, with a year-on-year growth rate of 7%; that rate is, however, 0.3 pp down on the previous quarter. The year-on-year rate of decline in temporary employees steepened to -6.3%. As a result, the ratio of temporary to total employees fell significantly during the quarter to 30.9%, a figure 3 pp down on that posted a year earlier. This year-on-year comparison still partly reflects the effects of the rebates accorded to the conversion of temporary into permanent contracts which took place in the second half of 2006. Lastly, as regards the duration of the working day, part-time hiring slowed to a lesser extent than full-time hires, giving rise to a 0.5 pp increase in the part-time/full-time employment ratio to 11.6%.

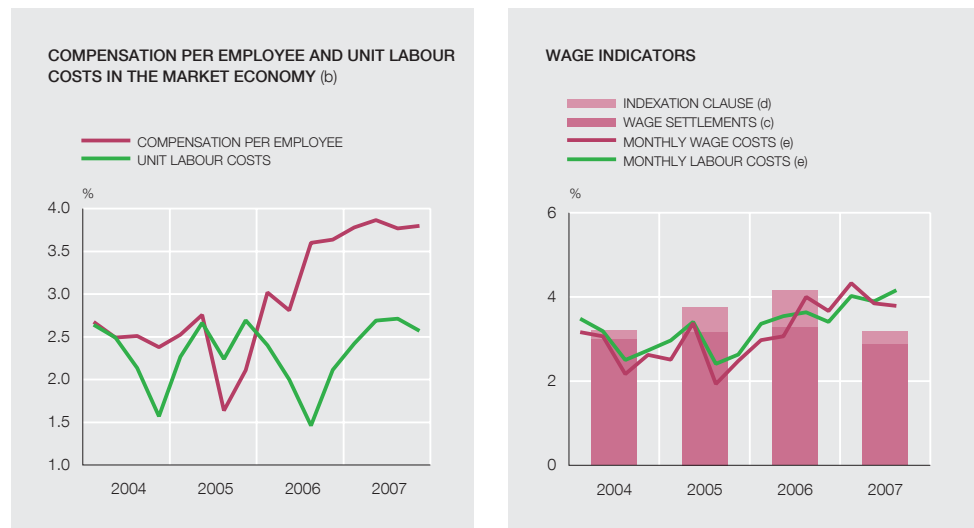
The year-on-year rate of increase in the working population stood at 2.7%, 0.3 pp less than in Q3, but similar to that in the first half of the year. The growth rate in the population of working age and the participation rate held at 1.8% and 59.1%, respectively. In terms of the breakdown by sex, the rise in the female participation rate countered the reduction in the male rate (49.4% and 69.2%, respectively).

Finally, the slowdown in employment translated into growth of 135,700 in the number of unemployed in Q4. This increase entails an acceleration in the annual rate of change in the number of unemployed to 6.5%, which placed the unemployment rate at 8.6%, 0.6 pp up on the previous quarter. Registered unemployment also trended unfavourably in the final months of the year, with the positive year-on-year rate of increase observed since the summer months accelerating to 3.9% for Q4 on average and to 5.3% in December.

### **4.3 Costs and prices**

In 2007 Q3, economy-wide compensation per employee held at a year-on-year growth rate of 3.7%, unchanged on the previous quarter, following the upward revision of the figures for this variable relating to the first half of the year (see Chart 20). In the market economy, there was a 3.8% increase in compensation per employee, 0.1 pp less than in Q2. By branch of activity, services moved on a growing profile, posting a 0.6 pp rise to 3.5%, and construction eased by 1.3 pp, which placed its year-on-year rate of increase also at 3.5%. The information available for Q4 indicates that the pace of compensation per employee is expected to have held stable at a rate similar to that observed in the first three quarters. The collective bargaining agreements recorded to end-December, which affect almost 78% of workers, include rises in agreed wage rates of 2.9%, almost 0.4 pp down on the increase agreed the previous year. This slowdown in wage rises was extensive to all the branches, with the exception of construction. The estimated impact of the application of the indexation clauses corresponding to 2006, which affect more than 69% of workers with a registered agreement in the course of 2007, is 0.3 pp, a figure 0.6 pp lower than that of the previous year.

In the market economy, the aforementioned developments in the growth rate of compensation per employee, along with a slight recovery in productivity, might have given rise to a marginal



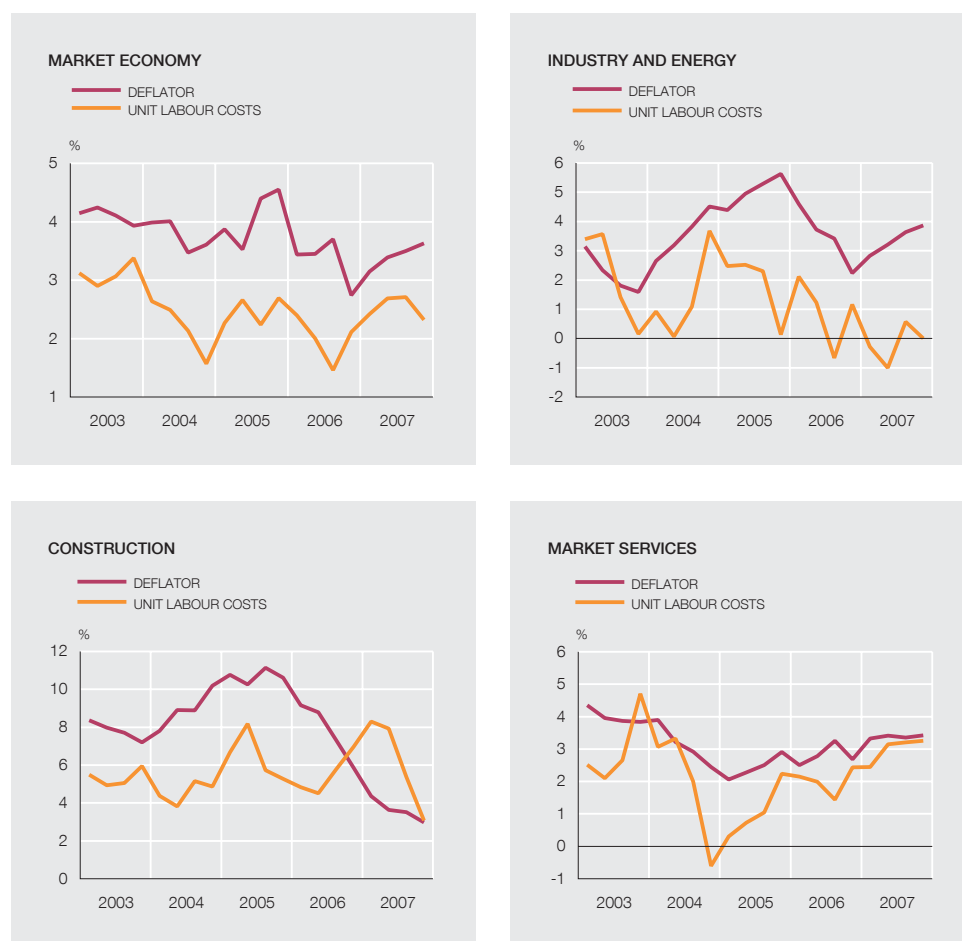
SOURCES: Instituto Nacional de Estadística, Ministerio de Trabajo y Asuntos Sociales and Banco de España.

- 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 September 2007.
- d. Previous year's indexation clause.
- e. ETCL (quarterly labour costs survey).

slowdown in unit labour costs in 2007 Q4 (see Chart 21). It is further estimated that the gross value added deflator for the market economy might have undergone an additional acceleration in the closing months of the year, which would be attributable to its behaviour in the energy and agricultural branches.

The growth of the final demand deflator is estimated to have risen to 3.2% in 2007 Q4, thereby interrupting the slowing path initiated in the second half of 2006. That would have been the outcome of the quickening pace of the imports deflator (by over 2 pp to 3.6%), following the rise in oil prices on international markets, the effect of which would have prevailed over the lower import prices stemming from the appreciation of the euro. The year-on-year growth of the GDP deflator is expected to have increased to 3.1%.

The initially declining and subsequently stable path of the various price indicators witnessed since the second half of 2006 was interrupted in 2007 Q4 (see Chart 22). The year-on-year rate of the CPI rose in the final quarter of 2007 by 1.6 pp to 4% in quarterly average terms. The end-year figure was 4.2%, the highest rate recorded since early 2006. This acceleration in prices is due virtually in its entirety to the behaviour of the energy goods and processed food components. In particular, the year-on-year rate of change in energy products increased in 2007 Q4 to 9.7%, compared with a decline of 0.4% in the July-September period. Along with the stripping out of the base effect on the year-on-year rate stemming from the falls experienced a year earlier, this development can be accounted for by the intensification during the quarter of the ongoing rise in oil prices, the knock-on effect of which has been strong increases in the prices of vehicle fuel and lubricants, other fuels and, with a delay, of gas too. The acceleration in the energy component of the CPI would have been even greater had the increase in the price in dollars of crude oil on international markets not been partly offset by the 12.3% appreciation (in quarterly average terms) of the euro against the dollar. In the opening days of January oil prices continued to rise, up to an all-time high, although this trend has subsequently reversed.

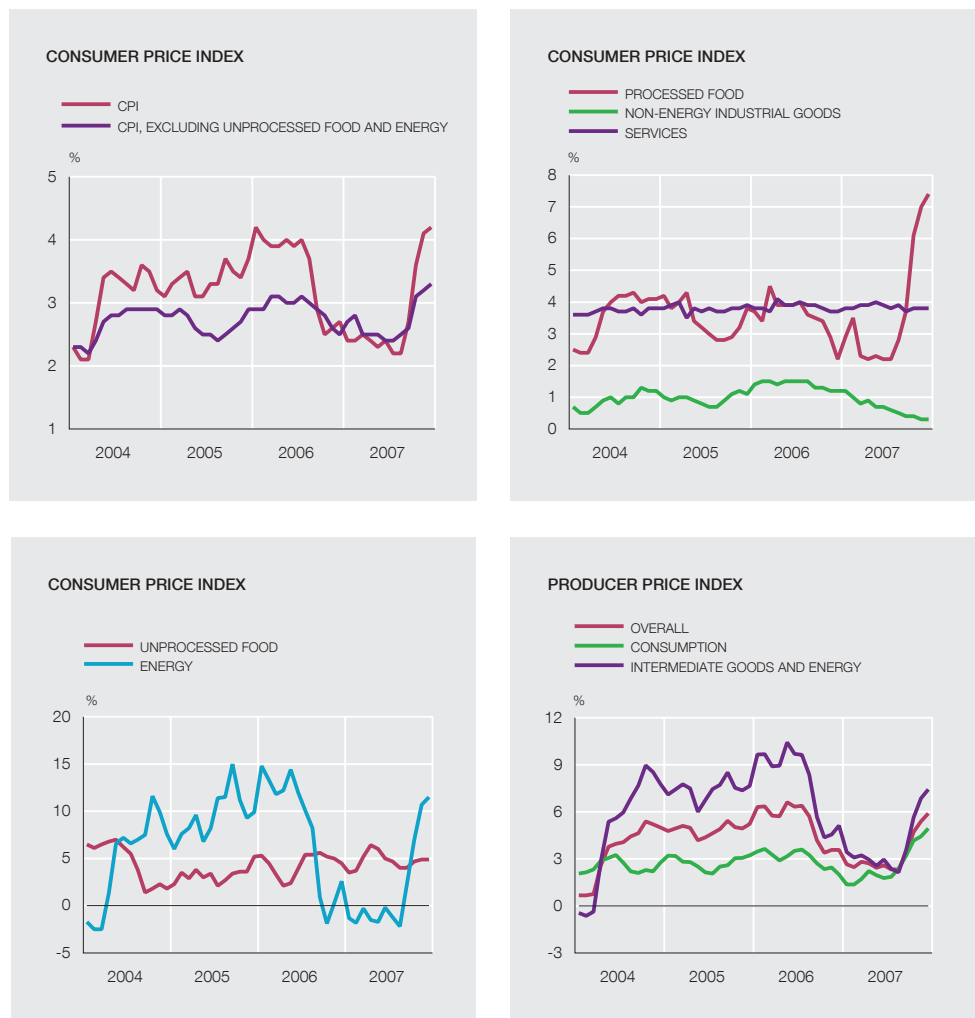


SOURCES: INE and Banco de España.

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

The average year-on-year growth rate of processed food rose to 6.8% in 2007 Q4, almost 4 pp up on Q3. This was largely due to the strong rise in the prices in source markets of milk and cereals, which passed through subsequently to the final consumer prices of these products and of their derivatives. Developments in the remaining CPI components exerted a much lesser impact on the overall index. The prices of unprocessed food – the most inflationary component in the previous quarters – quickened by 0.6 pp to 4.8%, essentially as a result of the higher price of eggs and of certain meats. In contrast, the slowdown in the price of cars and of electronic and IT products intensified in the closing months of the year, allowing the inflation of non-energy industrial goods as a whole to improve by 0.2 pp to 0.3%. Finally, the growth rate of services prices held stable at 3.8%. This was the outcome of the acceleration in prices in bars, restaurants and cafeterias, which was offset by the fall in prices of package tours and of hotels and other accommodation.

As in the case of the CPI, Spanish inflation measured by the HICP rose by 1.6 pp in 2007 Q4 to stand at an average of 4%. In the euro area as a whole, the rise amounted to only 1 pp (to 2.9%). Accordingly, the differential between Spanish and euro area inflation grew to 1.1 pp, a similar level to the average observed since the euro area came into being. This widening of the differential can be explained by the more inflationary performance of processed food and of energy products in Spain, along with the comparatively greater weight of these groups of goods in Spain's consumption basket. Conversely, the growth rate of the prices of non-energy industrial goods stabilised in the euro area, compared with the slowdown in Spain, which contributed to



SOURCE: INE.

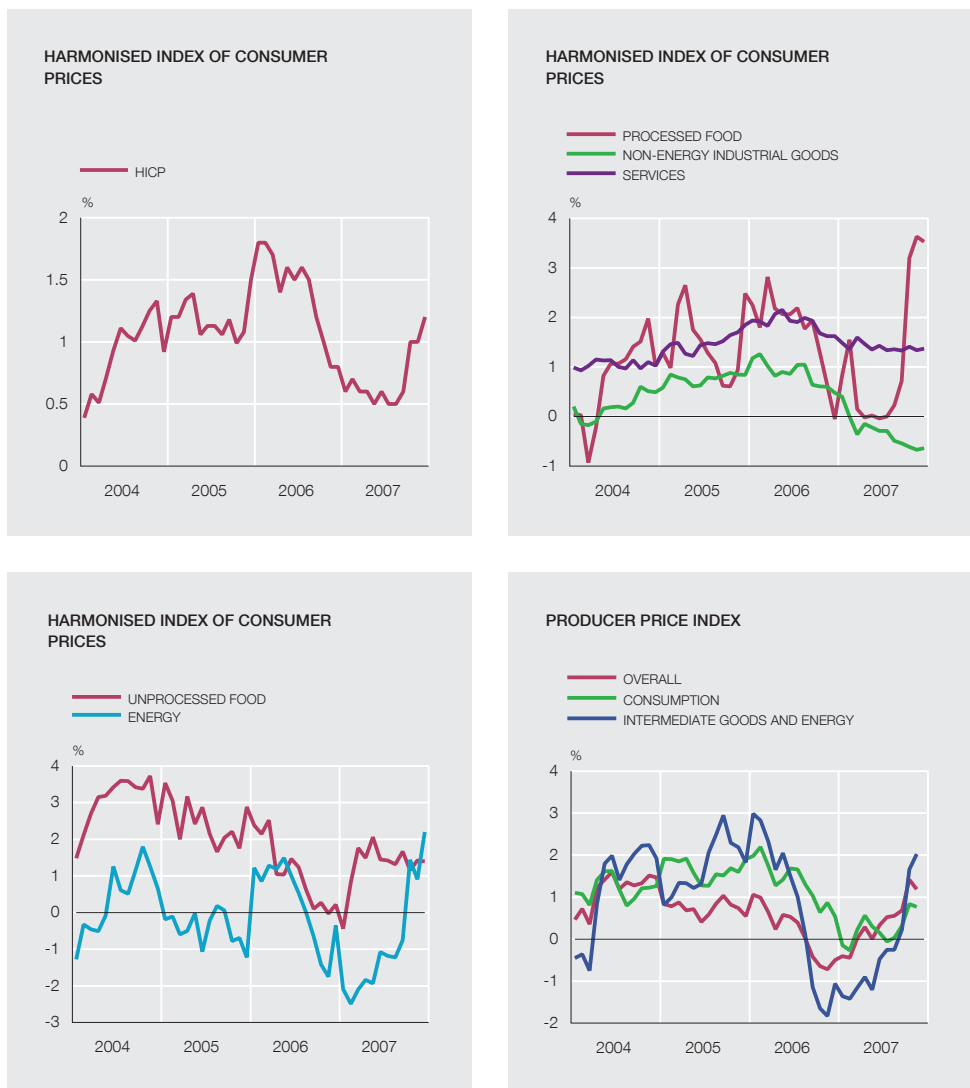
a. Twelve-month percentage change based on the original series.

widening the negative differential in this group of goods by 0.2 pp. Finally, the price differentials of services and of unprocessed food changed but slightly, holding stable at high levels.

The year-on-year growth rate of the producer price index quickened in Q4 to 5.9%, 2.5 pp up on the figure at the end of Q3. This rising trajectory is due, above all, to the strong increase in the dynamism of energy goods producer prices, although there was also a significant surge in the non-durable consumer goods component, tied to the sharp price increases in the food industry. In November, the differential between the growth rates of producer prices in Spain and in the euro area as a whole widened by 0.6 pp in relation to Q3 to 1.2 pp. The behaviour of the various components of import and export producer prices in November was similar to that described for producer prices as a whole. Thus, the small rise in the overall producer price index in both foreign trade facets was due to the strong acceleration in the energy goods component and to the modest increase in non-durable consumer goods. As a result of the appreciation of the euro, the remaining components tended to post small slowdowns in their growth rates, which fell to zero or even turned negative.

#### 4.4 The State budget

The government presented the ninth Stability Programme Update (SPU) in late December 2007, with macroeconomic and fiscal estimates and projections for the 2007-2010 period.



SOURCES: Eurostat and Banco de España.

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

As regards the State budget, the SPU maintained estimated real GDP growth for 2007 at 3.8%, and revised the growth forecast for 2008 downwards to 3.1%, compared with the previous figure of 3.3%. General government balances have been revised, especially for the year 2007, and a surplus for the general government sector of 1.8% of GDP has now been projected, this being expected to fall to 1.2% of GDP in 2008. In the following years, against the background of the stabilisation of growth in the economy at a rate slightly above 3%, the general government surplus is projected to hold at 1.2% of GDP. In terms of the sub-sectors, the 2007 surplus will be determined chiefly by the Social Security surplus, for which a figure of 1.1% of GDP is expected, and, to a lesser extent, by central government, with a surplus of 0.8% of GDP. Conversely, the regional (autonomous) governments will post a deficit of 0.1% of GDP, while local government finances will be in balance. The reduction in the surplus projected for the sector in the year 2008 is due to the sub-sectors of central government, whose surplus will be halved, and of the Social Security, with a surplus of 0.8% of GDP, while the regional and local government budgets will be in balance (see Box 4).

As a State structured on so-called "Autonomous Communities", Spain has seen the ongoing decentralisation of budgetary powers towards the Regional (Autonomous) Governments (RGs). This has led these governments to manage a substantial portion of overall general government revenue and expenditure. Significantly, they raised 44% of indirect taxes in 2006 and 21% of direct taxes, while 59% of wages and salaries and 38% of investment were in their hands.

These volumes highlight the need to pay attention to the activity of the RGs for the analysis of fiscal variables and, in particular, to the importance of these governments in ensuring the goal of maintaining healthy public finances and complying with budgetary stability legislation, the reformed version of which comes into force in 2008. In this respect, on 11 July 2007 the Fiscal and Financial Policy Council approved the distribution of the budgetary stability target<sup>1</sup> for the RGs for the three-year period 2008-2010. Under this arrangement, an individualised target of a surplus of 0.25% of GDP was set, providing for a reduction in this figure by 0.25% of GDP, in order to obtain balanced end-year accounts, if the expenditure giving rise to this reduction is earmarked for productive investment. This latter target of balanced RG accounts was reflected in the Updated Stability Programme 2007-2010, recently released by the government, and would involve a small improvement on the latest official forecast of a deficit, of 0.1% of GDP, for RGs as a whole in 2007.

Against this background, the RGs submitted their draft budgets for 2008 in the second half of 2007. The main budgetary figures drawn

from these drafts show that RGs as a whole<sup>2</sup> anticipate a slight deterioration in the aggregate balance when compared with the initial budget for 2007 (see accompanying table). This is the result of a growth forecast for revenue somewhat below that for expenditure. In any event, and as in recent years, both items show high rates of increase, outpacing actual or forecast nominal GDP growth.

Before discussing the various headings, it should be recalled that the comparison is made between initial budgets and, therefore, the forecasts for 2008 have already taken into account revenue and expenditure developments during 2007. The RG budgets expect direct taxes to continue to be dynamic, due above all to the high growth of personal income tax in 2007. Conversely, in the case of indirect taxes, the growth rate budgeted by the RGs shows a significant slowdown. This might be due to the fact that property transfer and stamp duty taxes, which have been fully assigned to the RGs, have a considerable weight in these governments and their revenue has contracted in 2007 according to the information available to date (with a fall of 5.4% between January and September 2007 in relation to the same period the previous year). In addition, the slowdown in indirect taxes reflects the moderate course of VAT in 2007 in relation to the initial budget. Overall, the indirect taxes budgeted by the RGs seem to reflect, to a greater extent than the State, the impact on revenue of the property market slowdown, given the likewise greater weight on their accounts of the taxes associated with property transactions. Regarding other revenue, mention should be made, in view of their volume, of the acceleration budgeted for the revenue heading of current transfers. The

1. Note that the target is set in National Accounts terms.

2. The autonomous city enclaves of Ceuta and Melilla are not considered.

	Regional Governments				Rate of change			State
	€m							
	2005	2006	2007	2008	06/05	07/06	08/07	08/07
REVENUE	126,475	140,662	154,770	168,117	11.2	10.0	8.6	8.3
Current revenue	118,147	132,093	145,978	158,584	11.8	10.5	8.6	7.8
- Direct taxes	21,590	24,396	27,215	32,153	13.0	11.6	18.1	8.1
- Indirect taxes	42,753	47,765	54,692	56,192	11.7	14.5	2.7	5.2
- Charges, prices and other revenue	3,723	3,852	4,220	4,430	3.5	9.6	5.0	11.8
- Current transfers	49,655	55,671	59,454	65,250	12.1	6.8	9.7	4.4
- Interest and dividends	425	409	396	560	-3.7	-3.1	41.2	70.4
Capital	8,328	8,569	8,792	9,532	2.9	2.6	8.4	49.7
- Disposal of investments	651	678	717	626	4.2	5.7	-12.6	15.2
- Capital transfers	7,677	7,891	8,075	8,906	2.8	2.3	10.3	52.1
EXPENDITURE	127,882	141,540	154,891	168,469	10.7	9.4	8.8	6.6
Current expenditure	103,301	113,951	124,830	135,907	10.3	9.5	8.9	7.0
- Wages and salaries	40,300	43,576	47,442	52,068	8.1	8.9	9.8	7.1
- Goods and services	19,490	22,047	24,834	27,525	13.1	12.6	10.8	3.8
- Interest payments	2,171	2,269	2,376	2,486	4.5	4.7	4.6	4.3
- Current transfers	41,289	45,910	50,021	53,654	11.2	9.0	7.3	7.8
- Contingency fund	51	150	157	175	194.4	4.6	11.7	2.4
Capital	24,582	27,589	30,061	32,562	12.2	9.0	8.3	4.1
- Investment	12,563	13,787	15,337	16,381	9.7	11.2	6.8	6.3
- Capital transfers	12,019	13,802	14,724	16,181	14.8	6.7	9.9	1.7
BALANCE	-1,408	-879	-120	-353	...	...	...	...

projected rate is in line with that budgeted by the State for transfers to the RGs.

Turning to the various expenditure items, the budgeted growth rate for wages and salaries (9.8%) is higher than that of the State, concerning the pattern observed in recent years, which would be warranted only in part by the successive transfers of powers. In the case of expenditure relating to goods and services and to current transfers, which are very closely linked at the RG level to health-care and education pow-

ers, high growth has been budgeted, as in previous years. In contrast, interest payments are budgeted to grow moderately, and this remains the only heading that is traditionally budgeted for with rates below nominal GDP. Finally, a higher increase than that in the State budget is projected for capital expenditure, although this marks a slowdown in relation to the 2007 budget. Further, the bigger increase in this expenditure at the RG level is centred on capital transfers (with growth of 9.9%, compared with the 6.8% increase in investment), while State expenditure on this item is projected to grow only slightly.

Turning to the budget outturn, according to National Accounts methodology and on the information available to November 2007, the State accounts posted a surplus of 2.8% of GDP, notably higher than the surplus of 2.3% of GDP a year earlier (see Table 3). Despite the fact that the State balance is highly seasonal and that December is a month which traditionally sees a substantial reduction in the surplus attained up to the previous month, the result to November suggests that the end-year central government surplus may be higher than projected.

In cash-basis terms, the State accounts posted a surplus of €24,104 million to November, compared with a surplus of €17,070 million the previous year. The discrepancies between both balances (National Accounts and cash-basis) are chiefly due, as is habitual, to adjustments for the different interest allocation criterion and for the change in outstanding rights and obligations.

Likewise on a cash basis, State revenue grew notably above forecast in the Budget Outturn Projection, while the growth of expenditure was below forecast. The higher revenue was due principally to direct taxes and, to a lesser extent, to other revenue. With the exception of the goods and services heading, expenditure was contained to some extent under all headings, compared with the figures forecast in the Outturn Projection.

To analyse revenue, information is available on total receipts from the main taxes, both the portion assigned to the State and that corresponding to the ordinary-regime regional governments, although only the State figures are included in Table 3. According to this information, receipts eased off across the board in the closing months, although they remain considerably buoyant. Of particular note was the vigour of direct taxes, the figures for which reveal growth rates far higher than those reflected in the Outturn Projection. In the case of personal income tax, and despite the tax reform in early 2007, receipts grew by 16.4%, underpinned by the strength of withholdings on income from work and by the withholdings on income from capital and on gains on mutual funds. The growth rate of corporate income tax slowed following the October prepayment to 20.3%, a figure which in any event reflects the sound course of corporate earnings and is far above the Outturn Projection for the year as a whole. As regards indirect taxes, VAT continued to show signs of sluggishness, increasing by 1.2%, while excise duties eased to 6.7%, above the Outturn Projection for the year as a whole, driven largely by the tax on hydrocarbons and that on tobacco products. Finally, the increase in the captions grouped under other revenues slackened slightly, posting a rate of 16.2% to November.

The slowdown in State expenditure in the closing months was across the board, with the sole exception of capital transfers. Given their scale, mention should be made of the moderation in

EUR m and %								
	Outturn 2006	Percentage change 2006/2005	Outturn projection 2007	Percentage change 2007/2006	Outturn JAN-SEP percentage change 2007/2006	Outturn		
						2006 JAN-NOV	2007 JAN-NOV	Percentage change
	1	2	3	4 = 3/1	5	6	7	8 = 7/6
1 REVENUE	141,846	10.1	151,329	6.7	11.9	132,362	148,407	12.1
Direct taxes	81,130	14.8	87,716	8.1	20.1	75,132	89,798	19.5
<i>Personal income tax</i>	41,451	15.3	43,000	3.7	10.4	39,156	46,237	18.1
<i>Corporate income tax</i>	37,207	14.5	41,842	12.5	31.8	33,710	40,540	20.3
<i>Other (a)</i>	2,472	11.5	2,874	16.3	39.4	2,266	3,020	33.3
Indirect taxes	48,328	8.3	49,739	2.9	-1.6	46,719	46,396	-0.7
VAT	35,424	10.7	35,491	0.2	-7.6	34,944	32,924	-5.8
<i>Excise duties</i>	9,895	1.0	11,015	11.3	18.4	9,012	10,518	16.7
<i>Other (b)</i>	3,009	7.0	3,233	7.5	7.0	2,763	2,954	6.9
Other net revenue	12,388	-8.2	13,874	12.0	16.8	10,511	12,214	16.2
2 EXPENDITURE	130,375	6.2	143,843	10.3	9.3	115,292	124,304	7.8
Wages and salaries	22,209	7.4	23,859	7.4	6.4	19,293	20,455	6.0
Goods and services	3,799	12.1	4,319	13.7	16.8	3,045	3,511	15.3
Interest payments	15,619	-12.4	14,607	-6.5	-7.3	15,470	14,326	-7.4
Current transfers	72,225	11.9	79,560	10.2	11.8	64,779	70,681	9.1
Contingency fund	...	...	...	...	...	...	...	...
Investment	9,037	0.7	11,357	25.7	15.5	7,228	7,937	9.8
Capital transfers	7,487	2.0	10,141	35.4	26.8	5,477	7,394	35.0
3 CASH-BASIS BALANCE (3 = 1 - 2)	11,471	...	7,486	...	...	17,070	24,104	...
MEMORANDUM ITEM: NATIONAL ACCOUNTS								
Resources	147,201	13.1	156,377	6.2	10.8	136,331	151,812	11.4
Uses	142,422	10.8	154,276	8.3	9.7	116,661	125,977	8.0
NET LENDING (+) OR BORROWING (-)	4,779	...	2,101	...	...	19,670	25,835	...
(as a percentage of GDP)	0.5	...	0.2	...	...	2.3	2.8	...

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.

current transfers and in wages and salaries. As regards interest payments, the key development was the marked loss of dynamism in investment, which grew at a rate of 9.8% to November.

Box 5 addresses the main aspects of the Social Security budget outturn to October.

#### 4.5 The balance of payments and capital account

The Spanish economy's net borrowing (i.e. the overall balance on current and capital account) amounted in the first ten months of 2007 to €81,911 million, 21.3% up on the same period a year earlier (see Table 4). The current account deficit widened by 19.8% in this period to €85,259 million. While more moderate than in previous years, the pace of the widening of the Spanish economy's external deficit remained considerable, a gradual slowdown being discernible in the months following the step-up recorded in the summer months. The balances of the main current account components worsened in the first ten months of 2007, with the exception of the services surplus, which improved moderately as a result of the increase in the tourism surplus and the partial correction of the deficit on other services; the income deficit, meanwhile, increased substantially. The surplus on capital transactions posted a decline of 7.1%, amounting to €3,348 million.

The Social Security system posted a surplus of €17,482 million in the period January-October 2007, up €2,120 million (13.8%) on the same period a year earlier (see accompanying table). These outturn figures entail, however, a less favourable trend than that recorded to July, given that the dynamism of revenue eased off, posting an 8.2% increase in October, while the growth of expenditure held virtually stable at around 7%.

Revenue from social security contributions posted growth of over 7% in recent months, though some easing was observed. That reflected the slowdown in the number of Social Security registrations during 2007, which ended the year with growth of 2.3%, 1 pp down on the rate recorded at the end of 2006.

Turning to expenditure, the growth of that earmarked for contributory pensions held at 6.5% to October, below the figure budgeted for the year as a whole. The growth in the number of contributory pensions remained practically stable in the second half of the year at around

1.3%. The growth rate of expenditure on sickness benefits stepped up to 5.4% to October, a rate also below budget.

As regards the SPEE (National Public Employment Service), the data for which are not included in the accompanying table, contributions received increased by 6.4% to August, while rebates on contributions in respect of employment-promoting contracts increased by 11.1% in the same period.

Finally, the expenditure earmarked for unemployment benefits rose by 7.4% to November (similar to the 7.6% increase for 2006 as a whole), while the number of beneficiaries grew by 13% to October (as against 3% average growth in 2006). In addition, the increase in registered unemployment continued to quicken, rising to 4.4% in November, in marked contrast to the average decline of 1.9% in 2006. This gave rise to a further increase in the coverage ratio, which stood at 69% in October 2007, compared with the end-2006 level of 66.6%.

#### SOCIAL SECURITY SYSTEM (a)

##### Transfers to regional governments allocated (b)

##### Current and capital transactions, in terms of recognised entitlements and obligations

EUR m and %

	Outturn	Budget		JAN-JUL	Outturn JAN-OCT		
	2006	2007	% change	% change	2006	2007	% change
	1	2	3=2/1	4	5	6	7=6/5
1 REVENUE	103,987	106,142	2.1	9.0	85,992	93,003	8.2
1.1 Social security contributions	96,522	97,942	1.5	7.5	80,017	85,898	7.3
1.2 Current transfers	5,313	5,963	12.2	13.0	4,403	5,042	14.5
1.3 Other	2,152	2,237	3.9	82.8	1,572	2,063	31.3
2 EXPENDITURE	90,646	98,390	8.5	7.0	70,630	75,522	6.9
2.1 Wages and salaries	2,169	2,253	3.9	0.8	1,730	1,738	0.5
2.2 Goods and services	1,859	1,807	-2.8	0.4	1,381	1,408	2.0
2.3 Current transfers	86,095	93,743	8.9	6.8	67,285	71,726	6.6
Contributory pensions	73,725	80,099	8.6	6.5	57,511	61,221	6.5
Sickness	6,850	7,313	6.7	3.8	5,338	5,628	5.4
Other	5,519	6,331	14.7	13.9	4,436	4,877	9.9
2.4 Other	523	588	12.5	172.7	234	650	177.3
3 BALANCE	13,342	7,752	-41.9	20.1	15,362	17,482	13.8

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

a. Only data relating to the system and not to the entire Social Security Funds sector are given. This is because the figures for other Social Security funds are not available.

b. Transfers from the ISM to the regional governments to finance transferred health-care and social services have been distributed among the various expenditure captions on the basis of the percentages obtained from the general government accounts for 1997.

EUR m		JANUARY-OCTOBER	
		2006	2007
CREDITS	Current account	254,850	282,131
	<i>Goods</i>	142,368	153,080
	<i>Services</i>	71,471	79,232
	— Tourism	35,811	37,006
	— Other services	35,660	42,226
	<i>Income</i>	29,100	37,018
	<i>Current transfers</i>	11,911	12,801
	Capital account	4,840	4,701
	Current + capital accounts	259,690	286,832
DEBITS	Current account	325,992	367,390
	<i>Goods</i>	208,971	224,426
	<i>Services</i>	51,306	58,393
	— Tourism	11,096	11,980
	— Other services	40,210	46,414
	<i>Income</i>	47,690	62,952
	<i>Current transfers</i>	18,025	21,618
	Capital account	1,237	1,352
	Current + capital accounts	327,229	368,742
BALANCES	Current account	-71,142	-85,259
	<i>Goods</i>	-66,603	-71,346
	<i>Services</i>	20,165	20,839
	— Tourism	24,715	25,027
	— Other services	-4,550	-4,188
	<i>Income</i>	-18,590	-25,935
	<i>Current transfers</i>	-6,114	-8,818
	Capital account	3,603	3,348
	Current + capital accounts	-67,539	-81,911

SOURCE: Banco de España.

a. Provisional data.

In the period from January to October 2007, the trade deficit increased by €4,743 million in relation to the same period a year earlier, rising to a figure of €71,346 million, making for an increase in the first ten months of the year of 7.1%. This rate runs counter to the greater deterioration that had been characterising the previous years. The improved terms of trade meant that, in nominal terms, exports increased in the first ten months of the year at a rate similar to that of imports (7.5% and 7.4%, respectively). Over the course of this period there was a decline in the energy bill, against the background of the appreciation of the euro against the dollar and of small increases in crude oil prices in dollars on international markets (until the more recent phase, when these prices surged). However, the non-energy trade deficit increased in both nominal and real terms.

In the first ten months of 2007, the services balance posted a surplus of €20,839 million, 3.3% higher than in the same period in 2006. The rise was due both to the slight improvement (by 1.3%) in the tourism surplus and to the 8% reduction in the other services deficit. Tourism revenues have been somewhat more expansionary in recent months than during the spring and early summer. However, their dynamism remains moderate. Specifically, the increase in the first ten months was 3.3%, 2.5 pp below the rate observed in the same period in 2006,

which might be explained by the appreciation of the euro in nominal effective terms and by the greater pressure exerted by eastern Mediterranean destinations competing with Spain. Tourism payments increased by 8% in the January-October period, a rate 1.5 pp slower than that of the first ten months of the previous year, which is consistent with the gradual slowdown in overall household expenditure. The correction of the deficit on other services took place in a setting of high dynamism of both revenues and payments, which respectively grew at rates of 18.4% and 15.4% in the January-October period.

The income deficit widened forcefully over the course of the first ten months of 2007, standing at €25,935 million, entailing a deterioration of 39.5% compared with the same period the previous year. Both revenues and, in particular, payments moved on an expansionary course throughout the first ten months of 2007, with year-on-year growth rates of 27.2% and 32%, respectively. Developments in this balance were in response to the rise in interest rates – which was particularly marked in the case of short-term rates – and to the growing net debit position of the Spanish economy, as a result of its net borrowing in recent years. By institutional sector, the increase in the deficit was attributable, above all, to the increase in the investment income deficit of other resident sectors and, to a lesser extent, of financial institutions, while the general government deficit widened much more modestly.

In the first ten months of 2007, the deficit on the balance of current transfers grew by 44.2% to €8,818 million. Revenues increased at a year-on-year rate of 7.5%, thanks to the favourable trend in EU flows connected to the European Social Fund and in other transfers received by the private sector, particularly those relating to taxes and donations. Payments – with a buoyant growth rate of 19.9% – outpaced revenues, reflecting the significant increase in both the payments by the public sector and by other resident sectors, with those relating to taxes and donations standing out in both cases. Migrant remittance payments continued to increase notably (25.3%).

Finally, the capital account surplus fell in the first ten months of the year in relation to the same period a year earlier. This was due to the reduction in revenues and the rise in payments. The deterioration in revenues was above all due to the strong decline in revenues received by general government in relation to debt forgiveness and, to a lesser extent, from the Cohesion Fund. The increase in the structural funds received from the ERDF was unable to offset this deterioration.

## 5 Financial developments

### 5.1 Highlights

In 2007 Q4, the financial turbulence that broke out last summer as a result of the rise in the default rate on sub-prime mortgages in the United States intensified. Thus, following the improvement between late September and early October, tensions resurfaced in the final part of the year. In the money markets, the uncertainty generated by the recognition of fresh losses by certain US investment banks, along with the desire of many intermediaries to end the year with a comfortable liquidity position, meant that interbank rates rose again, especially at the shorter maturities. Thus, while one-year EURIBOR fell in October and November to an average rate in the latter month of 4.61% (down 8 bp from September), it rose in December to an average rate of 4.8%.

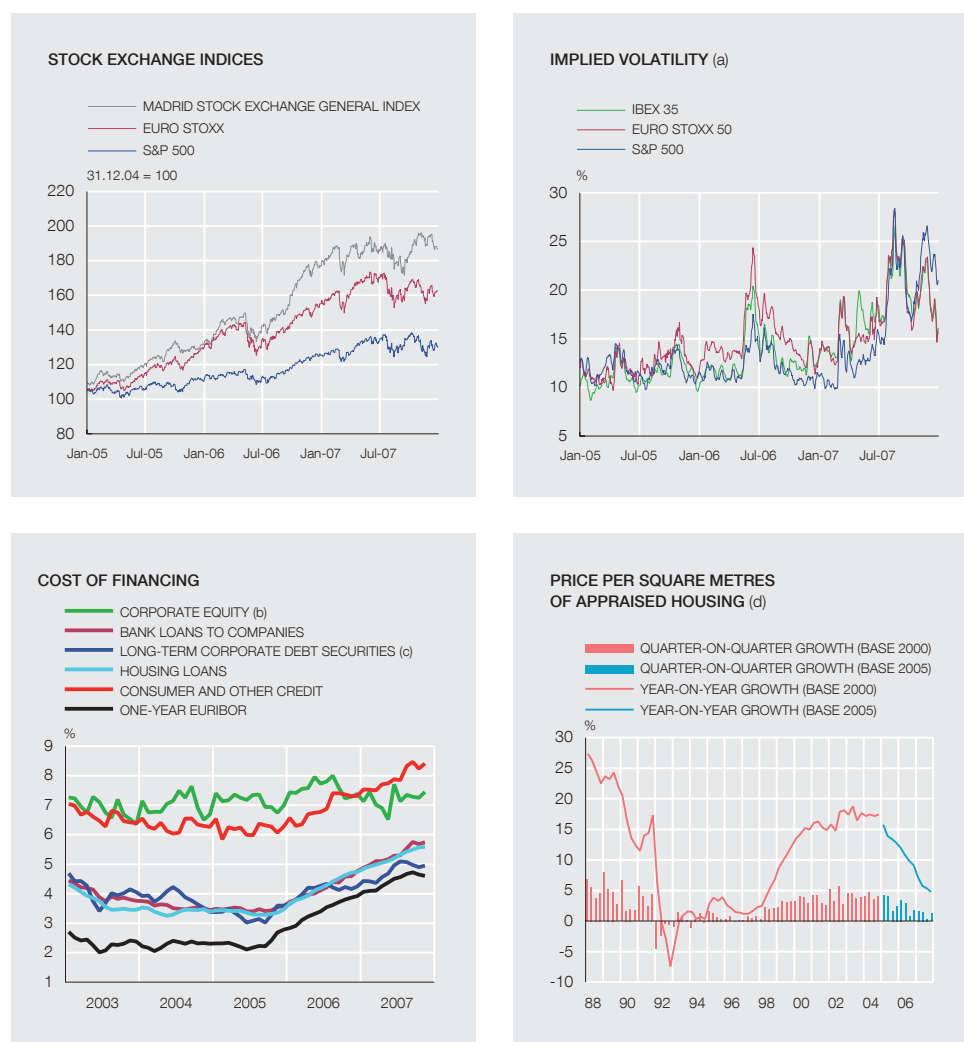
Turbulence also affected other financial markets. Thus the credit spreads of financial and non-financial firms widened again in November and December, following their recovery in the two previous months, to stand at their highest levels since 2003. The climate of greater uncertainty stimulated the demand for low-risk assets, although this development was partially reversed at the end of the year. Stock markets remained highly resilient up to the end of the year, although there was a rise in their volatility (see Chart 24). Thus, the Madrid Stock Exchange General Index (IGBM) rose by 3% in Q4, to make a 6% gain in 2007 as a whole, which was slightly larger than those recorded by the Euro Stoxx broad index of European firms (5%) and by the S&P 500 (4%) of US ones.

During the first few weeks of 2008, credit spreads continued to widen, especially in the case of financial firms, while share prices declined. On Monday 21 January, amid sharp falls across international equity markets, the IGBM (Madrid Stock Exchange General Index) lost 7.1%, although it partially rebounded subsequently. Over the period 1-24 January the IGBM fell by a total of 13.8%. On the money markets by contrast, the tensions observed in December partially subsided and twelve-month EURIBOR fell on average to 4.5%. In any event, given the dominant background of considerable uncertainty at the time this report was drafted, more time is clearly needed before the true purport of these movements can be properly assessed.

Despite the financial turbulence, the information available on 2007 Q4 (to November) does not show a significant increase in the costs of new flows of private-sector financing. However, according to the results of the December Bank Lending Survey (BLS), in Q4 the banks tightened their credit standards for new lending to both households and businesses. Also, credit standards were forecast to continue to tighten in 2008 Q1.

In the property market, according to the latest data supplied by the Ministry of Housing, in 2007 Q4 the pattern of gradual moderation in the rate of growth of house prices, which began more than two years ago, continued. The year-on-year growth rate of the price of appraised unsubsidised housing stood, in 2007 Q4, at 4.8%, half a percentage point less than in September and more than 4 pp lower than at end-2006.

Against this background, in 2007 Q4, private-sector debt slowed further. In the case of households, the year-on-year growth rate of credit stood in November at around 14%, down one percentage point from September. This reduction is explained by the fall in the rate of growth of loans for house purchase, since there was no significant change in that of consumer and other loans. The provisional information for December points to a further reduction in the buoyancy of household liabilities.



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

a. Five-day moving averages.

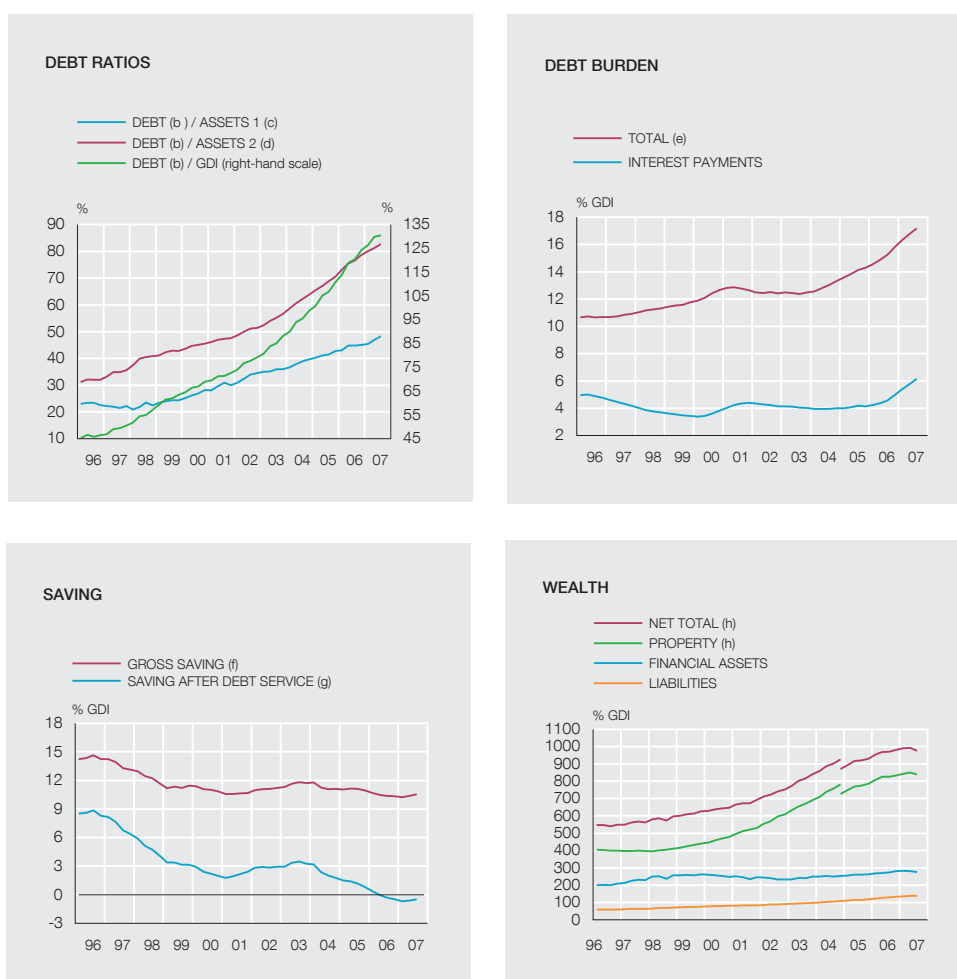
b. The cost of equity is based on the three-stage Gordon dividend discount model.

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 growth rate of corporate borrowing fell more sharply (by more than 2 pp between September and November) to stand at around 19%, a trend that continued in December according to the preliminary data for that month. The latest information available shows that the recent slowdown in lending to businesses is the result of mixed developments at the sectoral level. Thus, the slowdown in 2007 Q3 was exclusively attributable to the loss of momentum in borrowing by property services and construction, since the borrowing of other sectors was more buoyant. The further acceleration in lending to industry, which grew by around 22% year-on-year, was especially notable (see Box 6).

Despite the moderation in the growth of household liabilities, they continued to grow faster than household income, so that in 2007 Q3 the household debt and debt-burden ratios continued to rise, the latter also being driven by the higher average cost of outstanding credit (see Chart 25). According to the provisional data available, this trend continued in 2007 Q4. Meanwhile, according to the financial accounts, between July and September 2007, household net borrow-



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.

ing showed no significant change; neither did household net wealth, which remained at around the comfortable levels observed in the first half of the year.

The corporate debt and debt-burden ratios also rose further in 2007 Q3 and, according to the preliminary figures, this pattern continued in Q4. The latest information on corporate income, relating to September, shows that the increase in financial costs continued to curb the growth of profits, which led to a slight decline in the return on capital. The data for the sample of firms that respond to the quarterly survey of the Central Balance Sheet Data Office (CBQ) also showed an increase in their debt burden and a reduction in profitability, although the latter remains at comfortable levels. However, these developments were accompanied by a certain decline in the degree of indebtedness of these companies. As a result of these changes there was a moderate rise in the synthetic indicators of financial pressure on investment and employment (see Chart 26). During the same period, according to the financial accounts, the

Financing granted by Spanish credit institutions to productive activities (non-financial corporations and sole proprietorships) displayed a pattern of continuous acceleration between 2002 and end-2006 to reach a year-on-year growth rate of approximately 29%. As shown in panels 1 and 2, this trend was driven essentially by funds earmarked for construction and real estate services, whose growth rates rose to around 35% and 50%, respectively. These two branches account for approximately two thirds of the average growth in corporate loans in this period. The reasons for these developments are notably robust construction, especially in the residential segment, as shown by the activity indicators (see panels 3 and 4), and the upturn in M&A activity, which was extensively financed through bank debt.

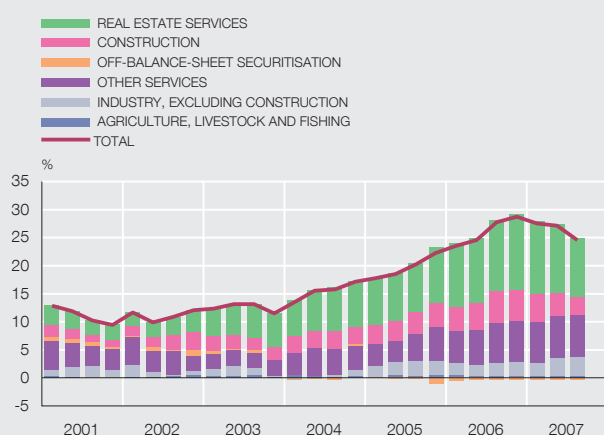
Conversely, since the beginning of last year, bank credit for productive activities has gradually slowed. Between December 2006 and September 2007 its year-on-year growth rate fell 4 pp, to 25%. The breakdown by sector shows that this pattern of moderation is accounted for exclusively by loans granted to construction and real estate services whose year-on-year growth rates dropped considerably in the same period, from 33% and 51%, respectively, to 18% and 35%. By contrast, in the other sectors growth rates held steady, as in other services, or even quickened strongly, as in industry.

Moderation in the growth rate of funds raised by the construction and real estate sectors is essentially linked to the slowdown in the activity of these two branches. The gross capital formation undertaken by them and housing starts indicators have been decelerating noticeably since mid-2006. Less buoyant M&A activity must have also contributed to these developments. Conversely, the greater resilience of investment by other sectors will have tended to support credit growth.

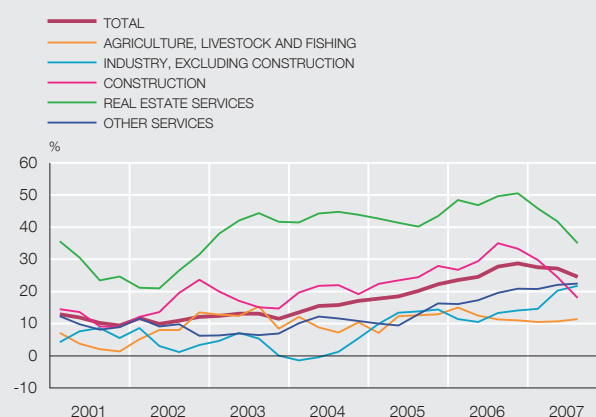
Apart from demand, recent developments in bank lending to corporations may have also been affected by supply-side factors. Credit institutions may have attempted to increase the sectoral diversification of their portfolios against a backdrop in which real estate activity was beginning to show signs of less buoyancy.

Recent changes in the sectoral distribution of lending to non-financial corporations, in addition to favouring the redistribution of risk within institutions' portfolios, could also have a positive effect on the productivity of the Spanish economy insofar as new funds are used to finance productive investment and help to smooth the transition to a new growth pattern in which construction has less importance in favour of other sectors.

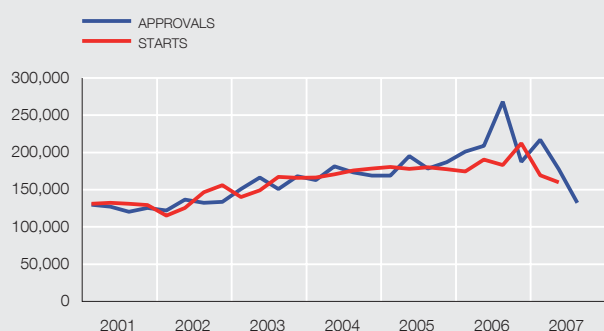
### 1 CONTRIBUTIONS TO GROWTH OF LENDING TO PRODUCTIVE ACTIVITIES



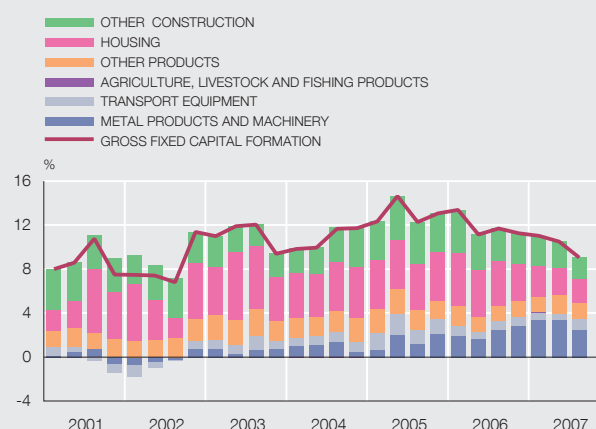
### 2 GROWTH RATES OF LENDING TO PRODUCTIVE ACTIVITIES



### 3 HOUSING APPROVALS AND STARTS



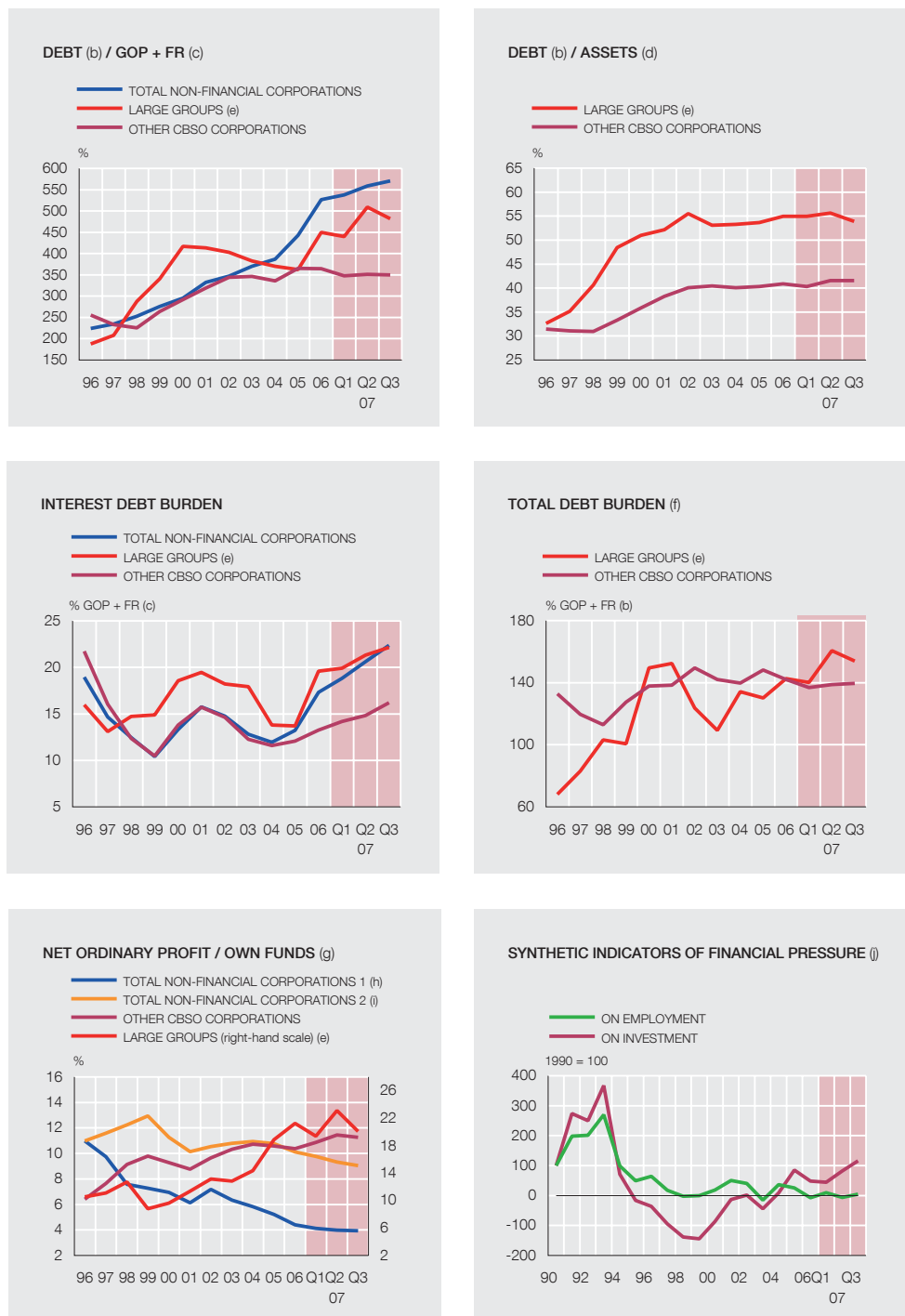
### 4 CONTRIBUTIONS TO GROWTH OF GROSS FIXED CAPITAL FORMATION



SOURCES: Instituto Nacional de Estadística, Ministerio de Vivienda and Banco de España.

# 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		
					Q3	Q4	Q1	Q2	Q3
National economy	-2.7	-2.9	-4.8	-6.5	-7.8	-8.1	-8.3	-8.7	-8.9
Non-financial corporations and households and NPISHs	-3.3	-3.8	-5.1	-8.2	-10.4	-10.6	-11.2	-12.0	-13.0
<i>Non-financial corporations</i>	-4.0	-3.9	-4.5	-6.9	-8.4	-9.0	-9.5	-10.6	-11.5
<i>Households and NPISHs</i>	0.7	0.1	-0.6	-1.3	-2.0	-1.6	-1.6	-1.4	-1.5
Financial institutions	1.2	1.0	0.6	0.7	0.6	0.6	0.7	1.2	1.4
General government	-0.5	-0.2	-0.4	1.0	2.0	1.8	2.1	2.0	2.6
MEMORANDUM ITEM:									
Financing gap of non-financial corporations (a)	-8.5	-8.2	-8.7	-11.1	-15.6	-15.9	-13.9	-15.7	-16.3

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.

sector's net borrowing increased further, to 11.5% of GDP, in cumulative twelve-month terms, almost one percentage point higher than in June.

The increase in the shortfall in corporations' funds was not offset by the recovery in the public sector's and, to a lesser extent, in financial institutions' saving. Given the stability displayed by this indicator in the case of households, this meant that the nation's net borrowing, according to the financial accounts, increased in 2007 Q3 to 8.9% of GDP, in cumulative annual terms, up 0.2 pp from June (see Table 5). The rise in credit spreads owing to the financial turbulence led domestic intermediaries to reduce their recourse to the international fixed-income markets, so that these agents performed a less active role in raising the funds necessary to finance the gap between domestic income and spending and financial investment abroad.

In short, the private sector's financial position did not change significantly in Q4, so that on aggregate there are still no signs of vulnerability that might constrain its spending decisions. At the same time, the latest information shows that both households and corporations are moderating their rate of accumulation of liabilities in an orderly manner, in line with the tighter financing conditions in recent quarters. The financial turbulence does not appear to have had a significant effect on the cost of borrowing, beyond that arising directly from the increase in interbank rates. However, a prolonged duration of the tensions on financial markets would probably eventually have a greater effect on the conditions on which households and corporations can obtain funds.

## 5.2 Households

The latest information on the cost of households' new liabilities shows no significant increases. Thus, between September and November 2007, the average rate of interest applied to new loans for house purchase rose by 10 bp, while that for consumer and other finance fell by 5 bp, although the latter tends to be more variable partly on account of seasonal behaviour (see Chart 24). However, according to the latest BLS, in December, banks tightened their credit standards in 2007 Q4 for both types of loan and expected a further tightening of lending criteria in 2008 Q1.

Against this background, the growth rate of household debt continued to moderate, so that in November it stood at around 14%, as against 15% at the end of Q3. In terms of purpose, this

% GDP						
	2004	2005	2006	2007		
				Q1	Q2	Q3
HOUSEHOLDS AND NPISHs						
Financial transactions (assets)	9.4	10.2	11.6	11.3	10.6	9.4
Cash and cash equivalents	3.9	4.0	3.1	2.2	1.7	0.5
Other deposits and fixed-income securities (a)	1.2	1.6	6.1	6.8	7.1	7.3
Shares and other equity (b)	0.3	0.2	-0.8	0.1	0.0	0.2
Mutual funds	1.5	1.9	0.2	-0.5	-0.6	-0.6
Insurance technical reserves	1.8	1.9	1.6	1.6	1.5	1.5
<i>Of which:</i>						
<i>Life assurance</i>	0.7	0.7	0.6	0.6	0.6	0.5
<i>Retirement</i>	0.9	1.0	0.8	0.9	0.8	0.8
Other	0.6	0.6	1.4	1.3	0.8	0.6
Financial transactions (liabilities)	10.1	11.5	13.2	13.0	12.0	10.9
Credit from resident financial institutions (c)	10.8	12.3	13.0	12.5	11.6	11.0
<i>House purchase credit (c)</i>	8.7	10.2	9.9	9.3	8.9	8.5
<i>Consumer and other credit (c)</i>	2.1	2.2	3.1	3.1	2.7	2.5
Other	-0.8	-0.8	0.1	0.5	0.4	-0.1
NON-FINANCIAL CORPORATIONS						
Financial transactions (assets)	12.3	17.3	22.5	19.3	20.2	16.9
Cash and cash equivalents	1.0	2.0	2.3	1.7	1.2	0.4
Other deposits and fixed-income securities (a)	0.3	1.4	2.7	2.7	4.3	3.5
Shares and other equity	6.4	7.2	10.2	7.6	8.8	7.5
<i>Of which:</i>						
<i>Vis-à-vis the rest of the world</i>	3.8	3.9	6.8	4.2	5.6	4.4
Other	4.7	6.7	7.4	7.2	5.9	5.5
Financial transactions (liabilities)	16.9	24.2	31.5	28.8	30.7	28.4
Credit from resident financial institutions (c)	8.3	12.9	17.7	17.7	17.9	16.9
Foreign loans	0.7	2.1	3.3	1.2	2.6	2.4
Fixed-income securities (d)	0.0	0.3	1.8	1.2	0.8	0.8
Shares and other equity	4.2	3.4	2.1	2.2	3.3	4.0
Other	3.6	5.5	6.7	6.6	6.0	4.3
MEMORANDUM ITEM: YEAR-ON-YEAR GROWTH RATES (%):						
Financing (e)	16.3	21.2	24.2	21.1	20.6	18.8
Households and NPISHs	20.2	20.9	19.6	18.3	16.4	15.3
Non-financial corporations	13.2	21.4	27.9	23.3	23.9	21.5

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.

was basically a result of the behaviour of funds to finance house purchase, whose year-on-year growth rate fell to below 15%, while the liabilities for consumption and other purposes barely changed.

According to the financial accounts, households' acquisition of financial assets moderated again in Q3 and, in cumulative annual terms, accounted for less than 10% of GDP, somewhat more than 1 pp below the June figure (see Table 6). By instrument, the most important decline was in flows in the form of cash and cash equivalents, which represented barely 0.5% of GDP, as against 1.7% three months earlier. This reduction basically reflects the shift from sight to

more highly remunerated time deposits. As a result, the relative weight of the item other deposits and fixed-income securities (which includes those instruments) increased to more than 7% of GDP. There were no significant changes in the other items, with the exception of the slight rise in direct purchases of shares.

The fact that borrowing continued to grow at high rates meant that the household debt ratio continued to rise, although at a lower rate than during the preceding quarters. In September 2007 it exceeded 130% of GDI. This, along with the increase in the average cost of outstanding loans, led to a further increase in the related debt burden, which stood in the same period at more than 17% of GDI (see Chart 25). However, in cumulative twelve-month terms, there was hardly any change in either the sector's net borrowing or in the level of its saving after debt service. Neither were there any significant changes in household net wealth which, relative to GDI, held at around first-half levels.

### **5.3 Non-financial corporations**

Between September and November 2007 there was a slight rise in the average cost of capital, although the most disaggregated information shows declines in some of its elements (see Chart 24). Thus, while the interest rates applied to bank loans of less than one million euro rose by 8 bp, those on higher amounts fell by 13 bp. The cost of fixed-income issuance also fell, both in the case of short-term (14 bp) and long-term securities (2 bp), but that of equity rose. As in the case of households, the results of the latest BLS show a further tightening of credit standards during Q4, a trend that the institutions expected to continue in 2008 Q1.

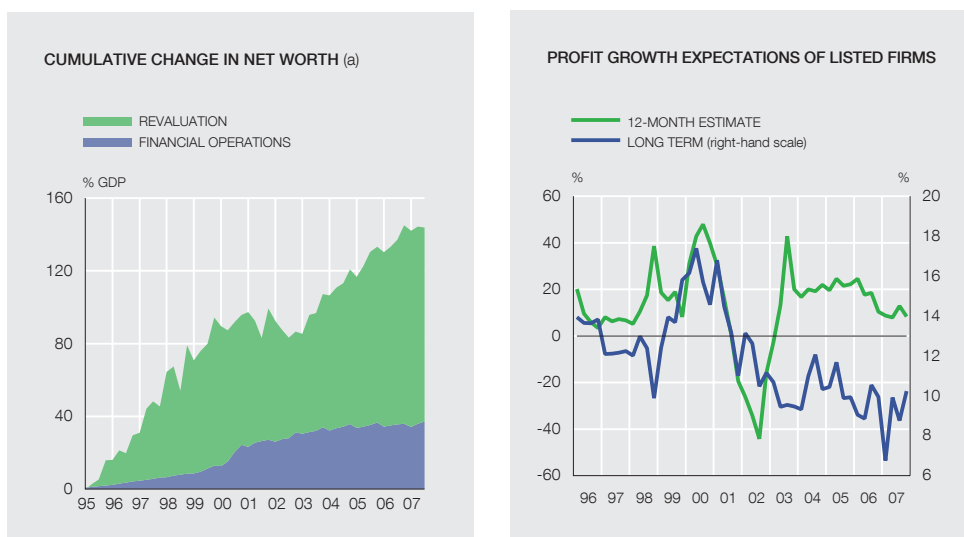
Against this background, the year-on-year growth rate of corporate debt fell between September and November by more than 2 pp, to around 19%. By instrument, this moderation is basically explained by the behaviour of credit from resident institutions, which is the main source of financing for this sector.

The latest data for the breakdown of bank credit by productive activity show that the slowdown in this form of corporate financing during 2007 Q3 was exclusively attributable to the decline in the rate of growth of that extended to real estate services and construction. Thus, in line with the lower buoyancy of activity in these sectors, the year-on-year growth rates fell by more than 6 pp, although they remain high, at around 35% and 18%, respectively. By contrast, credit to the rest of the sectors accelerated, somewhat more sharply in the case of funds raised by industry, which grew by almost 22% from the same period of 2006.

For their part, corporate asset-side transactions, in cumulative twelve-month terms, contracted to 17% of GDP in September 2007, more than 3 pp less than in Q2. This decline was seen across all instruments. Shares and other equity continued to account for the bulk of investment (see Table 6).

According to the Financial Accounts, the sector's net borrowing increased again, to 11.5% of GDP in September 2007, in cumulative annual terms, almost one percentage point more than in the preceding quarter (see Table 5). For its part, the financing gap, which approximates the funds required to bridge the difference between gross corporate saving and gross capital formation plus permanent foreign investment, also widened, albeit more moderately, reflecting the reduced buoyancy of Spanish corporate acquisitions in the rest of the world.

Despite the slowdown in corporate borrowing, it continued to grow at a high rate, so that there was a further increase in the debt-to-earnings ratio in 2007 Q3 (see Chart 26). This trend, combined with the rise in the average cost of these funds, caused interest payments to increase further relative to profits, until they reached 22% thereof. This behaviour by financial



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.

costs continued to contribute to moderating the growth in the sector's income, leading to a slight decrease in the return on capital.

The data of the sample of companies reporting to the CBQ, which is dominated by large corporations, also show a certain decline in the profitability of these firms in 2007 Q3, although it remained at comfortable levels, and an increase in the debt burden. However, the debt ratio of these companies declined slightly. As a result of these changes there was a moderate rise in the synthetic indicators of financial pressure on employment and investment.

Finally, in Q4, analysts revised downwards their expectations for listed firms' profit growth over the next 12 months, although the projected rate of growth remained high, at close to 9%. Moreover, this development was accompanied by a certain improvement in the longer-term outlook (see Chart 27).

#### 5.4 General government

In September 2007, general government saving, in cumulative twelve-month terms, was equal to 2.6% of GDP, 0.6 pp more than in the middle of the year (see Chart 28). The distribution by instrument shows, most notably, an increase in the net balance between deposits and credit, as well as a net redemption of short-term securities and a net issuance of long-term securities. As regards interest payments, they showed no significant change relative to GDP, remaining at 1.6%, as the increase in the cost of funds was offset by the reduction in outstanding debt.

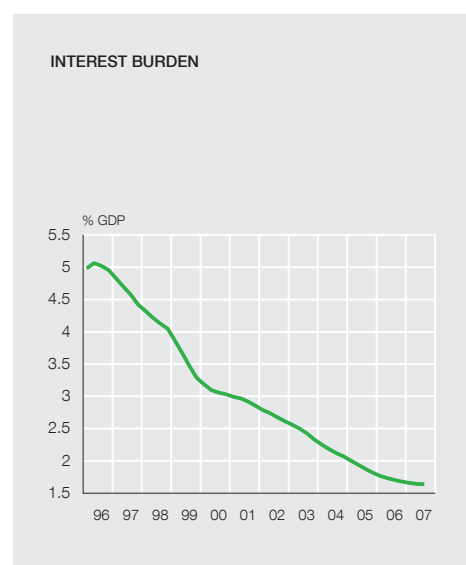
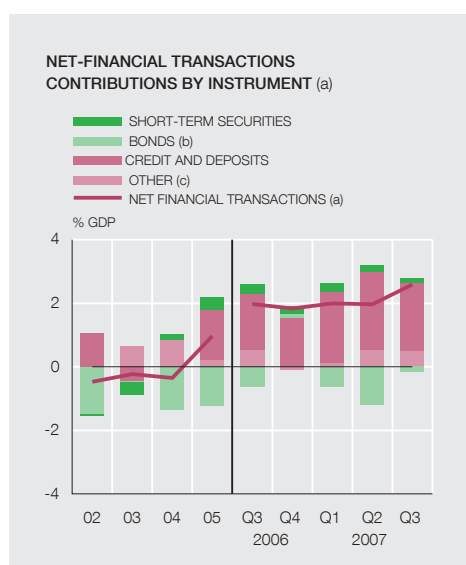
#### 5.5 The rest of the world

In 2007 Q3, the debit balance of the nation's financial transactions increased again to stand, in cumulative annual terms, at 8.9% of GDP, up 0.2 pp from the middle of the year. The sectoral breakdown shows that firms increased their net borrowing by almost one percentage point of GDP, households kept their net borrowing at similar levels to June and both financial institutions and, especially, general government, increased their surplus.

Private financial institutions played a less active role in the channelling of funds from the rest of the world to the Spanish economy (see Chart 29). Specifically, the total net funds raised by this sector abroad (excluding institutional investors) amounted to 12.4% of GDP, in cumulative

## GENERAL GOVERNMENT Four-quarter data

CHART 28

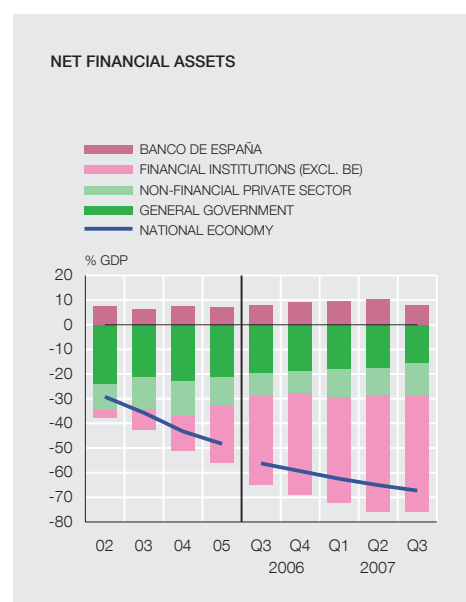
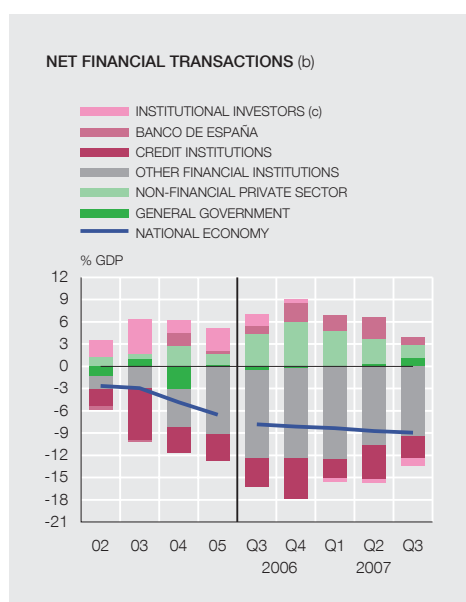


SOURCE: Banco de España.

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

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

CHART 29



SOURCE: Banco de España.

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

**FINANCIAL TRANSACTIONS OF THE NATION**  
**Four-quarter data**

TABLE 7

% GDP						
	2004	2005	2006	2007		
				Q1	Q2	Q3
NET FINANCIAL TRANSACTIONS	-4.8	-6.5	-8.1	-8.3	-8.7	-8.9
FINANCIAL TRANSACTIONS (ASSETS)	13.3	18.4	16.4	13.6	16.7	15.3
Gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0
Cash and deposits	3.2	2.2	5.5	7.3	6.3	5.6
<i>Of which:</i>						
<i>Interbank (a)</i>	0.7	3.1	3.4	6.1	4.7	5.9
Securities other than shares	1.8	8.8	-1.2	-1.0	2.2	2.2
<i>Of which:</i>						
<i>Credit institutions</i>	1.0	6.6	-2.0	-1.5	1.4	1.8
<i>Institutional investors (b)</i>	0.3	2.3	0.5	0.3	0.1	0.1
Shares and other equity	6.8	5.1	9.2	5.9	7.5	6.1
<i>Of which:</i>						
<i>Non-financial corporations</i>	3.8	3.9	6.8	4.2	5.6	4.4
<i>Institutional investors (b)</i>	0.8	0.9	1.2	0.2	0.5	-0.3
Loans	0.8	1.1	2.1	0.9	0.3	0.9
FINANCIAL TRANSACTIONS (LIABILITIES)	18.1	24.9	24.5	22.0	25.4	24.3
Deposits	1.7	5.6	0.3	0.4	3.6	5.4
<i>Of which:</i>						
<i>Interbank (a)</i>	5.0	7.2	0.6	0.4	4.1	5.3
Securities other than shares	12.4	15.8	21.3	20.4	18.3	14.5
<i>Of which:</i>						
<i>General government</i>	2.7	0.2	1.3	1.0	0.6	-0.4
<i>Credit institutions</i>	4.6	6.3	7.7	6.8	7.0	5.5
<i>Other non-monetary financial institutions</i>	5.1	9.3	12.3	12.6	10.6	9.4
Shares and other equity	2.7	0.9	-0.7	-0.3	0.4	1.7
<i>Of which:</i>						
<i>Non-financial corporations</i>	1.7	1.0	-1.1	-0.2	0.6	1.7
Loans	1.3	2.3	3.5	1.3	3.0	2.7
Other, net (c)	-0.6	-0.9	-0.6	-0.3	-0.2	-0.6
MEMORANDUM ITEMS						
Spanish direct investment abroad	5.8	3.7	7.3	4.8	5.8	6.1
Foreign direct investment in Spain	2.4	2.2	1.6	1.6	2.1	1.9

SOURCE: Banco de España.

a. Correspond only to credit institutions and include repos.

b. Insurance corporations and portfolio investment institutions.

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

twelve-month terms, 2.8 pp less than in the middle of the year. This decline was attributable to the reduced recourse by these intermediaries to the international financial markets, against a background in which, as a consequence of the financial turbulence, the cost of issuing long-term fixed-income securities increased. This decline in the volume of capital inflows was more than offset by a reduction in the rate of accumulation of foreign net assets by firms, households and the Banco de España.

Capital inflows moderated to represent 24.3% of GDP, in cumulative twelve-month terms, as against 25.4% in Q2 (see Table 7). Most of these funds continued to be in the form of securities other than shares, those issued by financial institutions being especially relevant, although the

amount of this item declined with respect to June by 2.7 pp of GDP. By contrast, investment by non-residents in shares and other equity increased again, to 1.7% of GDP. Also, the amount of funds raised through the interbank market increased, although, in net terms, these flows continued to display a credit balance.

The acquisition of foreign assets also slowed, to account for 15.3% of GDP, in cumulative annual terms, 1.4 pp less than in June. By instrument, the most notable development was the moderation in investment in shares and other equity, whose volume represented 6.1% of GDP, as against 7.5% in Q2.

Inflows of direct investment also moderated (they accounted for 1.9%, in cumulative twelve-month terms), while, by contrast, outflows increased slightly (6.1% of GDP as against 5.8% in mid-2007).

These changes in cross-border financial flows, along with the changes in asset prices and the exchange rate, meant that in 2007 Q3 the value of net liabilities accumulated vis-à-vis the rest of the world increased further (see Chart 29). This was mainly attributable to the rise in the debit balance of non-financial corporations, although financial institutions (excluding the Banco de España) continued to be the most externally indebted sector in net terms.

However, the change described in the pattern of flows of financing in Q3 has subsequently become more marked owing to the continued impact of financial turbulence, but there is still not enough information available to outline the main developments in Q4.

25.1.2008.

RESULTS OF NON-FINANCIAL CORPORATIONS IN 2006 AND IN THE FIRST THREE  
QUARTERS OF 2007

**Overview<sup>1</sup>**

Following the practice of previous years, the January *Economic Bulletin* of the Banco de España gives the results for 2006 of the non-financial corporations contributing to the Central Balance Sheet Data Office Annual Survey (CBA) and those for the first three quarters of 2007 of the corporations contributing to the Central Balance Sheet Data Office Quarterly Survey (CBQ). The latter are a preliminary indicator of the 2007 results, which will be completed in March 2008, when the information for Q4 will be released and, subsequently in November 2008, with the annual presentation of the CBA results for 2007.

The data collected by the CBA for 2006 (see Table 1 and Chart 1) are consistent with those released earlier by the CBQ. As for productive activity, in 2006 the corporations reporting to the CBA regained momentum in the growth rate of their gross value added (GVA), overcoming the slowdown recorded in 2005<sup>2</sup> (GVA increased by 7.4% in 2006, up on the 4.7% posted in 2005 and practically identical to the 7.5% recorded in 2004). This expansionary trend was apparent in almost all the sample sectors. The most notable developments were the increases posted by wholesale and retail trading firms and by transport and communications firms. To this was added the higher buoyancy of industrial firms from the beginning of 2006. The performance of the latter sectoral aggregate is related to the positive trend in investment in capital goods and the rebound of external activity, resulting largely from the recovery of the major euro area economies.

The CBQ data confirm that in the first three quarters of 2007 activity continued to grow, albeit more moderately as the year passed. In the first three quarters, the rate of change in GVA was just over 2 pp lower than a year earlier (5.4% vs. 7.5% in the same period of 2006). The forces behind these developments include most notably the declining trend of activity in the wholesale and retail sector, affected by weaker private consumption. By contrast, the industrial sector made the most positive contribution to growth in productive activity in 2007, underpinned, as in 2006, by strong investment in capital goods and the expansion of exports. These two factors led the GVA of industrial companies reporting to the Central Balance Sheet Data Office to rise 12.9% in 2007 Q1-Q3, considerably higher than the 4.8% growth in the same period in 2006.

The average number of employees of CBA firms increased by 3.1% in 2006, a similar rate to 2005 (3.4%). This rise was mainly due to the performance of wholesale and retail trade and, to a lesser extent, to that of transport and communications, a sector which was affected by a specific restructuring process. However, industrial and, in particular, energy firms performed negatively. In 2007 Q1-Q3, the employment generated by CBQ corporations (whose perform-

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1. This article provides information on the results obtained by the non-financial corporations reporting to the annual database (CBA) to 2006 and the quarterly database (CBQ) to 2007 Q3. As for the 2006 data, the article provides a summary of the information included in the publication *Banco de España. Central de Balances. Resultados anuales de las empresas no financieras 2006*, which was released on 28 November 2007 and includes the information provided by the 6,690 corporations which, to the end of October 2007, completed the Central Balance Sheet Data Office's annual questionnaire. This sample represents 25.9% of total activity of the non-financial corporations sector. The quarterly information of 2007 which was compiled by the CBQ is from the 765 corporations which, on average, had sent their data by mid-November. Its coverage of the total GVA of non-financial corporations is 13.1%. 2. As noted in the article presenting the results for 2005 and for 2006 Q1-Q3 (*Economic Bulletin*, January 2007), the change in the GVA of corporations reporting to the CBA during 2005 did not match that in the annual/quarterly National Accounts for the reasons given (buoyancy of the worst-represented sectors in the quarterly sample and impact of energy inputs on corporations' profit and loss accounts). In 2006 some of the reasons giving rise to this discrepancy ceased to exist and triggered another discrepancy in the opposite direction in the change in GVA for 2006 with respect to 2005 in the CBQ (the above-mentioned 7.4%) and in the annual/quarterly National Accounts (6%).

**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)		
	2006	2005	2006	06 Q1-Q4/ 05 Q1-Q4	06 Q1-Q3/ 05 Q1-Q3	07 Q1-Q3/ 06 Q1-Q3
<b>BASES</b>						
Number of corporations		8,997	6,690	831	847	765
Total national coverage		32.0%	25.9%	14.6%	15.0%	13.1%
<b>PROFIT AND LOSS ACCOUNT</b>						
1. VALUE OF OUTPUT (including subsidies)	100.0	9.9	10.0	10.4	12.5	4.3
<i>Of which:</i>						
— <i>Net amount of turnover and other operating income</i>	141.7	12.0	9.9	9.8	12.5	1.8
2. INPUTS (including taxes)	69.2	12.6	11.1	12.4	15.2	3.8
<i>Of which:</i>						
— <i>Net purchases</i>	42.0	13.5	13.1	14.4	15.3	2.1
— <i>Other operating costs</i>	27.2	12.4	7.9	5.8	7.2	7.9
S.1. GROSS VALUE ADDED AT FACTOR COST [1 – 2]	30.8	4.7	7.4	6.5	7.5	5.4
3. Personnel costs	15.7	5.7	6.6	5.3	5.5	4.3
S.2. GROSS OPERATING PROFIT [S.1 – 3]	15.1	3.6	8.3	7.5	9.1	6.2
4. Financial revenue	3.8	23.8	27.6	12.9	21.0	18.6
5. Financial costs	3.3	9.5	35.8	39.7	34.1	35.8
6. Depreciation and operating provisions	6.0	0.1	7.3	2.2	1.9	-0.2
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.6	10.3	7.9	3.8	10.0	4.5
7. Capital gains and extraordinary revenue	7.5	35.7	70.8	52.3	31.4	-13.3
8. Capital losses and extraordinary expenses	2.7	35.7	-28.0	-27.4	-39.8	7.4
9. Other (provisions and taxes)	5.0	-5.0	76.0	62.1	130.9	-15.0
S.4. NET PROFIT [S.3 + 7 – 8 – 9]	9.4	20.6	39.8	18.2	11.5	3.0
NET PROFIT/GVA (S.4/S.1)		22.2	30.6	35.0	39.5	35.7
<b>PROFIT RATIOS</b>	Formulas (b)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	8.7	9.0	8.6	7.9	7.9
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	3.7	4.1	3.9	3.8	4.4
R.3 Ordinary return on equity (before taxes)	S.3/E	12.7	13.2	13.0	11.7	11.3
R.4 ROI - cost of debt (R.1 – R.2)	R.1–R.2	5.0	4.9	4.7	4.1	3.5

SOURCE: Banco de España.

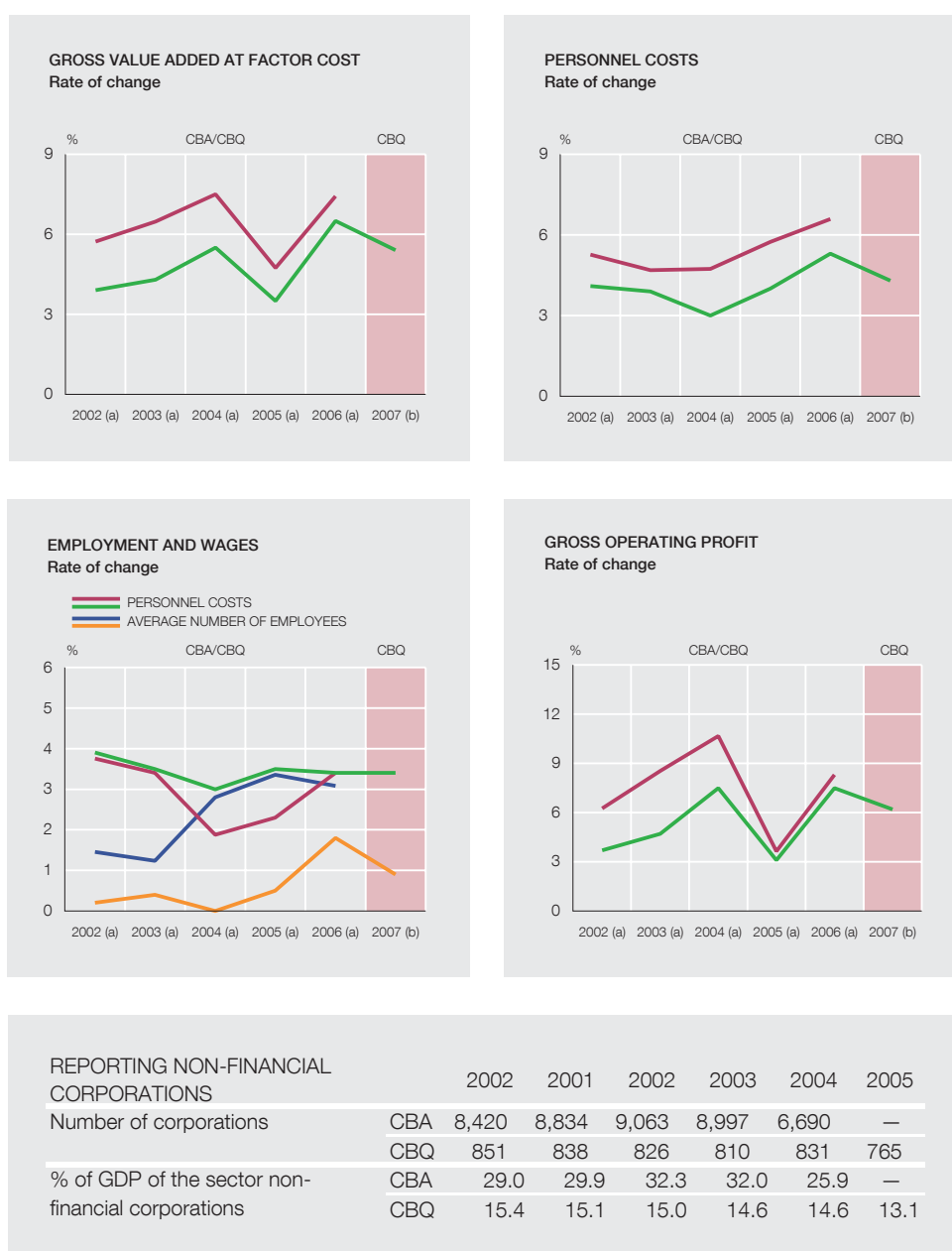
a. All the data in these columns have been calculated as the weighted average of the quarterly data.

b. The variables in the formulas are expressed as absolute values. NA = net assets (net of non-interest-bearing borrowing); E = Equity; IBB = Interest-bearing borrowing; NA = E + IBB. The financial costs in the numerators of ratios R.1 and R.2 only include that portion of financial costs which is interest on borrowed funds (5.1) and not commissions or cash discounts (5.2).

Note: in calculating rates, internal accounting movements have been edited out of items 4, 5 and 9.

ance is usually more moderate than that of the CBA firms because of the lower impact of small and medium-sized firms in the CBQ) grew 0.9% which, although still positive, represents a slight deceleration in comparison with the same period of the previous year (1.7%). The performance of the wholesale and retail sector, which is consistent with the slowdown in its activity, accounts for this deceleration since the other sectors performed slightly more favourably. Average compensation rose in 2006 and in the first three quarters of 2007 by 3.4% and salary growth thus remained moderate, although slightly higher than in previous years. Personnel costs, which are the result of the combined variation in employment and compensation, grew by 6.6% in 2006 in comparison with 5.7% in 2005 and by 4.3% in 2007 Q1-Q3 (more than 1 pp less than in the same period of the previous year).

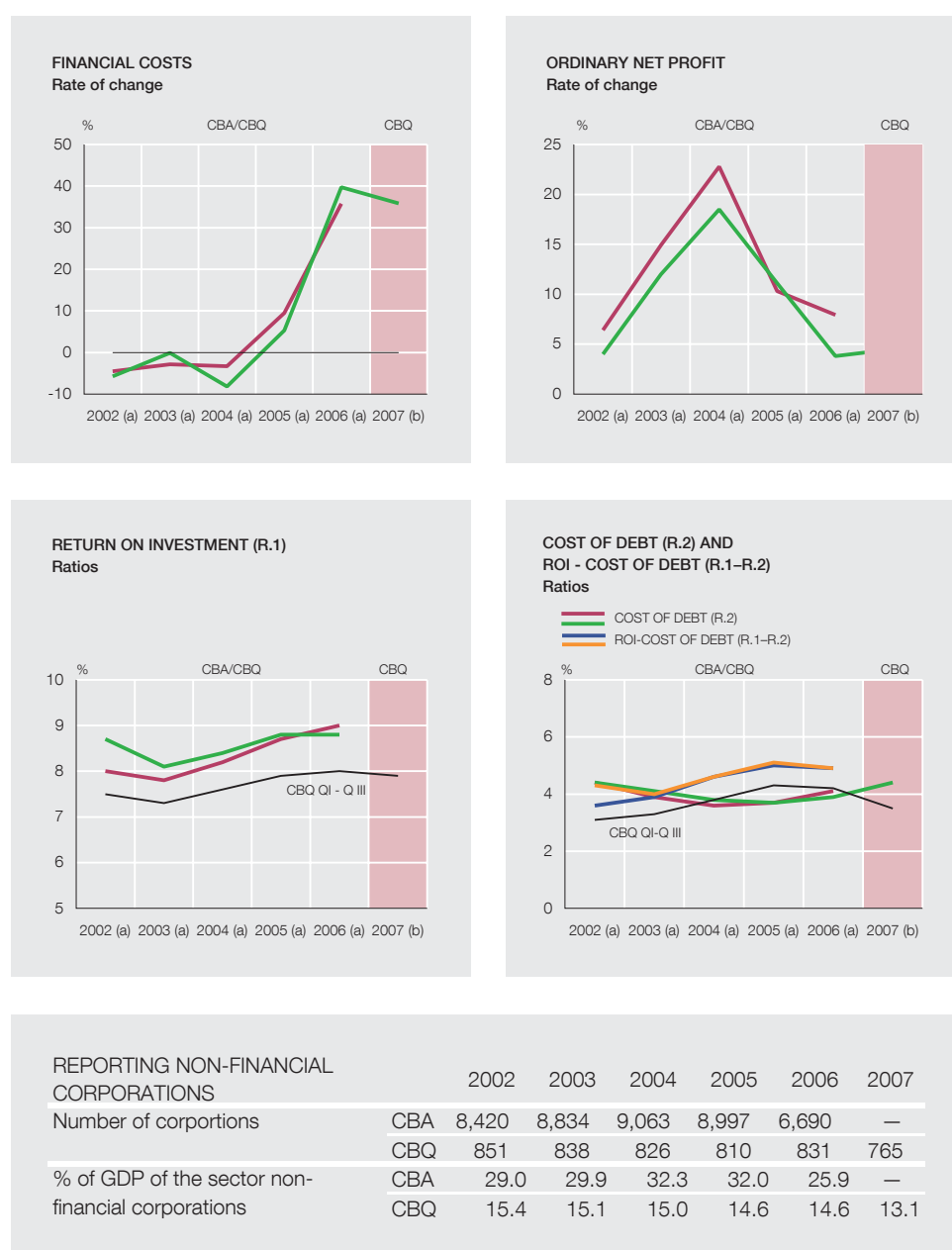
As a result of the trend in activity and personnel costs in 2006, growth in gross operating profit (GOP) climbed to 8.3%, more than double the figure for the previous year. In the first three quarters of 2007 of the CBQ sample, GOP growth slowed to 6.2%, almost 3 pp lower than in 2006 (9.1%).



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 first three quarters of 2007 in relation to the same period in 2006.

Analysis of financial revenue and costs in the two periods under consideration shows similar behaviour in each, although the combined figure (the net debt burden) had a different impact on the profit and loss account. In 2006 financial costs embarked on a clear growth path which extended into 2007 and is the result of interest rate rises and, in particular, of new borrowing largely to enable sizeable share purchase transactions by large Spanish multinationals (in Spain and in other countries). However, the increasing weight of the debt burden in the business cost structure was partly absorbed by strong growth in financial revenue in the two periods analysed. This was due to the inflow of dividends from foreign subsidiaries and the growth of interest received in 2006, and solely to interest received in 2007. The net balance of financial



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 first three quarters of 2007 in relation to the same period in 2006.

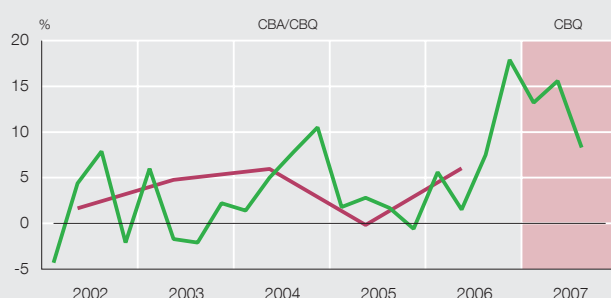
revenue and expenses had a positive impact on ordinary net profit (ONP) in 2006 and a slightly negative impact in 2007. Nevertheless, this variable continued to rise both in 2006 (7.9%) and in the first three quarters of 2007 (4.5%), although in both cases the increases were lower than those posted in the immediately preceding periods. In any event, the combined growth of ONP and financial costs (the numerator used to calculate the return on investment) was sufficient to ensure that firms' rates of return on investment remained high. These rates were similar in 2006 to those of the previous year (9% vs. 8.7%) and identical in 2007 Q1-Q3 to those of the same period in 2006 (7.9%). At the same time, the ratio which measures the cost of borrowed funds increased slightly due to the impact of interest rate rises on corporate costs

The data gathered by the Central Balance Sheet Data Office for the industrial sector show strong dynamism of productive activity in 2006, when GVA grew 6% (as against -0.2% in 2005), and in 2007 Q1-Q3, when this growth rose to 12.9%. The reasons for this positive trend are higher investment in capital goods together with more buoyant exports. Analysis by sub-sector shows that in 2006 the strongest growth was in the “glass, ceramics and metals” and “manufacture of electrical and optical equipment” sub-sectors (13.1% and 12.2%, respectively), whereas the “food products, beverages and tobacco” aggregate (affected by the impact on demand of the entry into force of the law restricting tobacco consumption) and the “manufacture of chemicals” aggregate performed more negatively and their GVA slipped slightly. However, the cumulative data to September 2007 confirm that these two sectors have picked up and resumed notable GVA growth (7.9% in food, beverages and tobacco and 16.1% in the manufacture of chemicals) against a backdrop of widespread increases in the other industrial

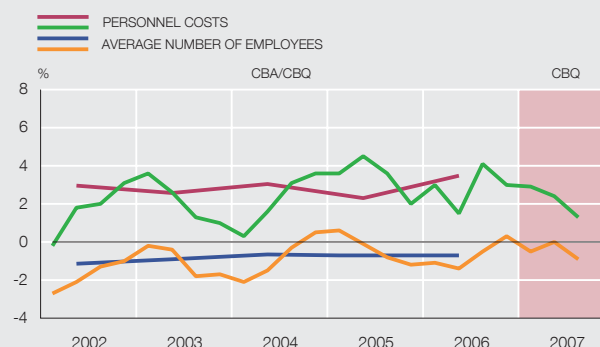
sub-sectors. Net increases in employment were again absent, with slightly negative rates in 2006 (-0.7%) and in 2007 Q1-Q3 (-0.4%). Both rates were strongly affected by staffing adjustments centred on certain sub-sectors, especially “manufacture of transport equipment”, an aggregate which in 2006 and 2007 Q1-Q3 recorded the highest staff reductions (-2.5% and -3.4%, respectively) in the whole industrial sector. Average compensation in industry grew 4.2% in 2006 and 2.7% in 2007 Q1-Q3, continuing to increase moderately in line with the behaviour described for the sample corporation total. The combined effect of employment and compensation led to increased personnel costs (up by 3.5% in 2006) and a slightly more moderate rise (2.3%) in the figure to September 2007. In any event, the expansion of productive activity, together with growth in net financial revenue, was the main reason behind the strong rise in ordinary net profit, which posted rates of change of 33.6% in 2006 and 45.6% in 2007 Q1-Q3, clearly exceeding those of previous periods. This enabled profit ratios in both years

## PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

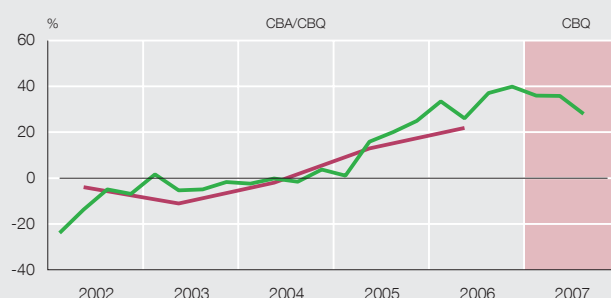
**GROSS VALUE ADDED AT FACTOR COST**  
Rate of change



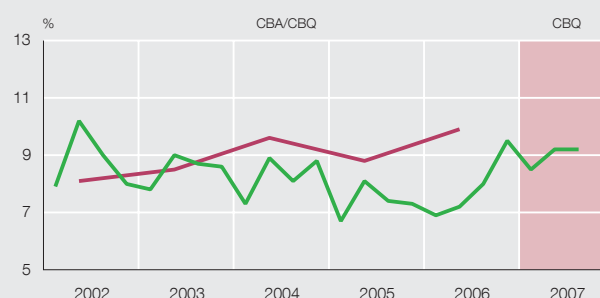
**EMPLOYMENT AND WAGES**  
Rate of change



**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				2,434				1,841				—			
	CBQ	391	378	369	357	367	362	354	346	352	342	335	333	323	311	304	296	322	306	293	279	314	291	221	—
% of GDP of the sub-sector industrial corporations	CBA	27.9				28.5				29.9				30.0				20.5				—			
	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	16.7	18.7	18.2	11.6	—

SOURCE: Banco de España.

to continue on an upward trend that put the return on investment at 9.9% in 2006 (1 pp higher than in 2005) and at 9.6% in the first three quarters of 2007, an increase of just under 2 pp compared with the previous year's figure. This expansionary behaviour of profits enabled the growth of financial costs to be absorbed and,

consequently, the difference between ROI and the cost of debt was clearly positive and rising in the periods analysed. Therefore, the outlook for the industrial sector is positive, helped by the healthy investment in capital goods and external activity, although positive employment rates have not reappeared.

and, consequently, the difference between ROI and the cost of debt remained positive, although lower than in previous periods: in 2006 it fell 10 bp with respect to 2005 and in 2007 it dropped from 4.1% to 3.5%.

The items which make up extraordinary results strengthened the growth of final net profit in 2006, mainly due to strong capital gains on sales of assets and controlling ownership stakes, some of them particularly significant. As a result of these operations, extraordinary revenue grew 70.8%, reaching a high in the available time series and final net profit for the year increased 39.8% and stood at 30.6% of gross value added, which also represents a record high for the CBA series. In 2007 Q1-Q3 extraordinary results were much less significant than in 2006 and, consequently, the slowdown in ONP grew in terms of final net profit, which did not include the substantial capital gains from 2006. Nevertheless, there was a positive rate of change in this variable in the first three quarters of 2007 at CBQ corporations as a whole. The volatility introduced by these atypical operations means that the analysis of total net profit in proportion to GVA is more significant. This ratio reached 35.7% in 2007, one of the highest percentages in the quarterly series. It is worth noting that the behaviour of the results of non-financial corporations reporting to the CBQ is consistent with the statistics disseminated by the CNMV on the results of listed companies, when the figures are expressed in comparable terms, i.e. for the same firms and the same scope of operations. It should be kept in mind that the CNMV disseminates the results of listed consolidated corporate groups, i.e. including firms resident abroad that have a financial and non-financial activity, and calculates their performance without excluding the firms first consolidated in the previous year due to their having been acquired in that period. In addition, the number of listed non-financial corporate groups in the CNMV statistics is slightly less than 150, whereas the CBQ includes more than 800 individual firms.

To sum up, in 2006 growth in the productive activity and results of non-financial corporations reporting to the CBSO was strong and across-the-board. In the first three quarters of 2007, there were signs of a slowdown in certain sectors, with lower growth in GVA and gross operating profit. In this setting of a slowdown in 2007, job creation was also subdued. In 2006 and in 2007 Q1-Q3 sizeable corporate acquisitions pushed corporate debt levels considerably higher, which has coincided with interest rate rises and raised the corporate debt burden. However, this rise was amply offset in 2006, and alleviated in 2007, by higher financial revenue (dividends from subsidiaries and interest) with the result that ONP grew in both periods, albeit less strongly in 2007. This slowdown is larger in terms of final net profit, which was boosted in 2006 by capital gains and other extraordinary revenue that had a lower impact in 2007. In any event, in 2007 the profit ratios of non-financial sample corporations reporting to the CBQ remained positive and high, albeit lower than in 2006.

### Activity

Productive activity, as measured by GVA growth, increased strongly in 2006 by 7.4% (see Table 1 and Chart 1), a clearly higher rate than the 4.7% of 2005, and marked the return to

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

TABLE 2.A

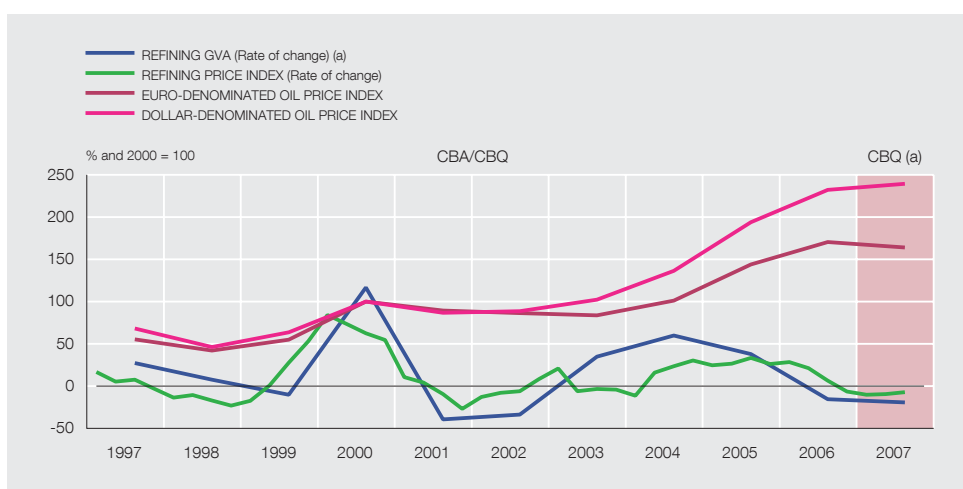
	GROSS VALUE ADDED AT FACTOR COST				EMPLOYEES (AVERAGE FOR PERIOD)				PERSONNEL COSTS				COMPENSATION PER EMPLOYEE			
	CBA		CBQ (a)		CBA		CBQ (a)		CBA		CBQ (a)		CBA		CBQ (a)	
	2006	06 Q1-06 Q4	06 Q1-06 Q3	06 Q1-06 Q3	2006	06 Q1-06 Q4	06 Q1-06 Q3	06 Q1-06 Q3	2006	06 Q1-06 Q4	06 Q1-06 Q3	06 Q1-06 Q3	2006	06 Q1-06 Q4	06 Q1-06 Q3	06 Q1-06 Q3
Total	7.4	6.5	7.5	5.4	3.1	1.8	1.7	0.9	6.6	5.3	5.5	4.3	3.4	3.4	3.7	3.4
SIZE																
Small	3.6	—	—	—	-0.1	—	—	—	4.6	—	—	—	4.6	—	—	—
Medium	9.1	6.0	7.4	4.6	2.0	1.1	1.1	2.4	6.3	5.2	5.4	4.8	4.2	4.1	4.3	2.3
Large	7.4	6.6	7.5	5.4	3.3	1.8	1.7	0.8	6.7	5.3	5.5	4.3	3.3	3.4	3.7	3.5
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	5.2	4.3	9.1	-0.3	-2.0	-1.4	-1.6	-0.7	3.2	4.1	4.4	3.2	5.3	5.6	6.1	3.9
Industry	6.0	7.8	4.8	12.9	-0.7	-0.7	-1.0	-0.4	3.5	2.9	2.8	2.3	4.2	3.6	3.8	2.7
Wholesale and retail trade	7.6	6.0	7.7	1.1	2.5	3.0	3.5	0.0	7.8	7.2	7.6	1.1	5.2	4.1	4.0	1.1
Transport and communications	3.8	4.7	4.9	5.6	0.7	-0.2	-0.3	-0.1	4.5	4.2	4.0	5.2	3.7	4.4	4.3	5.3

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the 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. The 2007 data relate to the CBQ.

growth rates similar to those of 2004 (7.5%). This greater dynamism affected practically all the sectors analysed, in particular the wholesale and retail, industrial and transport and communications sectors, which were underpinned by buoyant consumption, the expansion of investment in capital goods and external activity, acting as the drivers of productive activity. In 2007 Q1-Q3 GVA slowed slightly and increased 5.4%, just over 2 pp less than in the same period in 2006 (7.5%), a trend which has become apparent as the year has passed.

Sectoral analysis of activity (see Table 2.A) shows that in 2006 all corporate groupings except energy posted higher GVA increases than in the preceding period, in line with the results

**EMPLOYMENT AND PERSONNEL COSTS**  
**Details based on changes in staff levels**

TABLE 2.B

	TOTAL CBQ CORPORATIONS 2007 Q1 - Q3	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations	765	490	275
<b>PERSONNEL COSTS</b>			
Initial situation 06 Q1-Q3 (€m)	18,979.2	9,686.4	9,292.8
Rate 07 Q1-Q3/ 06 Q1-Q3	4.3	9.7	-1.4
<b>AVERAGE COMPENSATION</b>			
Initial situation 06 Q1-Q3 (€)	31,911.4	29,685.3	34,628.1
Rate 07 Q1-Q3/ 06 Q1-Q3	3.4	4.0	3.5
<b>NUMBER OF EMPLOYEES</b>			
Initial situation 06 Q1-Q3 (000s)	595	326	269
Rate 07 Q1-Q3/ 06 Q1-Q3	0.9	5.5	-4.7
Permanent			
Initial situation 06 Q1-Q3 (000s)	490	255	235
Rate 07 Q1-Q3/ 06 Q1-Q3	2.1	6.7	-2.8
Non-permanent			
Initial situation 06 Q1-Q3 (000s)	105	71	34
Rate 07 Q1-Q3/ 06 Q1-Q3	-4.8	1.4	-17.8

SOURCE: Banco de España.

obtained for the total sample. By contrast, in the first three quarters of 2007, a more mixed performance can be discerned and the slowdown in the wholesale and retail sector is significant. This aggregate, which in 2006 had shown GVA growth of 7.6%, recorded a weaker rise (in 2007 Q1-Q3 GVA increased 1.1% in comparison with 7.7% in the same period a year earlier), reflecting lower private consumption. Conversely, the industrial sector showed progressively higher growth in its activity in 2006 and in 2007 Q1-Q3, with GVA growth rates of 6% and 12.9%, respectively. The positive influence of the expansion of investment in capital goods and more buoyant exports was manifest in both periods. Transport and communications firms continued to expand slightly in 2006 (GVA grew 3.8%, up on 2% posted in 2005) and in the first three quarters of 2007 (in this period GVA increased 5.6%, as against 4.9% a year earlier), thanks mainly to the continued buoyancy of telecommunications firms in conjunction with certain large transport companies. Lastly, there has been a clear slowdown in the energy sector in the last two years. Growth in GVA fell from 12.2% in 2005 to 5.2% in 2006 and the rate of change stood at -0.3% in the first three quarters of 2007. This performance is highly affected by the oil refining sub-sector, which following several years of robust rises in GVA (between 2003 and 2005 its GVA climbed 34.2%, 59.3% and 37.7%, respectively) and against a backdrop of strong fluctuations in oil prices (see Chart 2), has recorded narrower margins in the last two years which have reduced GVA in 2006 and in 2007 Q1-Q3 by -19.3% and -19%, respectively. The other large energy sub-sector, comprising electricity, gas and water utilities, showed strong growth in GVA in 2006 (12.2%), based on the lower production costs of electricity utilities and the expansion of the gas sector in that year. In 2007 Q1-Q3 the GVA of this sub-sector continued to grow by 5.2%, albeit more moderately than in the previous year.

Lastly, analysis of Chart 3, which shows the distribution of corporations by rate of change in GVA, independently of their size or sector of activity, leads to the main conclusion that there are no significant changes. This indicates that the slowdown in activity seen in 2007 is not having an important impact on most sample firms but is centred, as discussed above, on certain sectors of activity. The above-mentioned chart shows slight growth in the per-

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

TABLE 3

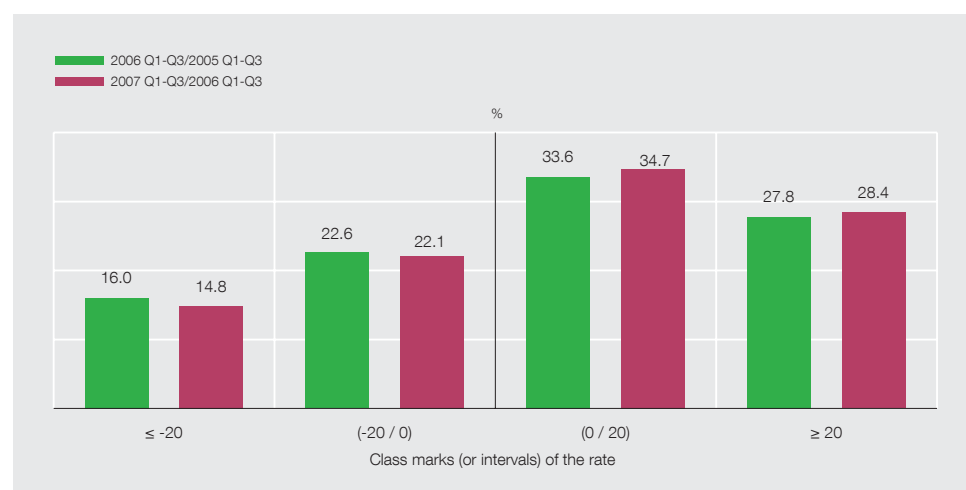
		CBA		CBQ (a)	
		2005	2006	06 Q1-Q3	07 Q1-Q3
Total corporations		6,690	6,690	765	765
Corporations reporting source/destination		6,690	6,690	725	725
Percentage of net purchases according to source	Spain	69.2	68.8	81.9	80.0
	Total abroad	30.8	31.2	18.1	20.0
	<i>EU countries</i>	16.6	16.3	13.5	14.6
	<i>Third countries</i>	14.2	14.9	4.6	5.4
Percentage of net turnover according to destination	Spain	84.7	84.4	89.5	89.3
	Total abroad	15.3	15.6	10.5	10.7
	<i>EU countries</i>	10.7	10.3	7.1	7.2
	<i>Third countries</i>	4.5	5.3	3.4	3.5
Change in net external demand (exports less imports), rate of change	Industry	-8.2	-2.0	-6.8	-4.1
	Other corporations	-32.7	-7.0	-13.0	-35.3

SOURCE: Banco de España.

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

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

CHART 3



SOURCE: Banco de España.

centage of corporations which in 2007 Q1-Q3 increased their GVA (63.1%), as against 61.4% in 2006.

**Employment and  
personnel costs**

The performance of personnel costs was mixed in the two periods analysed. Whereas in 2006 personnel costs increased by 6.6% (almost 1 pp higher than the previous year), in 2007 Q1-Q3 they grew more moderately than in the reference period (down from 5.5% recorded in the CBQ in 2006 to 4.3% in 2007). This different trend is mainly explained by the more expansionary performance of employment in 2006 than in 2007 Q1-Q3, against a backdrop in which average compensation remained very stable and similar in the two periods.

As on previous occasions, and taking advantage of the publication of the monograph containing the 2006 information, this box briefly analyses the performance of small corporations, based on the data drawn from the database that the Central Balance Sheet Data Office has constructed from information on the accounts lodged with the Mercantile Registries (CBBE/RM or CBB). The tables containing this information are published as an annex to the annual monograph and provide a knowledge of the behaviour of a segment of non-financial corporations that is difficult to study using other databases in the Central Balance Sheet Data Office, with the advantage that the CBB offers a very large sample (nearly 520,000 in 2005, the latest database to reach its data cut-off date, and more than 100,000 in 2006 with data still being received). This large sample to some extent makes up for the lag with which these data are received (the CBB is

an annual database) and for the smaller amount of detail than the CBA and the CBQ. The aggregate analysed in this database is, moreover, complementary to the annual database, since the CBB excludes any corporation that may have sent its data directly as a CBA reporting corporation. It should also be kept in mind that, despite their high number, the CBB coverage in 2005 and 2006 accounted for 18.7% and 3.5%, respectively, of the GVA of the non-financial corporations sector since this database only includes small corporations (with less than 50 employees).

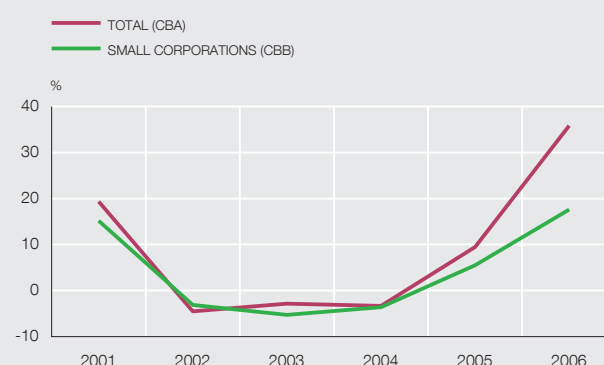
According to the CBB, in 2006 there was strong growth in the activity of small corporations which led GVA to post a rate of increase of 8%, 1.5 pp more than in 2005. This increased buoyancy, which is in keeping with the expansion also shown by CBA corporations for the

## RESULTS OF SMALL CORPORATIONS

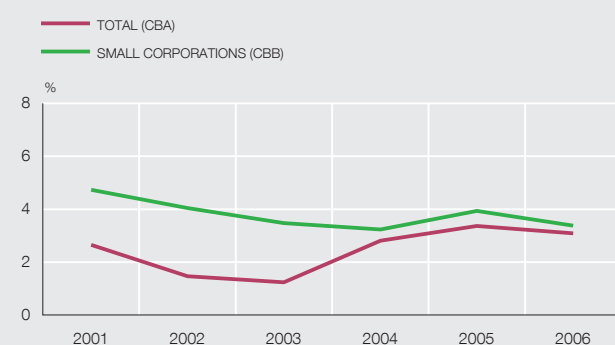
**GROSS VALUE ADDED AT FACTOR COST**  
(Rate of change)



**FINANCIAL COSTS**  
(Rate of change)



**EMPLOYMENT**  
(Rate of change)



**PERSONNEL COSTS PER EMPLOYEE**  
(Rate of change)



		2001	2002	2003	2004	2005	2006
Number of corporations	CBA	8,417	8,420	8,834	9,063	8,997	6,690
	CBB (a)	245,806	320,188	375,056	441,841	522,019	100,369
% of GDP of the sector non-financial corporations	CBA	29.2	29.0	29.9	32.3	32.0	25.9
	CBB (a)	10.7	12.9	14.8	16.4	18.7	3.5

SOURCE: Banco de España.

a. In the case of the "Employment" and "Personnel Costs per Employee" charts, the data relate to the sub-set of corporations with consistent employment figures (65% of the CBB total).

same year, affected practically all sectors of activity. These include most notably industrial firms and, within market service firms, those of the wholesale and retail trade and transport and communications sectors since the step-up of productive activity was more evident in these areas. Personnel costs rose by 7.9% in 2006, a very similar rate to 2005 (7.8%), as a result of the combined effect of slightly more moderate increases in employment and a marginally upward trend in wage costs, whose growth accelerated to 4% in 2006, 0.8 pp more than in 2005. At the sectoral level, the slowdown in job creation and the increase in wage costs had a mild yet widespread effect on all the sectors of activity analysed.

Due to the expansion of productive activity at small corporations, gross operating profit grew 8% in 2006, well above the 3% rate of increase in 2005. The high growth in financial costs in 2006 (17.6%) was partially offset by similar growth in financial revenue (19%), against a backdrop of interest rate rises which largely account for both increases. However, the increased weight of financial costs pushed the net debt burden (financial costs less financial revenue) higher by 15.3%, well above the 3.5% rise in this item in 2005. As

a result of this and of the increase in depreciation and operating provisions (7.2%), growth in ONP (7.7%) slackened slightly in comparison with previous results, although it remained higher than the change posted in 2005 (-0.2%). The increases in ONP account for the upward trend in rates of return in 2006 in comparison with the previous year. Thus, return on equity (the only profit ratio that can be calculated from the information available in the CBB) stood at 8.2% in 2006, 0.5 pp higher than in 2005, and recovered its level of 2004. By sector, as with the analysis of productive activity, widespread growth in returns can be seen in practically all the sectors analysed.

In sum, the productive activity of the small corporations included in the Central Balance Sheet Data Office's CBB database returned to an expansionary trend, overcoming the slowdown recorded in 2005. These positive developments affected practically all sectors of activity and resulted in a high rate of profit generation and a recovery in rates of return. In this setting, the more restrained performance of employment and the slight rise in wage costs are the only features clouding the picture of greater buoyancy and widespread expansion.

The CBA employment data in 2006 showed a very positive rate of 3.1% which was similar to, albeit slightly lower than, that of 2005 (3.4%), thus confirming the continued dynamism of employment. If, furthermore, the breakdown by type of contract is analysed, it can be seen that permanent employment grew more than temporary employment (3.3% against 2.6%), possibly as a result of the impact of policies to encourage permanent job creation on companies' recruitment decisions. According to the CBQ, in 2007 Q1-Q3 employment grew (0.9%), although more moderately than in the previous year (1.8%), which is consistent with the trend shown by productive activity for this period. This greater restraint in job creation in 2007 is largely attributable to the change in trend at large wholesale and retail corporations reporting to the CBQ. Following several years of high dynamism, in 2007 this sector experienced a gradual slowdown in job creation in line with the more moderate activity and, as a result, did not create employment in this period. In other sectors there was a slight improvement in comparison with 2006, although the rates of change remained very moderate or practically flat, also partly due to the impact on them (especially in the quarterly sample) of some staffing adjustments at big companies belonging to these aggregates, a development which has already been discussed in previous articles. In 2006 and in 2007 Q1-Q3, firms in the other services sector (for which the tables in this article do not provide specific data), increased their workforces more sharply and made a decisive contribution to employment growth in the business aggregate. Lastly, Table 4 shows an increase in the percentage of corporations which created jobs in 2007 Q1-Q3 (63.9%) in comparison with the previous year (60.6%). This would confirm, as discussed above, that the aggregate CBA data are being affected by the staff restructuring centred on a small number of large firms, which is offset by growth in the workforces of the vast majority of sample firms.

The change in average compensation was identical in 2006 and in 2007 Q1-Q3 (3.4%) and remained on a moderate growth path, although it was slightly above that of previous periods (the CBQ data show increases of 1.9% and 2.3% in 2003 and 2004, respectively). By sector,

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

TABLE 4

	CBA		CBQ (a)			
	2005	2006	05 Q1-Q4	06 Q1-Q4	06 Q1-Q3	07 Q1-Q3
Number of corporations	8,997	6,690	810	831	847	765
PERSONNEL COSTS	100	100	100	100	100	100
Falling	26.5	25.6	29.0	26.9	25.5	27.2
Constant or rising	73.5	74.4	71.0	73.1	74.5	72.8
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	30.9	30.3	41.1	39.2	39.4	36.1
Constant or rising	69.1	69.7	58.9	60.8	60.6	63.9
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	43.2	41.9	49.1	48.2	48.5	44.3
Higher or same growth (b)	56.8	58.1	50.9	51.8	51.5	55.7

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 percentage change in the CPI for the CBQ.

in 2006 there were slightly higher increases in the main aggregates analysed than in those for the total sample. This is because in that year the other services sector recorded lower rates of change in average compensation linked to its greater buoyancy in job creation. In 2007, the quarterly data showed greater wage cost restraint in the industrial sector (2.7%) and, in particular, in the wholesale and retail sector (1.1%), in comparison with above-average rises in the energy and transport and communications aggregates (3.9% and 5.3%, respectively). Lastly, the data in Table 4 make it possible to analyse the growth of average compensation in relation to inflation. In 2007 Q1-Q3, the percentage of firms whose wage costs grew by more than the rate of inflation increased to 55.7%, 4 pp more than in the same period of the previous year.

**Profits, rates of return  
and debt**

The change in activity fed through to gross operating profit, pushing it 8.3% higher in 2006 (a sizeable increase on the 3.6% posted in the previous year) and 6.2% higher in 2007 Q1-Q3 (less than the 9.1% recorded in the same period in 2006), and showed the same slightly decelerating trend as gross value added. The above-mentioned growth in GOP was reinforced in 2006 and in 2007 Q1-Q3 by the sharp increases in financial revenue as a result of the inflow of dividends from foreign subsidiaries in 2006 and the higher interest received by firms in the two periods analysed. Conversely, strong growth was also recorded in financial costs (35.8%) in 2006 and 2007 Q1-Q3, resulting in an increase of this item's weight in the business cost structure. The interest burden (see Chart 4) (financial costs to GOP plus financial revenue) confirms the upward trend in these costs in recent years and the consequent decrease in firms' ability to meet them with income generated by their productive activity. Consequently, the interest burden stands at levels that are even marginally above its highs of 2001. The marked growth in financial costs underlines the importance of ascertaining the main reasons for this behaviour, which can be analysed in the following table:

	2006/2005	07 Q1-Q3/06 Q1-Q3
<b>Change in financial costs</b>	<b>35.8%</b>	<b>35.8%</b>
<i>A. Interest on borrowed funds</i>	<i>35.8%</i>	<i>37.0%</i>
1. Due to the cost (interest rate)	+9.0%	+17.0%
2. Due to the amount of interest-bearing debt	+26.8%	+20.0%
<i>B. Commissions and cash discounts</i>	<i>+0.0%</i>	<i>-1.2%</i>

The Central Balance Sheet Data Office Quarterly Survey (CBQ) provides valuable information for gaining a better knowledge of the activity of firms and analysing developments in their main costs and in their profits, margins and profitability. For its part, the Central Balance Sheet Data Office Annual Survey (CBA) allows more varied and deeper analyses, but with the drawback of a greater time lag in the availability of data than the CBQ. Therefore, these two databases can be considered complementary, to the point that a link can be established between them by constructing a standard profit and loss account that is compatible with the two approaches (precisely the format used in Table 1 of this article).

Obviously, this link requires the detail in the CBA to be reduced to the level of that available in the quarterly survey. However, foregoing this detail does not significantly detract from the conclusions that can be drawn from the main captions and only affects certain items of a residual nature. This is confirmed in the following table, which sets out the structure of the 2006 profit and loss account with all the CBA headings. The captions not available in the quarterly survey had been signalled by preceding them with a letter. As can be seen, all these captions are quantitatively very minor compared with the other expenses and revenues, which are available in both the CBA and the CBQ.

DATABASES	CBA 2006
Number of corporations	6,690
Total national coverage	25.9%
<b>PROFIT AND LOSS ACCOUNT</b>	
1. VALUE OF OUTPUT (including subsidies)	100.0
Of which:	
1.1 Net amount of turnover and other operating income	141.7
1.2 (-) Consumption (wholesale and retail trade and real estate sectors)	44.1
1.a Other items (not available in CBQ)	2.4
2. INPUTS (including taxes)	69.2
Of which:	
2.1 Net purchases	42.0
2.2 Other operating costs	26.6
2.b Other items (not available in CBQ)	0.6
S.1. GROSS VALUE ADDED AT FACTOR COST (1 – 2)	30.8
3. Personnel costs	15.7
S.2. GROSS OPERATING PROFIT (S.1 – 3)	15.1
4. Financial revenue	3.8
5. Financial costs	3.3
6. Depreciation and provisions	6.0
S.3. ORDINARY NET PROFIT (S.2 + 4 – 5 – 6)	9.6
7. Capital gains and extraordinary income	7.5
8. Capital losses and extraordinary expenses	2.7
9. Other (provisions and taxes)	5.0
S.4. NET PROFIT (S.3 + 7 – 8 – 9 – 10)	9.4

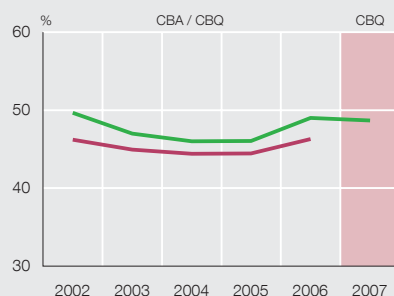
SOURCE: Banco de España.

As can be seen, in 2006 and in the first three quarters of 2007, growth of financial costs was due to the inflow of new financing and the impact of successive interest rate rises on the financial costs borne by corporations (which are approximated by the R.2 ratio), this impact becoming more significant in the first three quarters of 2007. The first effect (the demand for external sources of financing) stems from sizeable share purchase transactions undertaken by large multinationals in 2006 and 2007 Q1-Q3 (the figure for the latter period, since it is compared with 2006 Q1-Q3, also includes the impact of certain substantial transactions undertaken in 2006 Q4). These acquisitions, which were undertaken as part of global strategies to take control of companies and diversify into other sectors of activity (in Spain and abroad), required substantial additional borrowing and consequently resulted in higher debt levels. The ratio E1 (interest-bearing borrowing to total net assets - see Chart 4) confirms this upward

# DEBT RATIOS

CHART 4

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



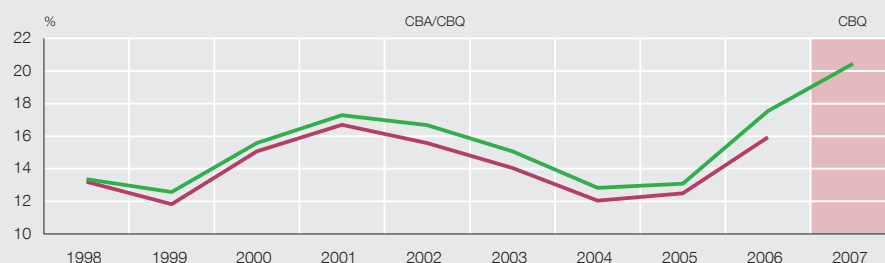
**E2. INTEREST – BEARING BORROWING/GVA (b)**  
Ratios



	2002	2003	2004	2005	2006	2007
CBA	46.2	44.9	44.4	44.4	46.3	
CBQ	49.7	47.0	46.0	46.0	49.0	48.7

	2002	2003	2004	2005	2006	2007
CBA	201.5	195.8	188.4	201.4	244.9	
CBQ	250.7	235.9	225.0	233.3	308.0	323.8
CBA excl. MGs	161.1	165.0	163.0	175.7	208.4	
CBQ excl. MGs	169.3	162.2	164.8	180.2	222.0	227.9

**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	15.9	
CBQ	13.4	12.6	15.6	17.3	16.7	15.1	12.8	13.1	17.5	20.4

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)	
	2006	06 Q1 - Q4	06 Q1 - Q3	07 Q1 - Q3	2006	06 Q1 - Q4	06 Q1 - Q3	07 Q1 - Q3	2006	06 Q1 - Q4	06 Q1 - Q3	07 Q1 - Q3	2006	06 Q1 - Q4	06 Q1 - Q3	07 Q1 - Q3
Total	8.3	7.5	9.1	6.2	7.9	3.8	10.0	4.5	9.0	8.6	7.9	7.9	4.9	4.7	4.1	3.5
SIZE																
Small	2.1	—	—	—	4.8	—	—	—	6.8	—	—	—	2.7	—	—	—
Medium	13.1	7.1	10.1	4.5	22.3	18.0	20.1	-2.6	8.0	7.1	7.1	7.5	4.2	3.5	3.7	3.3
Large	8.1	7.5	9.0	6.3	7.0	3.4	9.8	4.8	9.1	8.8	8.0	7.9	5.0	4.9	4.2	3.5
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	5.8	4.4	10.4	-1.2	-3.1	-1.9	3.5	-4.4	9.7	9.7	9.4	8.1	6.0	6.1	5.8	4.0
Industry	9.7	14.2	7.2	26.0	33.6	32.5	17.3	45.6	9.9	8.9	7.8	9.6	5.8	4.9	3.9	5.5
Wholesale and retail trade	7.5	4.5	7.8	1.1	12.6	7.6	11.0	0.0	10.9	8.1	7.9	7.4	6.5	4.4	4.3	3.1
Transport and communications	3.4	5.1	5.5	5.9	-3.7	8.3	9.5	10.9	7.4	11.8	12.2	13.3	3.3	7.6	8.1	8.9

SOURCE: Banco de España.

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

trend in 2006, whereas in 2007 there are no noticeable changes since the most important acquisition in 2007 was financed equally by borrowed funds and by a share issue and, consequently, did not significantly alter the proportion between equity and borrowed funds. However, the ratio E2, which analyses the capacity of firms to meet debt repayments with ordinary surpluses generated by their operating activity (GVA was selected in this ratio), was not affected by the above-mentioned phenomenon and showed a clear upward trend in 2006 and in 2007. In any event, these developments do not seem to have affected corporate investment decisions (especially those of the companies directly involved in the above-mentioned investments), since the available data seem to show a stepping up of investment processes. Accordingly, the approximation used by the CBQ to gauge the change in gross fixed capital formation at sample firms shows a positive trend; investment in tangible fixed assets increased by 10.4% in 2007 Q1-Q3. This means a higher pace of investment has been recouped following the moderate rises recorded in 2006, both in the quarterly data (3.4%) and in the data obtained from the broader sample used by the CBA for the same year (in this database gross fixed capital formation grew 1.8%).

There was pronounced growth in financial costs and revenues in the two periods considered, although their combined effect was different in each. In 2006 revenue exceeded costs because of the strong growth in dividends received, mainly from foreign subsidiaries. By contrast, in 2007, although dividend receipts continued to grow, it was at a slacker pace than growth in costs and the latter exceeded revenue. Lastly, the rates of change in ordinary net profit remained positive in the two periods (7.9% in 2006 and 4.5% in 2007), although they tended to slow in both cases with respect to previous periods. In any event, it should be noted that the growth of ONP, described above, together with that of financial costs (the numerator used to calculate the return on investment), was sufficient to ensure that profit levels remained high. In 2006 they were slightly higher than those of the previous year (9% as against 8.7%). However, the quarterly data underlined that the return on investment was contained at 7.9% in 2007 Q1-Q3, the same as in the corresponding period of the previous year. The ratio approximating

**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 - Q3	07 Q1 - Q3	06 Q1 - Q3	07 Q1 - Q3
Number of corporations		847	765	847	765
Percentage of corporations by profitability bracket	R ≤ 0%	23.2	23.1	27.1	27.7
	0% < R ≤ 5%	22.8	19.5	16.8	13.8
	5% < R ≤ 10%	15.8	17.5	11.9	12.8
	10% < R ≤ 15%	11.4	11.2	8.5	8.9
	15% < R	26.9	28.7	35.8	36.8
MEMORANDUM ITEM: Average return		8.0	7.9	12.0	11.3

SOURCE: Banco de España.

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

the cost of debt (R.2) continued the upward path it commenced in 2005 and climbed to 4.1% in 2006 (on CBA data) and to 4.4% in the period to September 2007 as a direct consequence of interest rate rises in these years. Nevertheless, the difference between ROI and financial costs held at high positive levels in 2006 (4.9) and in 2007 Q1-Q3 (3.5). However, the figure for 2007 is lower than that for the same period in 2006 (4.1), showing the slowdown in productive activity and the rise in financial costs.

Lastly, the main conclusion to be drawn from an analysis of extraordinary items is that in 2006 substantial gains were recorded on fixed-asset sales (mainly shares), which caused the growth rate of final net profit to rise to 39.8% and final net profit as a percentage of GVA to reach 30.6% (the highest level in the entire annual series). However, in 2007 there was a widespread decline in these items in comparison with the exceptional extraordinary results generated the previous year. Therefore, the rate of change in net profit for 2007 (which is lower than in 2006, albeit still slightly positive) would seem to be in line with the change in other periodic and recurring variables in the profit and loss account which were discussed above. In any event, net profit as a percentage of value added shows the ongoing positive position of non-financial corporations and stood at 35.7% in the first three quarters of 2007, one of the highest levels in the quarterly series (it rose to 39.5% in the same period in 2006).

In conclusion, following a clearly expansionary year in 2006, in 2007 Q1-Q3 Spanish firms experienced a slight slowdown in their activity which is affecting wholesale and retail firms more directly as a result of slacker private consumption. These developments seem to have passed through to other surpluses, marginally slowing down job creation in a setting of continued moderate wage growth. Additionally, there is the rise in debt levels associated with sizeable share purchase transactions against a backdrop of gradual increases in financial costs. All this did not prevent firms from continuing to show generally high buoyancy, of which the industrial sector is the principal example, generating high profits and notable rates of return.

19.11.2007

SURVEY OF HOUSEHOLD FINANCES (EFF) 2005: METHODS, RESULTS AND CHANGES  
BETWEEN 2002 AND 2005

## Introduction

The Survey of Household Finances (EFF) was launched by the Banco de España in 2002. The EFF2002 is the only statistical source in Spain that enables income, assets, debt and spending to be related to one another at the household level. For example, individual debt ratios can be calculated, which not only reveal the heterogeneity of these quantities across households, but may also be very different from the aggregate ratios in the case of non-symmetric distributions, such as those of wealth and debt. It has also made it possible to study the response of household consumption to changes in real-estate wealth. In fact, as seen in Bover (2005), this response depends not only on the level of real-estate wealth, but also on the household's characteristics, such as the age of its head. Likewise, it has been possible to address certain questions regarding the effects of particular economic policy measures that can only be answered on the basis of disaggregated information, such as the type of household that may be most affected by interest rate rises [see Banco de España (2006)].

The second edition of the Survey of Household Finances (EFF2005), referring to end-2005, is intended to give this statistical source continuity. The EFF2005 provides the same type of data three years on, updating the information on household finances that was collected for the first time in EFF2002. Accordingly, it enables the changes in the financial position of Spanish households over the period 2002-2005 to be assessed, while offering a more up-to-date picture of the structure of household assets and debts.

An important characteristic of both editions of the EFF is that their samples contain a large number of high-wealth households. Since the distribution of wealth is heavily skewed and some types of asset are only held by a small fraction of the population, in the absence of very large samples, it is important to oversample the wealthiest households. This is what the EFF does, to ensure that its sample is representative not only of the population as a whole, but also of the aggregate wealth of the economy, in order to facilitate the study of financial behaviour at the top of the wealth distribution.

Another important characteristic of the EFF is that some of the households that participated in the EFF2002 have also been interviewed in the EFF2005, while a refreshment sample has been incorporated into the EFF2005 to preserve the representativeness of the overall sample. Thus, the EFF2002 and EFF2005 samples contain a common sub-set of households that can be observed in both 2002 and 2005, considerably expanding the possibilities for analysing the nature of the changes observed.

These characteristics (which are highly desirable for a survey of this kind) have been obtained by means of a system of blind collaboration with the National Statistics Institute (INE) and the tax authorities (TA), which respects strict tax confidentiality requirements and response anonymity. However, first and foremost, we are most grateful for the generosity of the households that have participated in this project, especially those that have participated in both editions of the EFF.

This article describes the results of the EFF2005 and the changes observed in the financial position of households between 2002 and 2005.<sup>1</sup> It also contains a box summarising the main

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1. For this purpose, the tables referring to the financial position of households in 2005 and in 2002 have both been included, the variables relating to the value of assets, debt, income and spending being expressed in 2005 euro in both cases.

methodological characteristics of the EFF2005 (see Box 1), which are described in more detail in Bover (2008). The first section reviews some important aspects of the socio-economic background to the period 2003-2005. The second section presents the results for household income and net wealth. The third section analyses households' holdings of real and financial assets. The fourth section provides information on the debt and debt burden of households. The fifth section focuses on aspects relating to household spending. Finally, the sixth section contains some concluding remarks.

The distributions of most of the important variables, like the various assets and debts, have very high values for a relatively small number of households. Typical values of the distribution are therefore better approximated by the median than by the mean, so this is the statistic included in the tables. All the variables relating to income, wealth, debt and spending levels are expressed in real terms. All euro amounts have been expressed in 2005 euro using the consumer price index (CPI).<sup>2</sup>

During the period 2003-2005, the long upturn in the Spanish economy that had started in the mid-1990s continued. Economic growth measured in terms of the annual GDP growth rate, was 3.6% in 2005, as against 3.3% the previous year and 3.1% in 2003. As a result, job creation continued at a high rate and, despite the large increase in the labour supply stemming from significant flows of migrants and the increase in female participation rates, the rate of unemployment fell by more than 2 percentage points (pp), from 11.5% in 2002 to 9.2% in 2005. The inflation rate, as measured by the CPI, was 3.4% on average between 2003 and 2005.

Following the reductions between 2001 and early 2003, interest rates remained very low throughout the period 2003-2005, despite the rise recorded in the second half of 2005. Household and corporate net wealth rose significantly, owing to the rise in stock markets<sup>3</sup> and the increases in house prices, which were, nonetheless, smaller than in previous years. House prices, after growing at rates of more than 17% in the period 2003-2004, slowed in 2005, to a growth rate of 12.8% at the end of the year. In addition, the housing stock increased by more than 2.1 million units between end-2002 and end-2005, 9.7% of the number existing in 2002.

During this period, there were considerable changes in the size and structure of the Spanish population. Between the end of 2002 and the end of 2005 the resident population in Spain grew by around 4.7%, basically as a result of immigration. The number of foreigners resident in Spain increased from 2.7 million as at 1 January 2003 to 4.1 million as at 1 January 2006.<sup>4</sup> As a result, the number of foreigners, as a proportion of the total population, increased from 4.8% at the beginning of 2003 to 7% in 2005.

In addition to the rapid growth in the immigrant population, the creation of new households continued to be fuelled by the latest generations born in periods of high birth rates reaching adulthood, and by matrimonial separations.<sup>5</sup> The rate of creation of new households, at around 400,000 per annum, was considerably higher than the rate of growth of the population. Between 2002 and 2005, besides the significant increase in the number of households, there were changes in their composition, as might be expected, given that newly formed house-

2. To adjust assets and debts to 2005 euro, the EFF2002 data were multiplied by 1.098. To adjust the household's income for the year prior to the survey to 2005 euro, the factors applied were 1.1419 for 2002 and 1.037 for 2005. 3. The Madrid Stock Exchange General Index rose by 82% over the period 2003-2005. 4. The population data are taken from the Municipal Census. 5. During the period 2003-2005 an average of 85,000 separation or divorce rulings were registered each year.

### Questionnaire

The EFF questionnaire is divided into nine main sections, reflecting the variables studied, which are as follows:

1. Demographics
2. Real assets and their associated debts
3. Other debts
4. Financial assets
5. Pension plans and insurance
6. Labour market status and related income
7. Non-labour income in the previous calendar year (2004)
8. Means of payment
9. Consumption and savings

The questions on assets and debts refer to the household as a whole, while those on labour market status and related income are for each household member over the age of 16. Most of the information relates to the time of the interview, although information is also collected on all pre-tax income in the calendar year prior to the survey. The information was collected by means of personal interviews with the households, conducted between November 2005 and May 2006. Given the complexity of the questionnaire, the interviews were computer-assisted. In the EFF2002, the questions in euro could only be answered by the household with a point estimate or a failure to respond ("Don't know" or "No answer"). However, for most of the questions in euro formulated in 2005, households that cannot or do not wish to provide a point estimate can provide a response in the form of an interval. This possibility has reduced the proportion of failures to respond without decreasing the number of responses in the form of point estimates.

### Sample design

The design of the second edition of the EFF had two main objectives. First, to maintain the same quality characteristics as the EFF2002; in particular, to provide a representative sample of the population with oversampling of wealth. Second, there was a desire that part of the 2005 sample should be longitudinal, i.e. that it should include households that participated in the first edition. To achieve these aims, a refreshment sample was designed to supplement the longitudinal component (in order to make a total sample of 7,000 households) and to ensure that, when used in combination with the longitudinal one, the overall sample should satisfy the representativeness and oversampling requirements. This sample was achieved thanks to the collaboration of the National Statistics Institute (INE) and the tax authorities (TA), through a complex co-ordination mechanism that enabled strict confidentiality and anonymity requirements to be observed at all times. Specifically, the TA devised a wealth strata-based random sample drawing on the Padrón Continuo (a continuously updated municipal population census) provided by the INE, following the guidelines of the sample design prepared by the latter. This ensures the representativeness of the information obtained, while securing accurate information on the behaviour of the richest household segment and including a

longitudinal component. A complex procedure for replacing non-respondent households was incorporated into the sample design, thus ensuring the maintenance of the sample's desirable characteristics.

### Interviews

The total number of valid interviews was 5,962, of which 2,580 corresponded to households who participated in the EFF2002. The percentage of households that could not be contacted accounted for 10% of the total, and the co-operation rate was, overall, 47.3%.<sup>1</sup> This rate diminishes as the wealth stratum rises. However, for the longitudinal component the collaboration rate is 67%, with no significant reductions at the highest wealth strata. Overall, the degree of oversampling in the final sample is satisfactory. For example, the highest percentile of the wealth distribution is represented in the EFF2005 sample by 536 households. In the absence of oversampling, and if the response rate were uniform across the different strata, scarcely 60 households might be expected at best in this percentile, which would hamper statistical analysis of the population segment in which the most complex financial decisions are concentrated. Finally, the quality tests carried out using the information contained in other national statistics and similar surveys carried out in other countries give satisfactory results.

### Weights and imputation

To obtain magnitudes representative of the population, use is made of weights, i.e. the frequency with which households in the sample are to be found in the total household population. To calculate the weights, account is taken mainly of the characteristics of the sample design, but various adjustments are made, in particular to reflect the different response rate by income and wealth level.

The lack of a reply to certain questions is an inherent characteristic of wealth surveys. This type of non-response arises when a household agrees to reply to the survey but leaves one or several questions unanswered, owing to a lack of knowledge or to other reasons. Any analysis based exclusively on cases with fully completed questionnaires might bias the results substantially. Consequently, the Banco de España has devised a system of imputations for the non-observed values to facilitate data analysis. These imputations are based on advanced statistical techniques, with several estimates being obtained for each non-observed value so as to take into account the uncertainty associated with the imputation.<sup>2</sup> The statistics of interest are obtained by combining the information on these multiple imputations.<sup>3</sup>

1. The co-operation rate is defined as the ratio of the number of completed interviews to the sum of the number of completed interviews and the number of refusals to participate. 2. Five imputations are provided in the EFF for each non-observed value. 3. The data presented in this report will foreseeably be revised slightly upon conclusion of the process of imputation of the EFF variables not used in the compilation of the report.

holds have different characteristics to existing ones. In particular, there was an increase in the number of households with one or two members (from 40.9% to 44.4% of households) relative to larger ones, despite the sustained rise in the birth rate, and there were increases in the relative weights of young households (from 14% to 15.3%) and in households made up of foreigners (from 3.8% to 5.7%).<sup>6</sup>

## **Household income and wealth<sup>7</sup>**

### **INCOME**

According to the EFF, the average income of Spanish households as at end-2005 is €32,400, while their median income is €23,100 (see Table 1.A).<sup>8</sup> The patterns in the income distribution are as one would expect. By age group, average and median income vary according to the life cycle, increasing with age, peaking for households within the 45 to 54-year-old segment, and declining thereafter for the older groups. Income also increases with level of education, being substantially higher in the case of households whose heads have a university education. As regards labour market status, households whose heads are self-employed have the highest incomes.

Comparing with the 2002 figures, average real household income has remained practically unchanged, although somewhat lower than in 2002,<sup>9</sup> while the median of the distribution has fallen by approximately 8.5%. To interpret these changes, which refer to inflation-adjusted values, the impact of the changes in the structure of Spanish households mentioned in the previous section should be taken into account. Thus, given the reduction in average household size, despite the changes described in average and median income, real income per capita has increased between the EFF2002 and the EFF2005.<sup>10</sup> Along the same lines, the reductions in the median have been largest in the four lowest deciles of the income distribution, the youngest households, single-person households and households with only one working member. At the same time, there are increases in average income in other groups of households, in particular, households whose heads have a university education, households whose heads are between the ages of 35 and 44, households whose heads are self-employed and households with two to four members. Finally, average income has also increased for households in the highest deciles of the wealth and income distributions. In the latter case there has also been an increase in median income.

### **NET WEALTH<sup>11</sup>**

The median net wealth of households is €177,000 (see Table 1.B), while the average is €257,000. By age group, net wealth conforms to the expected life-cycle profile, peaking for households whose head is aged between 55 and 64, which is slightly later than the age at which income peaks. Average and median wealth both increase with education and, as regards labour market status, are higher for households whose head is self-employed. Wealth also increases with income, reflecting the fact that high-income households obtain more income from their asset portfolio and have greater saving possibilities.

Between 2002 at 2005 household net worth has increased substantially, the median increasing by even more than the average (68%, as against 52%). These increases are seen across all types of household, except those that do not own their main residence. The largest increase in average and median wealth is for households whose head is aged between 55 and 64. By income level, average wealth increases to a greater extent for the 20% of households with the lowest income.

6. These figures correspond to the EFF2002 and the EFF2005. 7. The measure of household income used in this report is the total gross income of the household (including the income from employment and other income of all its members), i.e. before taxes and social-security contributions, for the whole of the calendar year prior to the survey. 8. That is to say, 50% of households have an income of more than €23,100 and 50% less. 9. The difference in average income comes within the survey's error margin, which is defined as twice the standard error. 10. The change in average per capita income between the EFF2005 and the EFF2002 is consistent with that deriving from the comparison of National Accounts data for these years. 11. Net wealth is defined as the total value of assets (real and financial) less the amount of debts. The value of cars and other vehicles is not included.

**HOUSEHOLD INCOME**  
Distribution by household characteristics

TABLE 1.A

Household characteristics	EFF 2002			EFF 2005		
	% of households	Median	Mean	% of households	Median	Mean
ALL HOUSEHOLDS	100.0	25.2 (0.5) (a)	33.5 (0.6)	100.0	23.1 (0.5)	32.4 (0.9)
INCOME PERCENTILE						
Less than 20	20.0	8.7	8.5	20.0	6.9	6.5
Between 20 and 40	20.0	16.8	16.9	20.0	14.6	14.7
Between 40 and 60	20.0	25.2	25.4	20.0	23.1	23.1
Between 60 and 80	20.0	37.1	37.7	20.0	34.2	34.7
Between 80 and 90	10.0	54.7	55.3	10.0	51.8	52.1
Between 90 and 100	10.0	85.1	102.3	10.0	85.8	113.1
AGE OF HOUSEHOLD HEAD (b)						
Under 35	14.0	27.0	31.4	15.3	23.2	29.0
35-44	22.1	27.8	34.8	21.5	26.6	35.8
45-54	19.7	33.0	43.7	20.1	31.0	40.3
55-64	16.5	29.5	40.0	16.2	28.4	39.9
65-74	17.1	18.9	25.6	16.5	16.0	24.8
Over 74	10.5	11.9	16.7	10.4	10.0	15.2
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD						
Employee	45.7	30.9	39.4	47.4	28.7	37.0
Self-employed	11.4	35.5	47.0	10.6	34.5	51.0
Retired	25.4	19.2	26.4	25.5	15.9	24.2
Other inactive or unemployed	17.5	14.2	19.4	16.5	12.4	19.8
LEVEL OF EDUCATION OF HOUSEHOLD HEAD						
Below secondary education	58.8	20.0	25.6	57.6	17.9	23.1
Secondary education	26.0	29.5	37.0	25.2	27.8	35.4
University education	15.2	44.1	57.8	17.2	43.1	59.2
STATUS OF MAIN RESIDENCE						
Ownership	81.9	26.8	35.4	81.3	24.6	34.3
Other	18.1	20.3	24.9	18.7	17.0	23.8
NUMBER OF HOUSEHOLD MEMBERS WORKING						
None	28.8	12.5	15.7	29.1	11.1	16.1
One	38.4	25.2	32.0	32.5	20.8	27.0
Two	26.9	39.0	48.3	30.8	34.6	47.7
Three or more	5.9	50.8	62.1	7.6	43.9	55.6
NUMBER OF HOUSEHOLD MEMBERS						
One	15.2	10.8	14.7	16.6	10.0	13.7
Two	25.7	19.8	25.6	27.8	19.0	26.1
Three	24.3	28.7	36.0	23.9	28.6	36.4
Four	24.3	33.8	44.0	24.9	31.8	44.1
Five or more	10.6	39.3	50.0	6.8	37.0	46.2
NET WEALTH PERCENTILE						
Less than 25	25.0	18.5	21.7	25.0	15.4	19.1
Between 25 and 50	25.0	21.4	26.1	25.0	19.6	25.2
Between 50 and 75	25.0	27.2	32.4	25.0	24.7	30.9
Between 75 and 90	15.0	34.4	42.2	15.0	33.8	40.6
Between 90 and 100	10.0	55.4	70.9	10.0	51.4	74.8

SOURCE: Banco de España.

a. Bootstrap standard errors in brackets.

b. This report designates a household head as a means of organising the data consistently. The reference person designated by the household for the purposes of replying to the survey is defined as the household head if the reference person is a man, or the partner if the reference person is a woman and her partner lives in the household.

**HOUSEHOLD NET WEALTH**  
Distribution by household characteristics

TABLE 1.B

Thousands of 2005 euro Household characteristics	EFF 2002		EFF 2005	
	Median	Mean	Median	Mean
ALL HOUSEHOLDS	105.3 (2.7) (a)	169.0 (5.2)	177.0 (6.1)	257.0 (8.4)
INCOME PERCENTILE				
Less than 20	55.2	80.2	92.6	130.2
Between 20 and 40	86.3	109.2	117.4	154.9
Between 40 and 60	95.0	127.3	157.0	192.4
Between 60 and 80	125.5	176.2	215.7	264.6
Between 80 and 90	170.1	231.9	265.6	364.8
Between 90 and 100	285.5	471.2	406.0	718.1
AGE OF HOUSEHOLD HEAD				
Under 35	57.5	92.8	74.2	129.1
35-44	98.3	137.6	165.9	205.5
45-54	138.2	218.1	226.1	327.1
55-64	134.3	240.3	244.0	409.6
65-74	110.6	169.0	185.3	242.5
Over 74	82.4	132.1	133.9	201.2
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD				
Employee	101.4	143.4	157.1	210.7
Self-employed	202.4	365.2	364.1	617.3
Retired	111.8	171.8	191.2	245.5
Other inactive or unemployed	66.5	104.2	109.4	177.4
LEVEL OF EDUCATION OF HOUSEHOLD HEAD				
Below secondary education	89.5	128.6	145.7	192.7
Secondary education	118.6	178.4	181.1	269.3
University education	172.1	308.7	288.7	454.4
STATUS OF MAIN RESIDENCE				
Ownership	126.5	198.4	211.0	307.6
Other	1.9	35.7	1.9	36.6
NUMBER OF HOUSEHOLD MEMBERS WORKING				
None	83.8	132.6	151.5	201.5
One	100.4	164.0	157.3	244.1
Two	126.7	201.7	206.6	308.9
Three or more	141.0	230.0	204.9	314.1
NUMBER OF HOUSEHOLD MEMBERS				
One	67.2	101.7	115.8	169.4
Two	99.2	160.8	165.5	234.4
Three	108.7	184.2	187.6	264.8
Four	128.8	189.3	208.6	317.6
Five or more	122.7	203.8	194.0	313.5
NET WEALTH PERCENTILE				
Less than 25	8.5	13.3	5.5	16.1
Between 25 and 50	73.5	74.1	119.5	119.2
Between 50 and 75	138.6	144.0	230.6	232.2
Between 75 and 90	254.1	260.5	376.6	387.1
Between 90 and 100	519.4	719.5	750.5	1,068.3

SOURCE: Banco de España.

a. Bootstrap standard errors in brackets.

## Assets

99% of households possess some type of real or financial asset (see the final column of Table 3). The median value of the assets of such households is €204,300. With respect to 2002, the percentage of households possessing some type of asset is practically unchanged. However, the median value of their assets has increased considerably (65%).

### REAL ASSETS

In 2005 real assets account for 89.1% of the total value of household assets (see Table 2). This proportion is similar at different income levels and is only lower for the top decile. However, even at these relatively high income levels, real assets still represent a large proportion of the value of household assets (83.4%). By level of wealth, real assets are relatively less important at the two ends of the distribution, although they exceed 84% in both cases.

Housing is the most important asset held by households, representing 66.1% of the total value of households' real assets and 58.9% of the total value of all their assets. The two next most important assets are other real-estate properties, which represent 23.8% of real assets and 21.2% of all assets, and businesses related to activities engaged in by self-employed household members, which account for 9.6% of real assets and 8.65 of all assets.<sup>12,13</sup> The relative weight of housing declines with income, in favour of other real-estate property and businesses. For the self-employed, the value of their businesses represents 32.2% of the total value of their real assets.

Between 2002 and 2005, the value of real assets as a proportion of the value of all assets has increased from 87% to 89% for all households, and all types of real asset have gained in weight with respect to the total value of all assets. For example, main residences, along with other real-estate properties, make up 80% of the total value of household assets, as against 78.7% in 2002. The higher weight of real assets in 2005, with respect to 2002, is seen in all groups, except households whose head is below the age of 35, or between 55 and 64, and households whose head is inactive (not retired) or unemployed. However, by type of real asset, the changes are more heterogeneous. By level of income, the main residence loses weight with respect to 2002 in the total value of assets, in the case of households in the two highest deciles of the income distribution. For these households the weight of the businesses of self-employed members has increased relative to 2002.

In 2005 87.4% of households have some type of real asset (see Table 3), and the median value of the real assets of such households is €210,400.

Compared to 2002, the percentage of households that have some type of real asset has increased slightly for all households, but has declined for lower income households and for households whose head is below the age of 35. For those households that possess some type of real asset, the median value of such assets has increased significantly (59.7%).

### Main residence

The percentage of households who own their main residence (81.3% in the case of all households) increases with income, to peak in the case of households whose head is aged between 55 and 64. The median value of the main residence of households who own it is €180,300. The latter increases with income and is highest for households whose head is aged between 45 and 54 (€210,400).

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<sup>12</sup>. Other real-estate properties include dwellings, plots of land and estates, garages (unless they form part of the main residence), industrial buildings, shops, premises, offices and hotels. <sup>13</sup>. The value of businesses is, in some cases, considered to be a real asset, if it is related to the work of their owners; and in other cases, a financial asset through the ownership of unlisted shares or other equity, if it is a means of investing savings.

**DISTRIBUTION OF THE VALUE OF HOUSEHOLDS' REAL ASSETS**  
By type of asset and household characteristics

TABLE 2

Household characteristics	EFF 2002					Memorandum item: real assets as % of total assets
	Main residence	Other real estate properties	Businesses related to self-employment	Jewellery, works of art, antiques	Total	
ALL HOUSEHOLDS	66.5	23.9	8.9	0.6	100.0	87.0
INCOME PERCENTILE						
Less than 20	81.2	15.6	3.0	0.2	100.0	91.9
Between 20 and 40	77.8	17.5	4.4	0.3	100.0	91.0
Between 40 and 60	73.6	20.2	5.9	0.3	100.0	90.6
Between 60 and 80	67.5	23.9	8.2	0.4	100.0	89.6
Between 80 and 90	63.6	26.7	9.1	0.6	100.0	87.8
Between 90 and 100	51.3	31.4	16.0	1.3	100.0	79.2
AGE OF HOUSEHOLD HEAD						
Under 35	73.7	14.6	11.3	0.4	100.0	92.0
35-44	69.6	18.8	11.2	0.5	100.0	89.8
45-54	65.7	23.3	10.2	0.8	100.0	84.4
55-64	56.3	31.3	11.7	0.7	100.0	85.2
65-74	70.1	26.7	2.5	0.6	100.0	87.5
Over 74	73.9	24.6	1.1	0.4	100.0	87.2
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD						
Employee	76.8	21.1	1.5	0.6	100.0	87.9
Self-employed	41.2	25.8	32.3	0.6	100.0	84.2
Retired	69.1	28.4	1.8	0.7	100.0	87.3
Other inactive or unemployed	77.0	20.4	2.1	0.5	100.0	89.9
NET WEALTH PERCENTILE						
Less than 25	84.6	11.8	2.3	1.4	100.0	83.5
Between 25 and 50	90.6	7.3	1.7	0.4	100.0	92.0
Between 50 and 75	84.0	12.6	3.0	0.3	100.0	91.7
Between 75 and 90	70.4	23.2	5.8	0.5	100.0	89.6
Between 90 and 100	44.3	37.6	17.3	0.8	100.0	82.0

SOURCE: Banco de España.

Between 2002 and 2005, the percentage of households who own their main residence has declined slightly in the case of all households, from 81.9% to 81.3%. This figure basically reflects a reduction in the percentage of households who own their main residence among households whose head is aged below 35 (from 68.3% to 62.1%) and among households in the bottom two deciles of the income distribution (from 74.1% to 70.7%). In the other groups there have been only minor changes, except for households whose head was aged between 45 and 54, which have recorded the largest increase (from 83.2% to 84.7%). For households that own their main residence, its median value has increased sharply (68%). These increases in median value have occurred in the case of all types of household that own their main residence.

#### Other real-estate properties

34.5% of households own real-estate assets other than their main residence. In particular, 21% own a residence other than their main one, followed by 9.6% who own plots of land and estates. These proportions increase with income, but even in the lower part of the income distribution a considerable percentage of households possess real-estate assets other than their main residence (21.5%). By age, the highest percentage of households owning other real-estate properties is seen among households whose head is aged between 55 and 64. The median value of these properties is €103,100, which increases with income and wealth.

**DISTRIBUTION OF THE VALUE OF HOUSEHOLDS' REAL ASSETS (cont.)**  
**By type of asset and household characteristics**

TABLE 2 (cont.)

Household characteristics	EFF 2005					Memorandum item: real assets as % of total assets
	Main residence	Other real estate properties	Businesses related to self-employment	Jewellery, works of art, antiques	Total	
ALL HOUSEHOLDS	66.1	23.8	9.6	0.6	100.0	89.1
INCOME PERCENTILE						
Less than 20	79.5	18.3	1.7	0.4	100.0	92.2
Between 20 and 40	79.0	16.7	4.0	0.3	100.0	94.2
Between 40 and 60	76.4	18.7	4.5	0.4	100.0	92.1
Between 60 and 80	69.9	22.8	6.9	0.4	100.0	90.5
Between 80 and 90	61.2	25.7	12.6	0.5	100.0	88.4
Between 90 and 100	47.8	32.1	19.0	1.0	100.0	83.4
AGE OF HOUSEHOLD HEAD						
Under 35	78.0	15.2	6.4	0.4	100.0	91.1
35-44	73.4	19.1	7.1	0.4	100.0	91.6
45-54	60.3	23.7	15.4	0.5	100.0	90.6
55-64	55.7	29.9	13.5	0.9	100.0	84.5
65-74	71.6	25.4	2.4	0.6	100.0	89.8
Over 74	73.8	24.4	1.3	0.6	100.0	88.7
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD						
Employee	78.2	19.3	1.9	0.5	100.0	89.8
Self-employed	38.7	28.3	32.2	0.7	100.0	89.2
Retired	71.9	26.3	1.3	0.5	100.0	87.7
Other inactive or unemployed	70.9	24.8	3.6	0.8	100.0	88.9
NET WEALTH PERCENTILE						
Less than 25	85.5	11.3	2.1	1.1	100.0	87.4
Between 25 and 50	89.2	9.2	1.2	0.4	100.0	93.5
Between 50 and 75	86.3	11.3	2.0	0.4	100.0	93.1
Between 75 and 90	69.7	24.3	5.7	0.3	100.0	90.0
Between 90 and 100	41.3	37.5	20.3	0.9	100.0	84.9

SOURCE: Banco de España

By age, the maximum median value occurs in the 55 to 64-year-old age group.

With respect to 2002, the percentage of households owning other real-estate properties has increased for practically all groups. Likewise, the median value of these properties has also increased for all types of household, except for those whose head is below the age of 35 and for households belonging to the bottom quartile of the wealth distribution. The increase in the median value of other real-estate properties, in the case of all households owning such assets, has been 42%.

**Businesses related to self-employment**

The proportion of households with assets in businesses related to their members' self-employment is 11%. This figure rises with income and wealth, and is highest for the group of households whose head is aged between 45 and 54. The median value of these businesses is €60,500, which also increases with income and wealth.<sup>14</sup>

The proportion of households with these businesses is somewhat lower in 2005 than in 2002.

<sup>14</sup>. Included in the value of businesses is that of the related land and buildings, provided that households have not included these as part of their properties.

**HOLDINGS OF REAL ASSETS BY HOUSEHOLDS**  
By type of asset and household characteristics

TABLE 3

% and thousands of 2005 euro						
	EFF 2002					
	Main residence	Other real estate properties	Businesses related to self-employment	Jewellery, works of art, antiques	Some type of real asset	Some type of asset
Percentage of households owning asset						
ALL HOUSEHOLDS	81.9	30.1	12.4	18.2	87.3	99.4
INCOME PERCENTILE						
Less than 20	74.1	18.0	4.1	12.0	78.9	97.7
Between 20 and 40	79.2	23.6	8.7	13.8	83.6	99.7
Between 40 and 60	80.5	26.3	11.4	16.1	86.7	99.9
Between 60 and 80	85.3	33.1	15.3	20.2	91.2	99.9
Between 80 and 90	88.6	42.8	19.7	25.4	94.7	100.0
Between 90 and 100	92.1	56.3	24.9	32.1	97.6	100.0
AGE OF HOUSEHOLD HEAD						
Under 35	68.3	16.6	12.8	14.8	73.4	99.3
35-44	78.9	26.0	16.6	19.5	85.9	99.3
45-54	83.2	36.3	16.5	22.9	90.0	99.3
55-64	88.4	40.9	15.9	19.7	93.4	99.4
65-74	87.9	32.8	5.3	16.2	91.1	99.6
Over 74	84.1	23.8	1.1	11.9	88.1	100.0
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD						
Employee	79.7	27.2	3.6	19.2	85.2	99.6
Self-employed	87.0	47.9	78.5	22.4	97.0	100.0
Retired	87.5	33.6	4.9	14.8	91.4	99.7
Other inactive or unemployed	76.4	21.0	3.3	17.6	80.5	98.4
NET WEALTH PERCENTILE						
Less than 25	38.6	7.1	3.5	12.1	50.6	97.8
Between 25 and 50	94.7	18.4	6.1	17.1	98.7	100.0
Between 50 and 75	97.3	31.8	12.8	17.2	99.9	100.0
Between 75 and 90	97.4	53.7	20.6	21.6	100.0	100.0
Between 90 and 100	96.3	77.0	36.7	33.4	100.0	100.0
Median of the asset value for households owning such asset						
ALL HOUSEHOLDS	107.4	72.6	36.6	1.5	131.8	123.6
INCOME PERCENTILE						
Less than 20	66.6	36.3	19.2	0.7	75.9	65.2
Between 20 and 40	96.6	52.7	24.1	1.2	106.7	100.4
Between 40 and 60	102.7	62.9	27.6	1.3	119.0	113.8
Between 60 and 80	124.0	81.7	35.3	1.6	145.6	147.9
Between 80 and 90	137.2	94.3	47.4	2.3	175.4	190.7
Between 90 and 100	186.1	134.2	65.9	6.6	266.7	310.9
AGE OF HOUSEHOLD HEAD						
Under 35	114.4	82.8	47.0	1.3	123.5	100.7
35-44	115.5	65.9	38.2	1.3	131.8	127.3
45-54	130.0	79.5	45.5	2.1	153.3	151.0
55-64	107.9	99.0	26.1	2.0	133.1	142.6
65-74	98.8	62.8	32.9	2.1	114.1	113.4
Over 74	79.1	40.8	39.5	1.1	87.7	84.1
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD						
Employee	120.1	78.2	22.3	1.6	131.8	127.5
Self-employed	131.8	102.8	45.3	1.6	204.5	226.8
Retired	98.8	65.9	26.8	2.0	115.2	114.3
Other inactive or unemployed	79.2	54.3	28.4	1.0	89.6	77.5
NET WEALTH PERCENTILE						
Less than 25	33.9	22.6	8.2	0.9	33.0	14.0
Between 25 and 50	77.7	24.3	14.1	0.9	79.2	86.6
Between 50 and 75	131.8	47.9	21.7	1.6	134.8	150.7
Between 75 and 90	183.5	99.0	54.2	3.0	241.9	269.9
Between 90 and 100	263.5	229.3	137.8	6.4	473.8	546.7

SOURCE: Banco de España

**HOLDINGS OF REAL ASSETS BY HOUSEHOLDS (cont.)**  
**By type of asset and household characteristics**

TABLE 3 (cont.)

% and thousands of 2005 euro						
	EFF 2005					
	Main residence	Other real estate properties	Businesses related to self-employment	Jewellery, works of art, antiques	Some type of real asset	Some type of asset
Percentage of households owning asset						
ALL HOUSEHOLDS	81.3	34.5	11.1	19.3	87.4	99.1
INCOME PERCENTILE						
Less than 20	70.7	21.5	2.6	13.6	77.0	98.1
Between 20 and 40	78.6	26.9	7.5	16.7	85.0	98.6
Between 40 and 60	81.0	32.3	9.3	17.4	87.2	99.0
Between 60 and 80	85.8	41.0	14.7	18.8	91.7	99.8
Between 80 and 90	87.8	42.5	17.1	26.2	94.4	99.8
Between 90 and 100	92.9	58.5	25.5	34.0	97.7	100.0
AGE OF HOUSEHOLD HEAD						
Under 35	62.1	17.0	9.1	17.2	72.2	98.1
35-44	79.4	27.5	11.8	18.0	85.7	98.9
45-54	84.7	42.3	20.3	22.9	91.5	99.0
55-64	89.2	49.5	13.9	21.6	94.1	99.7
65-74	88.4	39.0	4.4	20.7	92.2	99.5
Over 74	83.7	28.6	1.2	12.6	87.4	99.1
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD						
Employee	80.1	30.2	3.0	19.6	85.8	99.1
Self-employed	85.8	53.4	76.6	25.0	97.1	100.0
Retired	87.9	38.9	3.5	18.9	91.4	99.5
Other inactive or unemployed	71.9	27.6	4.0	15.7	79.5	97.7
NET WEALTH PERCENTILE						
Less than 25	35.2	12.3	3.4	13.0	50.1	96.3
Between 25 and 50	94.6	25.1	4.2	18.9	99.4	100.0
Between 50 and 75	97.5	31.3	9.5	17.8	100.0	100.0
Between 75 and 90	98.3	58.8	20.6	20.9	99.9	100.0
Between 90 and 100	97.3	84.3	37.3	37.7	100.0	100.0
Median of the asset value for households owning such asset						
ALL HOUSEHOLDS	180.3	103.1	60.5	2.7	210.4	204.3
INCOME PERCENTILE						
Less than 20	120.2	60.5	38.3	1.5	125.7	99.8
Between 20 and 40	146.6	61.2	50.0	1.2	160.7	146.0
Between 40 and 60	180.3	70.6	50.6	1.4	201.3	195.3
Between 60 and 80	210.4	105.7	51.4	2.9	240.4	245.8
Between 80 and 90	233.8	153.8	84.0	3.0	286.0	311.1
Between 90 and 100	279.6	214.2	108.1	6.5	391.8	452.8
AGE OF HOUSEHOLD HEAD						
Under 35	180.3	67.4	55.8	1.8	180.3	145.1
35-44	192.2	104.6	42.0	1.8	218.3	212.4
45-54	210.4	107.7	114.2	3.0	241.8	249.5
55-64	181.5	141.5	50.4	3.0	244.2	254.1
65-74	156.0	77.0	38.0	2.5	180.7	189.3
Over 74	125.1	90.2	11.4	1.8	150.2	135.8
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD						
Employee	198.3	89.1	29.7	3.0	211.2	205.4
Self-employed	210.4	180.3	82.4	3.0	375.5	404.7
Retired	168.3	91.6	19.2	2.0	193.2	197.3
Other inactive or unemployed	134.1	72.7	43.8	2.3	150.6	121.5
NET WEALTH PERCENTILE						
Less than 25	59.7	16.7	11.8	1.4	48.1	12.1
Between 25 and 50	120.2	40.9	36.3	1.2	132.2	144.2
Between 50 and 75	210.4	65.5	26.4	2.4	240.2	245.4
Between 75 and 90	270.5	143.0	89.5	3.0	360.6	402.1
Between 90 and 100	360.6	300.5	212.2	7.2	684.0	783.5

SOURCE: Banco de España.

The only groups of households who have seen this proportion increase are those whose head is aged between 45 and 54, those belonging to the top decile of the income distribution and the wealthiest households. The total increase in the median value over the period 2002-2005 has been considerable (65.5%). The largest increase in this median value has occurred for the group of households whose head is aged between 45 and 54.

## FINANCIAL ASSETS

For households as a whole, bank accounts make up almost 42% of the value of financial assets, followed in order of importance by pension schemes (20%), mutual funds (13.6%), listed shares (11.1%), unlisted shares and other equity (8.4%) and fixed-income securities (1.7%) (see Table 4). By income and wealth levels, the portfolio composition tends to be similar, except in the case of households belonging to the top decile of these distributions, which have a higher percentage of their assets in shares and mutual funds.

With respect to 2002, there have been weight increases in the portfolio of financial assets of households as a whole principally in the case of mutual funds and pension schemes, while the weight of (listed and unlisted) shares has fallen.

96.5% of households have some type of financial asset in 2005 (see Table 5), although this figure falls considerably when bank accounts are excluded. This percentage rises slightly with income and the median value of these financial assets is €6,000.

In comparison with 2002, the percentage of households with some type of financial asset is somewhat lower. The reduction in this percentage is larger in the lower half of the income and wealth distributions. For households with some type of financial asset, the median value of these assets has increased by 24%. The increase in the median value of these assets has occurred in all groups of households, except for the youngest and the retired. The sharpest increase has occurred for households whose head is aged between 55 and 64.

## Bank accounts

The percentage of households that have some type of bank account that can be used to make payments is 92.3%. This percentage is above 88% for all types of household. The median balance on this type of account is €3,000, and it rises with income and wealth and, by labour market status, for households whose head is self-employed.

The proportion of households with bank accounts that cannot be used to make payments, including *cuentas vivienda* (savings accounts in which the money deposited must be used to buy a house), is 18.5%. This percentage rises with income and wealth. The median balance in this case is €12,000.

Between 2002 and 2005 there has been a shift between these two types of account by households. The proportion of households with accounts for payments has declined, while that of households with accounts that cannot be used to make payments has increased. There has also been a decline in the median balance on accounts that cannot be used to make payments.

## Listed shares and mutual funds<sup>15</sup>

The percentage of households directly owning listed shares is 11.4%. This figure increases with income and net wealth, and the increase is greater for the upper income and wealth groups. By level of income, 4.3% of households in the bottom two deciles of the distribution

<sup>15</sup> Mutual funds include money market funds, capital market funds, real-estate investment funds and other undertakings for collective investment in transferable securities.

hold this type of asset, and the proportion rises to 35.7% for the top decile. Households whose heads are in the 55-64 age bracket are those most inclined to hold listed shares (18.4%).

For households investing in listed shares, the median invested value is €6,000. Median values do not vary significantly by income and wealth except for the group of households in the upper decile of the income and wealth distributions. By age, the median value for the group of households in the 55-64 age bracket is significantly higher.

The profile of households with mutual funds (8.7% for households as a whole) is similar to that of households that invest in listed shares, but the proportions of households holding such funds are smaller for all types of household. Conversely, the median investment in these funds (€18,000) is higher than in the case of listed shares for all groups of households. The variation across groups in the median holding of these assets is similar to that of the median holding of listed shares.

Since 2002, the proportion of households that invest in these assets has risen in both cases, although the increase has been greater in that of mutual funds. The groups that have most clearly increased their participation have been households in the upper deciles of the income and wealth distributions, and those whose head is aged between 55 and 64. By contrast, while the median investment in mutual funds of households as a whole has clearly increased, in the case of listed shares it has declined slightly. The changes since 2002 in the median investment in both types of asset have been heterogeneous across the different types of household. However, increases in the median investment are recorded for those groups which have increased their participation most. Specifically, this increase, both in participation and in the median investment in both types of asset has occurred in the upper deciles of the income and wealth distributions, among self-employed workers and among households whose head is aged between 55 and 64.

#### Unlisted shares and other equity

The percentage of households holding unlisted shares or other corporate participating interests is 2.1%. This percentage is higher in the top decile of income (8.9%) and net wealth (7.9%), and is concentrated among the self-employed. The median value invested is €17,000 for those households holding this type of asset. For the upper deciles of the income and wealth distributions, the median investment in this type of asset is greater than in other types of financial asset.

Overall, the percentage of households that invest in unlisted shares or other corporate participating interests is slightly lower than in 2002, although the households in the upper part of the income distribution and those whose head is self-employed have increased their participation. The median investment has increased for households as a whole.

#### Fixed-income securities

The percentage of households investing in fixed-income securities is 1.5%. This figure increases with income and net wealth, without exceeding 6% in any case. By labour market status, the possession of this asset is highest among the self-employed and, by age, among those in the 55-64 age group. The median holding of fixed-income securities is €24,000, without any clear variation according to level of income or wealth.

With respect to 2002, households are less inclined to hold fixed-income securities directly, but the median investment in this asset has increased significantly for households as a whole, although the change has been heterogeneous. There has been an increase both in participation and in the median value invested in this type of asset for households whose head is in the 55-

## DISTRIBUTION OF THE VALUE OF HOUSEHOLDS' FINANCIAL ASSETS

### By type of asset and household characteristics

Household characteristics	EFF 2002				
	Accounts and deposits usable for payments	Accounts not usable for payments and house-purchase savings accounts	Listed shares	Mutual funds	Fixed-income securities
ALL HOUSEHOLDS	21.0	18.4	14.3	9.6	2.2
INCOME PERCENTILE					
Less than 40	37.1	29.4	4.9	7.4	3.7
Between 40 and 60	32.4	24.4	4.9	7.5	2.5
Between 60 and 80	27.4	24.0	9.0	9.8	3.8
Between 80 and 90	22.6	19.3	11.7	11.1	2.2
Between 90 and 100	10.0	11.0	22.7	10.4	0.9
NET WEALTH PERCENTILE					
Less than 50	48.4	23.9	3.5	4.1	1.6
Between 50 and 75	37.5	21.8	5.9	7.7	2.2
Between 75 and 90	26.2	25.2	5.9	10.3	4.9
Between 90 and 100	9.7	14.3	21.4	11.1	1.4

SOURCE: Banco de España.

## DISTRIBUTION OF THE VALUE OF HOUSEHOLDS' FINANCIAL ASSETS (cont.)

### By type of asset and household characteristics

Household characteristics	EFF 2005				
	Accounts and deposits usable for payments	Accounts not usable for payments and house-purchase savings accounts	Listed shares	Mutual funds	Fixed-income securities
ALL HOUSEHOLDS	26.8	14.8	11.1	13.6	1.7
INCOME PERCENTILE					
Less than 40	39.1	21.0	6.7	13.3	1.7
Between 40 and 60	37.2	19.0	8.7	9.2	3.2
Between 60 and 80	35.4	23.1	6.5	8.4	1.9
Between 80 and 90	24.2	13.1	8.7	10.7	2.1
Between 90 and 100	17.3	8.7	16.0	18.2	1.0
NET WEALTH PERCENTILE					
Less than 50	51.6	16.4	3.2	6.0	0.9
Between 50 and 75	38.9	22.0	4.7	8.3	1.5
Between 75 and 90	27.6	19.2	6.8	12.2	1.9
Between 90 and 100	18.1	11.0	16.0	17.0	1.8

SOURCE: Banco de España.

64 age bracket, for those in which the head is self-employed and for households in the top decile of the wealth distribution.

Pension schemes and life insurance<sup>16</sup>

29.3% of households have a pension scheme (or unit-linked or mixed life insurance product). This percentage rises with income and wealth. By age group, possession is highest for households whose head is aged between 45 and 54 years, and, by labour market status, for the

<sup>16</sup> Pension schemes do not include entitlements to Social Security pensions. The life-insurance instruments considered are unit-linked or mixed products, but not those covering the risk of death.

TABLE 4

EFF 2002					
Pension schemes and unit-linked or mixed life insurance	Unlisted shares and other equity	Other financial assets	Total	Memorandum item: financial assets as a % of total assets	Household characteristics
16.8	12.4	5.3	100.0	13.0	ALL HOUSEHOLDS
					INCOME PERCENTILE
11.8	3.7	2.0	100.0	8.6	Less than 40
14.5	8.3	5.5	100.0	9.4	Between 40 and 60
18.7	4.6	2.8	100.0	10.4	Between 60 and 80
20.7	8.4	4.1	100.0	12.2	Between 80 and 90
17.1	20.3	7.6	100.0	20.8	Between 90 and 100
					NET WEALTH PERCENTILE
12.1	1.6	4.8	100.0	9.8	Less than 50
20.4	1.1	3.4	100.0	8.3	Between 50 and 75
22.6	2.7	2.4	100.0	10.4	Between 75 and 90
15.0	20.4	6.8	100.0	18.0	Between 90 and 100

TABLE 4 (cont.)

EFF 2005					
Pension schemes and unit-linked or mixed life insurance	Unlisted shares and other equity	Other financial assets	Total	Memorandum item: financial assets as a % of total assets	Household characteristics
20.0	8.4	3.7	100.0	10.9	ALL HOUSEHOLDS
					INCOME PERCENTILE
14.5	1.8	1.9	100.0	6.7	Less than 40
17.1	2.9	2.7	100.0	7.9	Between 40 and 60
18.4	2.1	4.2	100.0	9.5	Between 60 and 80
33.6	4.0	3.6	100.0	11.6	Between 80 and 90
18.2	16.4	4.2	100.0	16.6	Between 90 and 100
					NET WEALTH PERCENTILE
15.2	0.8	5.9	100.0	7.7	Less than 50
20.7	1.8	2.1	100.0	6.9	Between 50 and 75
25.9	3.5	2.9	100.0	10.0	Between 75 and 90
18.6	13.6	3.9	100.0	15.1	Between 90 and 100

self-employed. The median value of pension schemes is €6,300 for those households owning a scheme. This value rises with income and wealth, and is highest for households in the 55-64 age bracket.

Thus, the proportion of households with some type of pension scheme, which was 24.1% in 2002, has increased considerably. The growth in this percentage has been greatest in the upper half of the income distribution and in the top decile of the wealth distribution. By age, it has been greatest for the 55-64 age group and, by labour market status, for the self-employed. Overall, the median amount invested in pension schemes has fallen. However, this median

# HOLDINGS OF FINANCIAL ASSETS BY HOUSEHOLDS

## By type of asset and household characteristics

% and thousands of 2005 euro

EFF 2002

Household characteristics	Accounts and deposits usable for payments	Accounts not usable for payments and house-purchase savings accounts	Listed shares	Mutual funds	Fixed-income securities
Percentage of households owning asset					
ALL HOUSEHOLDS	97.8	16.6	10.8	7.2	1.9
INCOME PERCENTILE					
Less than 20	94.6	11.6	3.3	2.6	1.0
Between 20 and 40	97.4	14.0	5.1	2.8	1.1
Between 40 and 60	98.6	15.4	8.2	5.6	2.0
Between 60 and 80	98.9	17.4	11.1	8.7	2.1
Between 80 and 90	99.2	22.3	19.1	12.6	3.0
Between 90 and 100	99.4	26.9	33.4	20.3	3.5
AGE OF HOUSEHOLD HEAD					
Under 35	97.5	14.8	7.2	5.6	0.8
35-44	97.3	14.5	10.4	7.1	1.8
45-54	97.7	16.6	14.6	9.3	2.3
55-64	97.9	17.2	13.1	8.8	1.7
65-74	98.3	19.5	9.6	6.6	2.0
Over 74	98.2	17.7	7.6	4.3	2.9
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD					
Employee	98.1	16.1	12.3	7.8	1.9
Self-employed	97.5	17.6	13.9	9.3	1.3
Retired	98.6	20.3	10.7	7.1	2.7
Other inactive or unemployed	95.9	12.1	4.8	4.4	1.0
NET WEALTH PERCENTILE					
Less than 25	95.4	10.0	2.2	1.6	0.3
Between 25 and 50	98.0	12.7	4.4	2.7	1.0
Between 50 and 75	98.6	16.3	10.0	7.4	1.8
Between 75 and 90	99.1	23.7	19.1	12.7	4.3
Between 90 and 100	99.1	33.0	37.7	24.1	4.5
Median of the asset value for households owning such asset					
ALL HOUSEHOLDS	2.0	13.2	6.2	13.2	14.0
INCOME PERCENTILE					
Less than 20	1.1	9.9	6.6	19.8	9.6
Between 20 and 40	1.4	13.6	6.4	15.7	21.5
Between 40 and 60	1.9	12.3	3.8	10.6	13.2
Between 60 and 80	2.4	13.2	4.8	12.7	24.2
Between 80 and 90	3.3	13.2	6.7	13.2	13.9
Between 90 and 100	5.1	18.4	9.6	17.1	10.5
AGE OF HOUSEHOLD HEAD					
Under 35	1.6	9.6	1.8	6.6	*
35-44	1.7	9.9	3.3	7.9	6.6
45-54	2.0	13.2	6.6	17.8	19.8
55-64	2.4	13.6	8.1	14.3	13.4
65-74	2.2	19.1	9.6	20.5	18.1
Over 74	2.1	13.7	12.0	18.0	17.2
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD					
Employee	2.0	12.5	5.1	11.9	11.9
Self-employed	2.9	16.0	4.1	22.9	13.2
Retired	2.8	15.2	7.6	19.8	17.0
Other inactive or unemployed	1.1	15.5	11.6	13.2	19.8
NET WEALTH PERCENTILE					
Less than 25	1.0	9.3	5.5	7.4	*
Between 25 and 50	1.6	9.0	2.0	6.5	*
Between 50 and 75	2.4	13.2	4.4	9.6	13.2
Between 75 and 90	3.3	17.3	4.9	16.8	19.8
Between 90 and 100	6.2	32.0	13.2	32.3	20.5

SOURCE: Banco de España.

\* Fewer than eleven observations.

TABLE 5

EFF 2002				
Pension schemes and unit-linked or mixed life insurance	Unlisted shares and other equity	Other financial assets	Some type of financial asset	Household characteristics
Percentage of households owning asset				
24.1	2.2	4.5	98.6	ALL HOUSEHOLDS
INCOME PERCENTILE				
4.9	0.5	3.4	95.7	Less than 20
16.2	1.3	2.2	98.3	Between 20 and 40
22.6	1.9	4.7	99.3	Between 40 and 60
29.8	2.7	3.9	99.6	Between 60 and 80
37.6	2.9	5.0	99.8	Between 80 and 90
56.4	6.8	11.4	100.0	Between 90 and 100
AGE OF HOUSEHOLD HEAD				
19.8	1.8	4.7	98.4	Under 35
32.0	3.4	6.7	98.5	35-44
38.8	2.7	6.9	98.1	45-54
32.0	2.8	3.6	98.5	55-64
6.3	1.1	1.6	98.8	65-74
2.4	0.5	1.1	99.3	Over 74
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD				
33.6	1.8	3.6	99.0	Employee
42.9	9.3	14.8	98.7	Self-employed
8.6	1.1	1.8	99.1	Retired
9.7	0.5	3.9	96.7	Other inactive or unemployed
NET WEALTH PERCENTILE				
7.8	0.2	3.5	96.5	Less than 25
17.3	1.4	3.5	98.7	Between 25 and 50
27.3	1.5	3.4	99.3	Between 50 and 75
38.1	2.9	4.1	99.6	Between 75 and 90
52.4	10.4	12.7	99.8	Between 90 and 100
Median of the asset value for households owning such asset				
6.9	15.3	5.7	4.8	ALL HOUSEHOLDS
INCOME PERCENTILE				
5.8	*	2.7	1.5	Less than 20
4.8	8.6	2.1	2.7	Between 20 and 40
4.2	24.4	4.3	3.9	Between 40 and 60
5.9	12.3	7.9	6.4	Between 60 and 80
9.9	21.2	9.2	12.0	Between 80 and 90
13.9	42.1	19.1	27.3	Between 90 and 100
AGE OF HOUSEHOLD HEAD				
2.7	13.2	4.6	3.1	Under 35
4.8	12.0	6.3	4.2	35-44
8.6	14.3	6.2	6.7	45-54
14.3	34.4	11.6	6.6	55-64
11.6	44.7	3.3	4.8	65-74
9.7	15.0	3.7	3.6	Over 74
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD				
6.5	11.5	2.8	4.8	Employee
7.2	21.5	15.2	11.5	Self-employed
13.5	16.5	3.3	6.1	Retired
4.5	23.3	3.4	1.6	Other inactive or unemployed
NET WEALTH PERCENTILE				
3.4	*	1.3	1.3	Less than 25
3.3	*	3.3	3.0	Between 25 and 50
5.3	5.1	3.1	6.5	Between 50 and 75
9.7	15.3	6.6	13.7	Between 75 and 90
19.1	67.8	18.5	52.2	Between 90 and 100

**HOLDINGS OF FINANCIAL ASSETS BY HOUSEHOLDS (cont.)**
**By type of asset and household characteristics**

% and thousands of 2005 euro					
Household characteristics	EFF 2005				
	Accounts and deposits usable for payments	Accounts not usable for payments and house-purchase savings accounts	Listed shares	Mutual funds	Fixed-income securities
Percentage of households owning asset					
ALL HOUSEHOLDS	92.3	18.5	11.4	8.7	1.5
INCOME PERCENTILE					
Less than 20	86.4	12.7	4.3	4.0	0.5
Between 20 and 40	90.2	13.6	4.8	4.0	0.8
Between 40 and 60	92.9	15.7	7.0	5.2	1.2
Between 60 and 80	95.6	22.5	11.4	10.2	1.8
Between 80 and 90	95.8	27.1	23.2	14.1	3.2
Between 90 and 100	97.6	28.4	35.7	26.4	2.9
AGE OF HOUSEHOLD HEAD					
Under 35	92.4	13.1	6.5	5.0	1.2
35-44	93.3	17.5	9.6	9.2	1.3
45-54	93.2	19.4	14.6	10.7	1.1
55-64	94.0	21.3	18.4	11.2	2.3
65-74	91.0	19.9	10.3	7.5	1.6
Over 74	88.1	19.8	7.1	7.5	1.5
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD					
Employee	93.9	16.9	12.2	10.0	0.6
Self-employed	94.3	23.4	16.5	10.0	3.1
Retired	90.4	22.5	11.1	7.9	2.0
Other inactive or unemployed	89.5	13.6	6.4	5.7	2.0
NET WEALTH PERCENTILE					
Less than 25	89.4	9.8	2.0	2.5	0.1
Between 25 and 50	91.3	12.9	5.1	4.2	1.3
Between 50 and 75	93.2	20.6	10.2	8.4	0.9
Between 75 and 90	94.9	28.9	17.6	13.8	2.1
Between 90 and 100	96.1	33.0	44.2	29.0	6.0
Median of the asset value for households owning such asset					
ALL HOUSEHOLDS	3.0	12.0	6.0	18.0	24.0
INCOME PERCENTILE					
Less than 20	1.2	10.1	6.0	17.6	*
Between 20 and 40	1.9	8.4	6.4	11.4	25.2
Between 40 and 60	2.9	9.9	5.4	17.8	33.8
Between 60 and 80	3.7	12.5	5.0	12.7	6.0
Between 80 and 90	5.1	13.3	5.7	20.0	29.2
Between 90 and 100	7.6	17.8	13.6	30.0	25.3
AGE OF HOUSEHOLD HEAD					
Under 35	2.0	6.2	4.5	9.7	*
35-44	3.0	9.5	3.9	12.0	18.0
45-54	3.1	12.0	6.0	16.4	6.0
55-64	3.0	16.3	12.0	28.6	30.0
65-74	3.0	14.6	8.9	22.4	35.6
Over 74	2.2	16.2	7.9	23.0	30.1
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD					
Employee	3.0	9.9	6.0	13.6	24.0
Self-employed	5.2	12.4	9.4	24.0	18.0
Retired	3.0	14.8	7.6	22.2	31.0
Other inactive or unemployed	1.7	13.6	6.0	21.2	13.2
NET WEALTH PERCENTILE					
Less than 25	1.1	3.1	1.5	6.5	*
Between 25 and 50	2.4	6.0	3.2	6.6	*
Between 50 and 75	3.1	12.0	3.7	11.6	28.8
Between 75 and 90	5.7	16.5	6.0	18.2	26.2
Between 90 and 100	10.6	25.0	16.0	40.0	30.0

SOURCE: Banco de España.

\* Fewer than eleven observations.

TABLE 5 (cont.)

EFF 2005				
Pension schemes and unit-linked or mixed life insurance	Unlisted shares and other equity	Other financial assets	Some type of financial asset	Household characteristics
Percentage of households owning asset				
29.3	2.1	4.3	96.5	ALL HOUSEHOLDS
INCOME PERCENTILE				
9.4	0.3	2.7	93.0	Less than 20
12.5	0.7	3.4	95.1	Between 20 and 40
27.0	1.4	4.1	97.1	Between 40 and 60
39.1	1.7	5.1	97.8	Between 60 and 80
51.5	4.2	5.0	99.3	Between 80 and 90
64.1	8.9	7.1	99.9	Between 90 and 100
AGE OF HOUSEHOLD HEAD				
22.1	2.2	4.3	95.7	Under 35
37.7	2.8	5.5	97.3	35-44
44.6	2.7	6.0	96.1	45-54
43.5	2.1	4.6	97.5	55-64
9.1	1.4	1.9	97.1	65-74
2.4	0.8	1.5	94.6	Over 74
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD				
39.1	1.4	3.7	97.0	Employee
54.9	10.4	13.8	98.4	Self-employed
11.6	1.0	2.2	96.6	Retired
11.8	0.6	3.1	94.0	Other inactive or unemployed
NET WEALTH PERCENTILE				
12.5	0.2	4.2	93.1	Less than 25
22.2	1.2	3.0	96.5	Between 25 and 50
31.0	1.7	3.9	97.6	Between 50 and 75
42.8	3.8	4.6	98.4	Between 75 and 90
64.0	7.9	8.0	99.9	Between 90 and 100
Median of the asset value for households owning such asset				
6.3	17.0	5.9	6.0	ALL HOUSEHOLDS
INCOME PERCENTILE				
4.0	*	4.0	1.9	Less than 20
3.6	3.6	2.7	3.0	Between 20 and 40
4.2	4.4	4.1	5.1	Between 40 and 60
5.9	15.5	6.0	8.7	Between 60 and 80
8.5	7.5	9.6	18.3	Between 80 and 90
15.9	37.7	20.1	46.2	Between 90 and 100
AGE OF HOUSEHOLD HEAD				
3.0	8.0	4.9	3.0	Under 35
4.5	18.6	3.0	6.0	35-44
6.8	13.2	7.8	9.2	45-54
16.9	29.2	18.0	12.3	55-64
10.6	4.2	6.0	4.9	65-74
12.2	37.2	2.6	4.8	Over 74
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD				
6.0	8.0	3.5	6.1	Employee
10.0	30.5	12.0	17.2	Self-employed
11.9	4.4	6.0	6.0	Retired
5.5	10.4	3.2	2.2	Other inactive or unemployed
NET WEALTH PERCENTILE				
1.8	*	2.4	1.6	Less than 25
3.5	8.0	5.0	3.9	Between 25 and 50
5.1	10.9	4.8	7.4	Between 50 and 75
12.0	11.9	12.0	21.8	Between 75 and 90
21.8	43.1	17.3	65.8	Between 90 and 100

**DISTRIBUTION OF THE VALUE OF HOUSEHOLD DEBT**  
**By purpose of debt and household characteristics**

TABLE 6

%	EFF 2002				
	Purchase of main residence	Purchase of other real estate properties	Other outstanding debts (secured loans, personal loans and other debts)	Total	Memorandum item: debt as a % of total assets
ALL HOUSEHOLDS	56.4	23.6	20.0	100.0	8.6
INCOME PERCENTILE					
Less than 40	70.3	10.2	19.5	100.0	6.2
Between 40 and 60	64.0	12.3	23.7	100.0	10.6
Between 60 and 80	60.0	22.6	17.3	100.0	10.1
Between 80 and 90	50.9	29.3	19.8	100.0	9.7
Between 90 and 100	42.1	37.7	20.1	100.0	7.7
NET WEALTH PERCENTILE					
Less than 50	69.4	9.9	20.6	100.0	24.3
Between 55 and 75	63.1	14.5	22.4	100.0	8.6
Between 75 and 90	43.7	35.2	21.1	100.0	5.6
Between 90 and 100	30.0	55.1	15.0	100.0	4.2

SOURCE: Banco de España.

amount has increased for some of the groups that have increased their participation. Specifically, it has increased for those households in the top decile of the income distribution and in the top quartile of the wealth distribution. The decline in the median value invested has been greater in the lower part of the income and wealth distributions.

**Other financial assets**

Included in this category are outstanding loans in favour of households. The holding of these assets is more frequent in the high income and wealth brackets and, by labour market status, for the self-employed. The median amount of these loans follows a similar pattern.

Between 2002 and 2005 no relevant changes have been recorded in this situation

**Debts<sup>17</sup>**

Household debt accounts for 9.3% of the total value of their assets (see Table 6). The amount outstanding in relation to the purchase of the main residence represents 56.8% of household debt, while outstanding debt in relation to the purchase of other real-estate properties represents 23.9% thereof.

The increase in debt has been greater than the increase in assets and the percentage of the value of assets that this debt represents has therefore increased. This increase is seen at all levels of income and wealth. Outstanding debt for the purchase of the main residence and for the purchase of other real-estate properties increases as a proportion of total household debt, while the relative importance of other outstanding debts declines.

49.6% of households have some type of debt and the median outstanding amount is €31,400 (see Table 7). The groups least likely to have debts are households in the bottom segment of the income distribution (18.8%), those aged over 64 and the retired. Conversely, the percentage of indebted households in the 35-44 age bracket reaches 70.4%. The highest volumes of outstanding debt in terms of the median amount are among the youngest group (€60,100), the

<sup>17</sup> New questions have been included in the EFF2005 in order to collect information on the use of credit cards as a means of obtaining credit, as opposed to their use as a means of deferred payment.

%	EFF 2005				
	Purchase of main residence	Purchase of other real estate properties	Other outstanding debts (secured loans, personal loans, credit card balances and other debts)	Total	Memorandum item: debt as a % of total assets
ALL HOUSEHOLDS	56.8	23.9	19.2	100.0	9.3
INCOME PERCENTILE					
Less than 40	66.2	15.4	18.4	100.0	6.4
Between 40 and 60	68.1	11.2	20.7	100.0	11.5
Between 60 and 80	57.2	23.4	19.4	100.0	11.6
Between 80 and 90	55.7	25.1	19.1	100.0	11.1
Between 90 and 100	41.8	39.7	18.5	100.0	7.8
NET WEALTH PERCENTILE					
Less than 50	70.8	9.3	19.9	100.0	26.5
Between 55 and 75	61.1	20.3	18.5	100.0	8.8
Between 75 and 90	41.2	39.7	19.2	100.0	6.2
Between 90 and 100	29.4	52.1	18.5	100.0	4.4

SOURCE: Banco de España.

self-employed and households with two members working. Moreover, these amounts increase with income, but not so clearly with wealth.

With respect to 2002, the percentage of indebted households has risen by 6 pp (from 43.6% to 49.6%). The increase in this percentage is larger for households with three or more members working and for the group of households whose head is aged between 45 and 54. The smallest increases in the percentage of indebted households are seen among the youngest and oldest households, as well as in the top decile of the income distribution. Between 2002 and 2005 the median volume of outstanding debt increases by 29.8%. This value increases for all groups of households, except those belonging to the bottom part of the income and wealth distributions and those in the over 74 age bracket.

#### DEBTS RELATING TO PURCHASE OF MAIN RESIDENCE

26.1% of households have outstanding debt in connection with the purchase of their main residence (32.1% of households that own their main residence). This percentage rises with income, but not with net wealth. Households most likely to have this type of debt are, by age group, those in the 35-44 age bracket (48%); by labour market status, dependent employees (41.2%); and, by number of members working, those with two such members (42.4%). The median amount of debt outstanding in relation to the purchase of the main residence is €42,100 for all households with this type of debt. The median volume of outstanding debt increases with income, holds relatively constant with wealth, and is greater for households whose head is under 35 and when two household members are working. Debt outstanding in connection with the purchase of the main residence is almost entirely mortgage debt.

With respect to 2002, the percentage of all households that have outstanding debt in connection with the purchase of their main residence has increased from 21.6% to 26.1%. This proportion has risen for all groups of households, except for the under 35s and those at the lower end of the income distribution. The median value of debt in connection with the purchase of the main residence has risen by 22.7% for households as a whole. The only groups that have seen the median value of this debt decline are, principally, those belonging to the two bottom deciles of the income distribution and those in the over-54 age bracket.

**HOUSEHOLD DEBT**  
By purpose, type of debt and household characteristics

TABLE 7

% and thousands of 2005 euro							
EFF 2002							
	Purchase of main residence		Purchases of other real estate properties	Other debt outstanding			Some type of debt
	Total	With mortgage guarantee		With real guarantee (incl. mortgages)	Personal loans	Other debts	
Percentage of households with debts outstanding							
ALL HOUSEHOLDS	21.6	20.9	6.5	3.4	19.9	2.9	43.6
INCOME PERCENTILE							
Less than 20	7.0	6.7	0.7	0.6	7.3	2.0	15.7
Between 20 and 40	19.0	18.4	2.6	2.5	18.3	1.9	37.6
Between 40 and 60	24.6	23.7	5.0	4.5	24.1	2.0	49.4
Between 60 and 80	27.3	27.0	9.0	3.6	25.5	3.2	54.0
Between 80 and 90	28.2	27.3	11.7	4.6	24.0	6.3	58.1
Between 90 and 100	31.6	30.0	18.5	6.5	24.6	4.4	64.2
AGE OF HOUSEHOLD HEAD							
Under 35	47.6	46.1	6.2	3.1	24.1	3.9	64.8
35-44	39.9	39.3	8.7	4.7	24.5	4.0	63.5
45-54	18.2	17.1	9.7	4.9	27.2	4.0	51.8
55-64	10.2	9.8	9.0	4.0	22.8	2.2	41.0
65-74	3.4	3.3	1.7	1.4	10.0	1.6	17.0
Over 74	1.8	1.8	0.1	0.4	2.5	0.6	5.4
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD							
Employee	34.7	33.6	7.8	3.6	26.3	2.9	59.9
Self-employed	28.0	27.9	16.4	7.4	20.7	7.3	59.6
Retired	3.9	3.9	2.5	1.6	10.6	11.0	17.2
Other inactive or unemployed	8.7	8.0	2.5	2.7	16.3	2.8	29.0
NUMBER OF HOUSEHOLD MEMBERS WORKING							
None	4.5	4.3	1.3	1.2	7.5	1.5	14.4
One	24.7	23.8	6.9	3.8	20.4	3.1	48.8
Two	36.5	35.6	10.6	4.7	30.2	3.8	65.6
Three or more	16.1	16.1	11.2	5.1	30.2	4.3	51.7
NET WEALTH PERCENTILE							
Less than 25	15.0	14.0	2.1	2.0	23.1	2.8	36.2
Between 25 and 50	29.8	29.7	2.8	3.8	22.8	2.9	50.1
Between 50 and 75	23.8	23.0	5.7	4.0	18.2	2.7	44.3
Between 75 and 90	18.0	17.7	11.4	4.1	17.1	2.7	42.7
Between 90 and 100	17.3	15.4	21.6	2.9	13.1	4.0	45.3
Median of the debt value for households having such debt							
ALL HOUSEHOLDS	34.3	33.1	41.6	20.6	5.9	2.6	24.2
INCOME PERCENTILE							
Less than 20	32.3	32.9	*	*	1.9	1.0	10.7
Between 20 and 40	27.4	28.1	19.0	12.7	4.7	*	15.2
Between 40 and 60	33.5	33.5	21.9	19.3	5.6	1.5	23.2
Between 60 and 80	35.3	34.5	41.8	16.0	6.1	3.0	25.6
Between 80 and 90	36.5	36.7	60.0	28.9	7.2	3.3	28.2
Between 90 and 100	43.1	46.0	54.5	40.7	9.3	18.7	43.4
AGE OF HOUSEHOLD HEAD							
Under 35	43.9	43.9	59.1	*	4.4	6.0	38.1
35-44	36.4	36.4	40.2	19.8	6.2	1.5	28.5
45-54	27.0	28.8	43.8	32.9	6.6	3.3	17.6
55-64	26.1	26.3	35.2	14.3	6.5	3.4	13.2
65-74	13.2	16.5	39.5	7.8	4.7	1.0	7.7
Over 74	19.8	19.8	*	*	3.3	*	10.3
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD							
Employee	36.3	36.3	42.3	19.8	6.1	1.6	27.6
Self-employed	32.0	30.9	44.4	37.3	8.2	18.0	33.0
Retired	16.5	16.5	19.3	13.6	5.3	0.8	10.2
Other inactive or unemployed	36.1	32.6	53.8	21.0	4.6	1.1	10.1
NUMBER OF HOUSEHOLD MEMBERS WORKING							
None	24.2	24.2	26.4	7.9	3.3	2.3	8.1
One	32.7	32.9	34.4	25.9	5.5	2.1	22.2
Two	38.9	39.0	50.1	14.9	6.6	3.1	31.1
Three or more	31.5	28.3	46.2	15.3	10.0	3.3	23.2
NET WEALTH PERCENTILE							
Less than 25	40.2	39.4	52.1	27.0	5.1	1.7	17.3
Between 25 and 50	37.8	36.8	48.5	20.5	5.5	1.1	26.6
Between 50 and 75	27.9	28.9	20.8	19.8	5.5	2.1	21.3
Between 75 and 90	31.6	31.9	38.9	12.5	6.6	4.2	24.2
Between 90 and 100	35.7	41.7	52.1	43.2	11.4	19.8	42.1

SOURCE: Banco de España.

\* Fewer than eleven observations.

## HOUSEHOLD DEBT (cont.)

TABLE 7 (cont.)

## By purpose, type of debt and household characteristics

% and thousands of 2005 euro	EFF 2005							
	Purchase of main residence		Purchases of other real estate properties	Other debt outstanding				Some type of debt
	Total	With mortgage guarantee		With real guarantee (incl. mortgages)	Personal loans	Credit card balances	Other debts	
	Percentage of households with debts outstanding							
ALL HOUSEHOLDS	26.1	25.3	7.8	3.6	24.6	2.0	2.9	49.6
INCOME PERCENTILE								
Less than 20	6.9	6.2	1.0	0.9	10.1	1.6	1.8	18.8
Between 20 and 40	21.1	20.4	4.3	3.0	22.2	1.9	1.9	42.4
Between 40 and 60	32.9	31.8	5.8	4.8	29.2	2.6	4.1	58.8
Between 60 and 80	35.3	34.4	11.6	4.4	30.9	2.4	2.9	62.0
Between 80 and 90	36.6	36.2	12.8	4.2	31.5	1.2	3.8	66.4
Between 90 and 100	31.4	30.6	19.8	5.0	29.6	1.5	4.1	64.4
AGE OF HOUSEHOLD HEAD								
Under 35	46.6	46.1	5.4	1.6	31.3	2.0	3.1	65.3
35-44	48.0	46.8	11.4	3.2	31.5	2.8	3.5	70.4
45-54	26.6	26.0	12.5	7.3	33.3	3.0	4.5	63.2
55-64	15.2	14.1	9.6	4.0	26.0	2.1	3.4	48.6
65-74	3.7	3.2	2.5	3.0	11.3	0.5	1.4	19.8
Over 74	1.9	1.2	0.5	0.3	2.9	0.2	0.0	5.6
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD								
Employee	41.2	40.0	8.7	3.3	33.7	3.2	3.4	67.5
Self-employed	31.6	31.2	19.5	9.5	27.9	1.1	7.0	66.7
Retired	4.9	4.4	3.2	2.5	10.9	0.4	1.4	19.9
Other inactive or unemployed	11.8	11.5	5.0	2.4	17.5	1.4	1.3	32.7
NUMBER OF HOUSEHOLD MEMBERS WORKING								
None	4.8	4.4	1.6	1.1	8.0	0.8	1.1	15.2
One	30.5	29.8	7.5	4.1	26.4	2.2	3.3	56.2
Two	42.4	41.0	11.4	4.0	33.4	2.6	4.1	70.2
Three or more	22.5	22.5	18.3	8.9	44.7	3.4	3.7	69.3
NET WEALTH PERCENTILE								
Less than 25	15.2	15.0	1.8	3.9	30.3	2.2	3.8	44.1
Between 25 and 50	38.7	37.2	5.8	2.7	28.8	2.6	1.6	56.8
Between 50 and 75	29.7	29.1	6.3	3.3	21.1	2.3	2.7	49.6
Between 75 and 90	22.0	21.2	14.1	3.5	20.1	0.9	2.8	47.9
Between 90 and 100	18.5	18.0	22.1	5.8	15.6	0.8	4.7	47.6
Median of the debt value for households having such debt								
ALL HOUSEHOLDS	42.1	42.1	60.3	36.2	6.5	0.5	5.1	31.4
INCOME PERCENTILE								
Less than 20	30.7	33.5	*	14.2	3.6	0.3	1.5	6.0
Between 20 and 40	34.3	35.4	45.5	23.0	3.9	0.7	3.3	17.2
Between 40 and 60	36.1	36.1	44.6	32.8	6.9	0.9	3.7	25.6
Between 60 and 80	42.5	43.3	55.9	55.5	7.5	0.3	5.8	40.8
Between 80 and 90	50.1	51.1	63.7	26.4	11.9	*	5.5	47.5
Between 90 and 100	60.4	61.4	78.1	39.1	9.8	*	23.0	60.1
AGE OF HOUSEHOLD HEAD								
Under 35	64.0	65.0	75.5	*	7.2	*	1.4	60.1
35-44	37.0	38.8	50.8	40.0	6.4	0.5	4.8	37.9
45-54	36.1	36.1	72.1	31.5	6.0	0.6	6.0	26.2
55-64	21.0	21.0	65.1	32.4	7.0	0.4	6.6	18.0
65-74	12.4	14.2	29.1	42.1	6.0	*	1.6	11.1
Over 74	18.0	23.4	68.0	*	3.9	*	*	6.0
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD								
Employee	42.1	42.3	54.1	36.6	6.0	0.5	3.6	36.1
Self-employed	47.6	48.1	84.1	38.5	12.2	*	13.0	51.2
Retired	17.4	18.0	36.7	35.0	7.0	*	5.5	12.3
Other inactive or unemployed	35.6	36.6	70.0	19.0	5.0	0.6	1.9	13.5
NUMBER OF HOUSEHOLD MEMBERS WORKING								
None	24.0	24.0	48.1	35.0	4.0	0.5	1.5	8.7
One	36.1	36.6	66.5	33.7	5.0	0.5	3.1	25.0
Two	48.5	50.2	54.1	36.0	9.6	0.4	10.0	42.4
Three or more	34.9	34.9	79.5	40.2	8.4	1.6	*	33.4
NET WEALTH PERCENTILE								
Less than 25	59.3	59.8	54.6	36.0	4.9	0.5	4.0	12.6
Between 25 and 50	42.1	42.1	39.9	38.2	6.1	0.5	4.7	38.3
Between 50 and 75	31.3	32.0	54.1	38.7	8.9	0.5	3.8	26.9
Between 75 and 90	37.2	37.2	50.7	39.7	11.3	*	6.9	34.8
Between 90 and 100	42.1	43.3	78.1	28.8	8.7	*	6.4	59.5

SOURCE: Banco de España.

\* Fewer than eleven observations.

DEBT RELATING TO THE  
PURCHASE OF OTHER REAL-  
ESTATE PROPERTIES

7.8% of households have debts outstanding in relation to the purchase of real-estate properties other than a main residence. This proportion rises with income and wealth and, by age, is lower for the under 35s and the over 64s. By labour market status, 19.5% of households whose head is self-employed have outstanding debt of this type. The median value of debt outstanding in relation to the purchase of real-estate properties other than the main residence is €60,300 and rises with income, without any clear pattern existing by age group or wealth. The highest median value is for the self-employed group.

Since 2002, the percentage of households with debts in relation to the purchase of real-estate properties other than the main residence has risen for all types of household, except for the under 35s and those belonging to the bottom quartile of the net wealth distribution. The median outstanding value of this type of debt has increased by 44.9% for households with this type of debt.

OTHER DEBTS

The EFF also collects information on other debts, in addition to those for the purchase of a main residence or other real-estate properties. The main reasons for incurring other debts are to carry out home improvements, to invest in non-real-estate assets, to finance business activity and to purchase vehicles and other durable goods. The main types of debt incurred for these purposes are secured loans (including mortgage loans other than those for the purchase of the main residence or other real-estate properties) and personal loans. In addition, from the EFF2005 onwards information is being collected on credit card debt.

Of these debts, the type most prevalent among households is the personal loan, incurred by 24.6% of households. The groups of households that least use this type of loan are those with lower income, those with higher net wealth, the over 64s and the retired or inactive. The median outstanding amount of these personal loans is €6,500. Less frequent are outstanding secured loans (3.6% of households), but the median outstanding amount of this type of debt is €36,200. The use of credit cards to obtain credit is not widespread (2% of households) and is almost non-existent among the over 64s and the retired. The median balance of this type of debt is very low, being €500 for those households that use credit cards to obtain credit.

Since 2002, the percentage of households with personal loans has increased by 4.7 pp. This proportion has increased over the period 2002-2005 for all groups, including those for whom the probability of having a loan for the purchase of some type of real-estate property has diminished, as is the case of the youngest and lowest income households. The median amount of secured debt for purposes other than the purchase of real-estate properties has increased considerably (by 75.4%), but significant increases have not been recorded in the proportion of households having this type of debt.

DEBT BURDEN

The EFF enables measures of the financial burden to be constructed for different types of household with debts outstanding. Table 8 shows three measures. The first is the ratio of debt payments (including repayment of principal and interest) to gross household income. One limitation of this measure is that it only reflects the significance of financial commitments in the short term. For this reason, figures for the ratio of total debt to gross household income and to total assets are also given. In all cases the median of these individual ratios is provided for each group of households, as is the percentage of households for which these financial burden measures exceed a certain threshold.

The median indebted household assigns 17% of its gross income to the payment of its debts (see the first column of Table 8). This figure is greater for the lower income levels (38.1%) and diminishes as income rises. By age group, the youngest households assign a higher percent-

age of their income to debt payment (21.2%) than those of intermediate age; by labour market status, the financial burden is higher among the self-employed (20.5%). According to the second measure, the median stock of outstanding debts accounts for 99.3% of annual household income (see the third column of the same table). This proportion is greater for the 20% of lower income households (143.4%), for the youngest (193.3%) and for the self-employed (122.4%).

The proportion of households setting aside more than 40% of their gross income to debt payment is 11.7% of indebted households (see the second column of Table 8) or 5.8% of all households. In the bottom two deciles of the income distribution, this threshold is exceeded by 49.2% of indebted households, which make up 9.2% of all households in these income brackets. Across the different ages, these percentages do not vary much, though they are somewhat bigger for the youngest group (15.1%). The debt of 19.1% of indebted households is more than three times their annual gross income (see the fourth column of the same table). This figure is once again higher for lower-income households (42.6%), but in this case age-based differences are observed. Specifically, for 36.4% of households whose head is under the age of 35 that have debts (or for 23.8% of all households whose head is under the age of 35), the total amount of such debts is more than three times their annual gross income.

The last two columns of the table give the data on debt in relation to gross wealth. For the median indebted household, debt accounts for 17.2% of the total value of its assets (real assets plus financial assets). Further, 11.1% of indebted households have debts which exceed 75% of their assets.

With respect to 2002, the median indebted household assigns 2.5% more of its gross income to debt payments. The increase has been greater for low levels of income (7.6% more of their income); by age, for the under 35s (4.6%); and, by labour market status, for the unemployed and other inactive persons (excluding the retired). As for the stock of debt, it now represents an extra 30% of annual income for the median indebted household.

In comparison with 2002, an additional 5% of indebted households assign more than 40% of their income to debt payments. The increase has been greater for indebted households at low income levels (19.5%) and, to a lesser extent, for the youngest (6.7%). Also, the percentage of indebted households whose debt is more than three times their gross annual income (11.3% extra) has risen, the largest increase being recorded among the youngest households (20.3%). By level of income, smaller increases are observed at both ends of the distribution.

Finally, since 2002 the median household has seen the ratio of its debt to assets fall slightly. However, the percentage of indebted households whose debt is more than 75% of their assets has increased, especially among households with less income (14.9% extra) and among the young (6.5%).

### **Other information**

The definition of household wealth does not include the value of vehicles and other durable goods. Table 9 provides information, by household characteristics, on the percentage of households that have cars or other vehicles and on the median value of these and of other durable goods.<sup>18</sup> The variations across the different types of household are as expected. In particular, the percentage of households with a vehicle, the median value thereof and the median value of other durable goods increase with income and net wealth.

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18. Specifically, household furnishings, fittings and appliances are included in this category in the EFF.

**MEASURES OF DEBT BURDEN OF HOUSEHOLDS WITH DEBT OUTSTANDING**  
**By household characteristics**

TABLE 8

Household characteristics	EFF 2002					
	Ratio of debt payments to household income		Ratio of debt to household income		Ratio of debt to gross household wealth	
	Median (%)	Percentage of households where ratio exceeds 40%	Median (%)	Percentage of households where ratio exceeds 3	Median (%)	Percentage of households where ratio exceeds 75%
ALL HOUSEHOLDS	14.5	6.7	69.2	7.8	18.0	8.5
INCOME PERCENTILE						
Less than 20	30.5	29.7	104.8	34.5	18.7	10.6
Between 20 and 40	20.5	12.8	90.6	12.4	18.4	11.3
Between 40 and 60	16.7	4.8	92.7	8.6	21.0	11.2
Between 60 and 80	13.1	2.8	67.1	3.6	19.7	8.3
Between 80 and 90	10.8	2.4	52.5	0.9	16.1	4.2
Between 90 and 100	7.8	1.5	46.0	1.6	13.8	4.1
AGE OF HOUSEHOLD HEAD						
Under 35	16.6	8.4	124.7	16.1	36.2	15.0
35-44	15.8	6.4	86.2	8.7	21.6	7.4
45-54	12.4	6.6	45.0	3.1	12.0	6.5
55-64	12.2	5.4	39.5	4.6	10.9	7.1
65-74	11.1	5.3	24.8	1.6	8.7	5.2
Over 74	16.1	9.0	43.8	8.3	10.4	0.0
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD						
Employee	14.2	3.3	77.2	7.1	22.0	9.0
Self-employed	18.1	16.3	88.2	12.6	13.9	4.3
Retired	12.3	5.4	31.7	1.2	10.1	6.8
Other inactive or unemployed	13.9	13.2	43.0	11.2	14.8	12.6
STATUS OF MAIN RESIDENCE						
Ownership	14.9	6.8	78.3	8.2	16.1	3.5
Other	11.5	5.9	22.5	5.0	68.4	48.1
NUMBER OF HOUSEHOLD MEMBERS WORKING						
None	16.5	14.5	44.0	11.1	11.2	10.8
One	15.6	8.0	76.5	10.2	17.6	8.9
Two	13.5	4.2	72.6	5.7	21.5	7.6
Three or more	10.9	2.5	39.3	1.1	12.9	7.9
NET WEALTH PERCENTILE						
Less than 25	16.1	10.9	67.7	14.8	66.6	40.9
Between 25 and 50	15.6	4.1	87.2	8.0	26.6	0.0
Between 50 and 75	13.1	6.3	65.1	4.8	12.7	0.0
Between 75 and 90	12.8	4.6	55.3	3.6	8.7	0.0
Between 90 and 100	11.9	9.3	66.1	6.8	6.2	0.0

SOURCE: Banco de España.

The EFF also includes information on expenditure, given the importance of its relationship to the distribution of household income, wealth and debt. Table 9 offers information on the distribution of different expenditure items according to household characteristics. Spending on food and other non-durable goods varies considerably with income and net wealth. Also spending on vehicles and other durables for households that purchase these goods during the year varies to some extent with income and wealth. In turn, the percentage of households that incur such expenditure varies to a greater extent with income than with wealth.

With respect to 2002 there has been a certain reduction in the median expenditure by households on food and other non-durable goods. Spending on cars (and other vehicles), and on

**MEASURES OF DEBT BURDEN OF HOUSEHOLDS WITH DEBT OUTSTANDING (cont.)**  
**By household characteristics**

TABLE 8 (cont.)

Household characteristics	EFF 2005					
	Ratio of debt payments to household income		Ratio of debt to household income		Ratio of debt to gross household wealth	
	Median (%)	Percentage of households where ratio exceeds 40%	Median (%)	Percentage of households where ratio exceeds 3	Median (%)	Percentage of households where ratio exceeds 75%
ALL HOUSEHOLDS	17.0	11.7	99.3	19.1	17.2	11.1
INCOME PERCENTILE						
Less than 20	38.1	49.2	143.4	42.6	20.8	25.5
Between 20 and 40	24.8	21.7	109.4	28.7	21.1	15.3
Between 40 and 60	20.4	9.7	113.0	23.0	18.8	12.8
Between 60 and 80	15.7	5.7	115.3	14.5	17.9	9.2
Between 80 and 90	12.0	3.0	90.6	10.2	15.1	8.1
Between 90 and 100	7.9	1.6	60.9	4.1	11.7	0.8
AGE OF HOUSEHOLD HEAD						
Under 35	21.2	15.1	193.3	36.4	40.3	21.5
35-44	18.5	10.8	116.6	18.2	19.6	10.4
45-54	15.0	11.2	80.7	14.0	12.9	8.5
55-64	13.3	10.1	53.2	11.3	6.9	5.1
65-74	12.9	12.7	46.0	12.1	7.3	8.5
Over 74	12.5	5.7	32.8	1.7	4.2	2.1
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD						
Employee	16.9	8.9	105.8	18.6	20.3	11.8
Self-employed	20.5	19.5	122.4	22.2	11.4	4.8
Retired	13.1	11.2	51.0	12.5	7.5	8.1
Other inactive or unemployed	18.6	18.9	81.8	24.6	15.3	17.6
STATUS OF MAIN RESIDENCE						
Ownership	17.9	11.9	114.5	21.3	14.5	4.2
Other	13.6	10.8	31.0	6.8	79.4	50.9
NUMBER OF HOUSEHOLD MEMBERS WORKING						
None	17.7	21.4	59.0	21.1	8.2	15.0
One	19.5	14.6	102.1	25.0	18.4	13.0
Two	16.1	8.0	114.6	15.8	18.7	10.1
Three or more	12.0	8.8	54.4	10.6	12.1	4.9
NET WEALTH PERCENTILE						
Less than 25	17.8	16.1	63.1	24.7	74.0	49.8
Between 25 and 50	20.4	12.7	143.2	24.2	24.4	0.0
Between 50 and 75	16.3	8.5	92.1	12.7	10.6	0.0
Between 75 and 90	13.8	8.3	82.9	14.0	8.0	0.0
Between 90 and 100	14.0	12.1	91.2	15.6	6.1	0.0

SOURCE: Banco de España.

other durable goods, has increased, owing to an increase in the percentage of households that incur this type of expenditure. The percentage of households that acquire a vehicle during the year has increased, in general, for all groups of households, a clear exception being the under 35s.

## Conclusion

The wealth of information contained in the EFF is again evident in the second edition of this survey, considerably extending the possibilities of analysis. One added value with respect to the first edition is the possibility of making comparisons with the 2002 results, thereby contributing to an understanding of the change in the position of households between 2002 and 2005, which is not possible with other sources. In addition, the fact that a number of house-

**HOLDINGS OF DURABLE GOODS AND SPENDING ON NON-DURABLE AND DURABLE GOODS**  
**By type of good and household characteristics**

Household characteristics	EFF 2002				
	Valuation of stock			Expenditure	
	Cars and other vehicles		Other durable goods	Food	Other non-durable goods
	% with good	Median	Median	Median	Median
ALL HOUSEHOLDS	73.7	6.6	12.8	5.3	4.0
INCOME PERCENTILE					
Less than 20	33.9	2.3	6.6	3.3	2.0
Between 20 and 40	66.9	4.0	9.3	5.0	3.2
Between 40 and 60	82.6	6.6	11.9	5.7	4.0
Between 60 and 80	89.9	6.6	13.2	6.5	4.9
Between 80 and 90	93.3	9.3	16.5	7.1	5.7
Between 90 and 100	97.4	13.0	19.8	7.9	7.9
AGE OF HOUSEHOLD HEAD					
Under 35	86.3	6.6	12.7	4.7	4.6
35-44	86.7	6.6	13.2	5.8	4.2
45-54	86.0	7.7	13.2	6.6	4.5
55-64	83.2	6.6	13.2	6.6	4.0
65-74	55.9	3.3	8.7	4.7	2.6
Over 74	21.2	3.3	6.6	3.8	2.2
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD					
Employee	88.0	6.6	13.2	6.2	4.7
Self-employed	95.2	9.6	13.2	6.3	4.3
Retired	55.4	4.0	9.8	4.7	2.7
Other inactive or unemployed	49.1	4.3	6.8	4.0	2.4
LEVEL OF EDUCATION OF HOUSEHOLD HEAD					
Below secondary education	63.8	5.5	9.9	5.1	3.2
Secondary education	86.2	6.7	13.2	5.7	4.0
University education	91.1	6.7	16.5	6.6	6.7
STATUS OF MAIN RESIDENCE					
Ownership	76.2	6.6	13.2	5.5	4.0
Other	62.5	5.0	6.6	4.7	3.7
NUMBER OF HOUSEHOLD MEMBERS WORKING					
None	37.7	3.3	6.6	4.0	2.4
One	84.7	6.6	13.2	5.5	4.0
Two	93.0	8.6	13.3	6.6	5.4
Three or more	91.0	9.9	14.1	7.9	4.4
NUMBER OF HOUSEHOLD MEMBERS					
One	33.0	3.3	6.6	2.9	2.4
Two	62.0	5.8	9.9	4.6	3.2
Three	85.2	6.6	13.2	5.9	4.3
Four	93.8	6.6	13.2	6.6	4.4
Five or more	88.4	7.9	13.2	7.9	4.7
NET WEALTH PERCENTILE					
Less than 25	59.1	4.7	6.6	4.4	3.1
Between 25 and 50	68.8	5.5	9.9	4.8	3.3
Between 50 and 75	78.5	6.6	13.2	5.9	4.0
Between 75 and 90	86.0	7.3	16.5	6.6	4.8
Between 90 and 100	92.5	11.4	20.9	7.9	6.3

SOURCE: Banco de España.

TABLE 9

EFF 2002				Household characteristics
Expenditure				
Cars and other vehicles		Other durable goods		
% incurring expense	Median	% incurring expense	Median	
13.1	13.2	35.4	1.0	ALL HOUSEHOLDS
				INCOME PERCENTILE
4.3	6.7	19.5	0.6	Less than 20
8.6	13.0	30.9	0.8	Between 20 and 40
13.1	13.4	35.8	1.0	Between 40 and 60
17.4	13.2	42.5	1.1	Between 60 and 80
19.7	15.3	46.1	1.3	Between 80 and 90
24.5	14.6	50.4	1.3	Between 90 and 100
				AGE OF HOUSEHOLD HEAD
22.4	13.2	49.6	1.3	Under 35
15.2	13.2	45.9	1.1	35-44
16.1	13.2	38.5	1.3	45-54
13.0	13.2	30.0	0.8	55-64
6.3	13.2	25.3	0.7	65-74
1.9	11.9	13.8	0.5	Over 74
				LABOUR MARKET SITUATION OF HOUSEHOLD HEAD
16.8	13.2	45.6	1.3	Employee
21.6	13.2	36.9	1.1	Self-employed
6.9	13.2	22.5	0.7	Retired
6.8	11.5	26.6	0.7	Other inactive or unemployed
				LEVEL OF EDUCATION OF HOUSEHOLD HEAD
10.4	12.5	27.8	0.7	Below secondary education
18.0	13.2	43.9	1.0	Secondary education
15.2	16.5	50.3	1.3	University education
				STATUS OF MAIN RESIDENCE
13.6	13.2	35.7	1.0	Ownership
11.0	10.5	34.3	0.9	Other
				NUMBER OF HOUSEHOLD MEMBERS WORKING
3.2	11.9	20.3	0.6	None
12.9	13.2	37.9	1.1	One
20.4	13.2	45.3	1.3	Two
29.1	13.1	47.9	0.8	Three or more
				NUMBER OF HOUSEHOLD MEMBERS
4.3	10.5	22.3	0.8	One
9.6	13.2	32.6	0.8	Two
14.0	12.5	38.6	1.0	Three
18.2	15.6	41.0	1.3	Four
20.7	13.2	40.9	1.0	Five or more
				NET WEALTH PERCENTILE
10.7	12.0	32.1	0.9	Less than 25
12.6	13.2	34.1	0.8	Between 25 and 50
12.5	13.3	35.4	0.7	Between 50 and 75
14.4	13.2	39.9	1.3	Between 75 and 90
19.8	15.3	40.5	1.4	Between 90 and 100

# HOLDINGS OF DURABLE GOODS AND SPENDING ON NON-DURABLE AND DURABLE GOODS (cont.)

By type of good and household characteristics

Household characteristics	EFF 2005				
	Valuation of stock			Expenditure	
	Cars and other vehicles		Other durable goods	Food	Other non-durable goods
	% with good	Median	Median	Median	Median
ALL HOUSEHOLDS	74.8	6.0	12.0	4.8	3.6
INCOME PERCENTILE					
Less than 20	40.8	2.2	6.0	3.1	2.3
Between 20 and 40	66.2	3.3	11.6	4.8	3.3
Between 40 and 60	82.9	6.1	12.0	4.9	3.6
Between 60 and 80	90.0	7.3	17.7	6.0	5.0
Between 80 and 90	93.1	9.6	18.0	7.2	5.9
Between 90 and 100	94.6	12.0	24.0	8.0	8.0
AGE OF HOUSEHOLD HEAD					
Under 35	82.5	7.0	10.3	4.2	4.2
35-44	88.3	7.2	15.0	5.4	4.8
45-54	88.1	8.5	18.0	6.0	4.9
55-64	81.6	7.0	15.0	6.0	4.1
65-74	58.2	3.0	12.0	4.2	2.9
Over 74	25.4	2.9	7.9	3.6	2.2
LABOUR MARKET SITUATION OF HOUSEHOLD HEAD					
Employee	88.3	7.0	15.0	5.8	4.8
Self-employed	95.9	10.6	18.0	6.0	4.8
Retired	57.7	3.7	12.0	4.8	2.9
Other inactive or unemployed	49.3	5.4	9.0	3.6	2.4
LEVEL OF EDUCATION OF HOUSEHOLD HEAD					
Below secondary education	66.8	6.0	12.0	4.8	3.1
Secondary education	84.8	8.1	15.0	5.0	4.6
University education	87.3	9.0	18.0	6.0	6.0
STATUS OF MAIN RESIDENCE					
Ownership	77.8	6.9	15.0	5.2	3.6
Other	62.0	4.7	6.3	4.2	3.6
NUMBER OF HOUSEHOLD MEMBERS WORKING					
None	41.8	2.5	9.0	3.6	2.4
One	83.9	5.9	12.0	4.8	3.6
Two	92.4	9.0	18.0	6.0	5.0
Three or more	91.5	11.3	18.0	7.2	6.0
NUMBER OF HOUSEHOLD MEMBERS					
One	35.3	3.4	7.1	2.9	2.4
Two	67.4	5.1	12.0	4.8	3.6
Three	89.1	7.1	15.0	5.5	4.8
Four	92.2	9.0	18.0	6.5	5.0
Five or more	87.6	7.9	12.1	7.2	5.2
NET WEALTH PERCENTILE					
Less than 25	61.0	4.2	6.0	3.9	3.0
Between 25 and 50	73.9	5.9	12.0	4.8	3.6
Between 50 and 75	75.7	6.5	15.2	5.4	4.2
Between 75 and 90	86.4	8.8	18.0	6.0	4.8
Between 90 and 100	91.8	12.0	28.5	7.2	6.0

SOURCE: Banco de España.

TABLE 9 (cont.)

EFF 2005				
Expenditure				Household characteristics
Cars and other vehicles		Other durable goods		
% incurring expense	Median	% incurring expense	Median	
15.6	13.0	49.3	1.0	ALL HOUSEHOLDS
				INCOME PERCENTILE
4.7	8.2	32.8	0.5	Less than 20
12.5	10.5	43.9	0.8	Between 20 and 40
17.9	12.6	53.1	0.9	Between 40 and 60
19.1	14.9	54.8	1.2	Between 60 and 80
23.3	15.1	60.5	1.6	Between 80 and 90
23.8	18.0	63.0	1.4	Between 90 and 100
				AGE OF HOUSEHOLD HEAD
20.1	14.0	55.9	1.2	Under 35
18.6	12.0	63.0	1.0	35-44
19.6	13.0	57.4	1.2	45-54
19.4	15.0	45.2	1.2	55-64
7.4	15.0	37.2	0.6	65-74
1.8	12.0	20.9	0.5	Over 74
				LABOUR MARKET SITUATION OF HOUSEHOLD HEAD
20.2	13.0	59.1	1.2	Employee
25.1	13.0	60.1	1.3	Self-employed
7.6	12.0	34.4	0.6	Retired
8.7	14.0	37.3	0.7	Other inactive or unemployed
				LEVEL OF EDUCATION OF HOUSEHOLD HEAD
13.9	12.0	42.4	0.9	Below secondary education
16.8	15.1	56.9	1.2	Secondary education
19.3	14.0	61.5	1.0	University education
				STATUS OF MAIN RESIDENCE
16.3	14.0	49.7	1.1	Ownership
12.5	9.0	47.4	0.6	Other
				NUMBER OF HOUSEHOLD MEMBERS WORKING
3.3	10.8	32.0	0.5	None
16.0	13.0	52.9	1.0	One
22.7	15.0	60.1	1.2	Two
31.5	14.0	56.5	1.1	Three or more
				NUMBER OF HOUSEHOLD MEMBERS
3.7	12.0	35.5	0.5	One
10.1	13.5	41.4	1.0	Two
19.7	15.0	52.6	1.2	Three
23.4	12.5	61.5	1.2	Four
23.7	9.0	58.9	1.0	Five or more
				NET WEALTH PERCENTILE
13.1	10.3	45.9	0.7	Less than 25
16.4	14.4	46.4	1.0	Between 25 and 50
14.6	13.4	48.3	0.9	Between 50 and 75
17.1	12.0	57.6	1.0	Between 75 and 90
19.6	18.0	54.9	1.8	Between 90 and 100

holds have participated in both editions of the EFF makes it possible to analyse and investigate the nature of the observed changes in the financial position of households, as well as other very relevant aspects of the Spanish economy.

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The authors of this article are José González Mínguez and Carlos Vacas of the Directorate General Economics, Statistics and Research.

### **Introduction**

Beyond cyclical fluctuations, the low average rates of increase in economic activity in the countries of the former EU 15 since the early 90s suggests there are structural obstacles restricting growth potential. This economic sluggishness restricts the gains in well-being for European citizens measured by the rate of increase of per capita income, which led to an interruption in the convergence of the level of this variable relative to the US economy that had been in train since the post-war period. To improve these results calls for structural reforms to promote the use of the labour factor and to raise productivity growth rates, a need which has become more pressing amid growing global competition, rapid technological change and population ageing. European economic policymakers formally recognised this challenge when they launched the Lisbon Agenda at the March 2000 European Summit, a centrepiece of which is joint and consistent reforms of the institutional design of labour markets and of social protection systems.

These reforms particularly require more flexible working arrangements, so that companies may be more adaptable to a constantly changing environment, and an overhaul of social protection systems, so they may generate the appropriate incentives for individuals to take up paid work and protect those who really need it.

Despite the long-term welfare benefits to be had, the reforms often entail costs for specific groups of individuals; accordingly, their implementation occasionally meets some degree of opposition. Frequently, the final outcome is partial reforms, which do not achieve their goal: namely, that the final design of labour markets and of social protection systems should be a consistent whole that allows high rates of employment to be achieved. On the contrary, partial reforms have occasionally given rise to labour markets that combine a high degree of protection for jobs that already exist with the presence of obstacles to specific groups of individuals joining the labour market.

Against this background, and across the range of the various Member States' labour markets, it is worth paying particular attention to those that have been most successful in terms of obtaining higher employment rates, so as to explore the extent to which their institutional arrangements may be a valid example for the other members. It is believed this model can be found in the Nordic economies, and particularly in Denmark. The Danish labour market is characterised by the coexistence of a high degree of flexibility (obtained through relatively low dismissal costs) and a likewise high level of social protection (via generous unemployment benefits, albeit subject to a high degree of conditionality). The combination of flexibility and security, which when applied to the labour market might appear in principle to be opposites, has given rise to the term "flexicurity". Under this term, the European Council has, by the end of 2007, to adopt a set of common principles to underpin the new Employment Guidelines to be approved in 2008.

This article examines the Danish flexicurity arrangements and assesses the extent to which labour market reforms in other European countries may draw on them. These labour markets are characterised in the second section on the basis of the institutional aspects that may determine their results in terms of employment. The third section describes the Danish flexicurity model. Section 4 analyses empirically the relationship between institutional characteristics and

COMPARISON BETWEEN THE EUROPEAN AND US LABOUR MARKETS (2005)

TABLE 1

	Employment rates: total and by group (a)					Hours worked annually
	Total	Male	Female	Young (b)	Elderly (c)	
EU 15	66.6	73.8	59.3	40.8	45.6	1,650.7
Euro area (d)	64.7	72.7	56.7	37.4	41.5	1,660.3
United States	71.5	77.6	65.6	53.9	60.8	1,804.0

SOURCES: OECD and Banco de España.

a. Employed as proportion of working age population in each group.

b. Includes those between 15 and 24 years of age.

c. Includes those between 55 and 64 years of age.

d. Euro area 12.

LABOUR MARKET HETEROGENEITY IN THE EU15 (2005)

TABLE 2

	Total employment rates, by sex and by age					
	Total (15-64)	Men (15-64)	Men (25-54)	Women (15-64)	Young (15-24)	Elderly (55-64)
Dispersion (a)	5.2	3.9	2.2	8.1	13.5	11.4

SOURCES: OECD and Banco de España.

a. Dispersion is measured by the standard deviation in the sample.

employment testing the virtues of the Danish labour market arrangements. The article concludes with some final considerations.

### **European labour markets: performance and institutional arrangements**

As can be seen in Table 1, the use of the labour factor in both the former EU 15 and in the euro area is comparatively lower than in the United States, in terms both of the rate of employment and of the number of hours worked. The difference is greater for those groups traditionally less represented in employment, i.e. women, young people and the elderly. Moreover, this poorer relative performance of the European labour market in aggregate terms masks very marked differences across the different countries. In particular, the dispersion of employment rates is especially notable among the three aforementioned groups (see Table 2).

Identifying the causes behind these differences is a complex task in view of the manifold potential determinants. On one hand, it has been argued [Blanchard (2004)] that the fewer hours worked in Europe in comparison with the United States is due to European citizens' greater preference for leisure time. On the other hand, however, the scale of the differences observed in the use of the labour factor between the United States and Europe and, within the latter, across its different members, suggests that the institutional characteristics of each labour market must play a relevant explanatory role. Notable among such characteristics are employment protection legislation (EPL), unemployment benefits, active labour market policies, life-long learning, product market regulation, taxation of the labour factor, trade union density and the degree of centralisation and coordination of collective bargaining.<sup>1</sup>

1. In the comparison between the United States and Europe, this argument has been convincingly set out by Prescott (2004), who focuses on the differences in taxation on earned income.

EPL approximates the difficulty of hiring and firing under labour market regulations. Conceivably, the effect of a high level of EPL on employment rates is ambiguous since, on one hand, it means that the dismissal of current employees is costly while, on the other, it makes companies more averse to take on new staff, precisely to avoid incurring such costs in the future.<sup>2</sup> Indeed, the empirical evidence is not conclusive concerning the impact of EPL on employment [see, for instance, Boeri (1999)], although it does suggest that it differs for different working population groups; thus, while it is favourable for the employment rates of middle-aged male workers, it tends to reduce those of individuals who face greater difficulties joining the labour market, such as women, young people or the long-term unemployed.<sup>3</sup> EPL differs frequently according to the type of contract and is usually more stringent for permanent employees than for temporary workers, giving rise to a dual labour market segmented between both groups of employees.

As opposed to the job protection that EPL offers, unemployment benefits protect workers in the event of becoming unemployed, serving to mitigate the negative impact on their income. Moreover, this variable may have a favourable effect on productivity, enabling unemployed workers to seek jobs more suited to their specific skills. However, benefits will foreseeably tend to reduce labour supply, by adversely affecting the incentives to return to a position of remunerated employment. These effects depend on the maximum duration of the benefit receipt period, on the level of replacement rates (or the ratio of benefits to the wage received previously) and on the conditions governing benefit eligibility and its subsequent maintenance (such as total or partial forfeit in the event of turning down a job offer).

Active labour market policies (which include, among other measures, training for the unemployed, job-search assistance programmes and subsidies for hiring the long-term unemployed) help match labour supply and labour demand. Accordingly, they may be expected to exert a positive impact on employment rates.<sup>4</sup> The same may be said for the lifelong learning by workers during their working life, since it increases the human capital of the employed, thereby raising the availability, within companies, of workers with the required skills.

The literature has identified a series of channels through which product market regulation may affect employment in the long run. In particular, a regulatory environment more geared to competition boosts labour supply to the extent that, by exerting downward pressure on the level of prices, it leads real wages to rise. Moreover, entry by new competitors tends to expand activity and, therefore, labour demand.

The tax wedge, or the difference between the gross labour costs borne by employers and the net labour income received by employees, adversely affects labour supply by influencing the incentives to accept a job and the choice of the number of hours worked. These effects would be especially relevant in the case of unskilled, low-income workers (in particular young people and women) who, in the event of high tax wedges, may respectively choose to extend their stay in the educational system or remain at home. This is why certain tax reforms rolled out in recent years have been aimed at these groups, since they are, moreover, those experiencing the highest unemployment rates.

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2. It has further been argued that a high degree of EPL may be favourable in some respects in terms of labour productivity, since a durable working relationship with the same employer leads to greater incentives to invest in employee training. 3. See, for example, Jimeno and Rodríguez-Palenzuela (2002) for the case of youth employment. 4. There are, however, counteracting effects. First, participation in these programmes improves individuals' skills and, therefore, their prospects of finding a job. And further, it has been argued that the threat of being obliged to participate in an activation programme may drive the unemployed to seek work more intensely. But, on the other hand, it is possible that programme participants will devote less time to job-seeking.

Trade union density, as a variable that approximates employees' bargaining power, may adversely affect employment if it translates into excessive wage demands or into the introduction of high minimum wages. Nonetheless, the capacity of this variable to capture actual trade union power is limited, insofar as the scope of collective bargaining agreements extends automatically to all employees. Finally, the literature has also identified the degree of coordination of wage bargaining as another determinant of employment, finding that such coordination among social agents is conducive to employment.<sup>5</sup>

All these institutional aspects potentially determining the performance of each country's labour market are measured in the literature with greater or lesser accuracy through various indicators. However, it should be borne in mind that such indicators approximate what is a complex real situation; accordingly, due caution is required in interpreting them. Having regard both to the specific values these indicators adopt and to the labour market results in terms of employment, various authors have attempted to classify the European countries in different models. Evidently, any such classification tends to be a simplification, as it fails to capture – as indicated – the complexity of the institutions in place in each country, which is why there is no unanimity as to the economies making up each model. Specifically, Sapir (2005) considers four models, namely the Nordic (Denmark, Sweden, Finland and the Netherlands), Anglo-Saxon (Great Britain and Ireland), Continental (France, Germany, Austria, Belgium and Luxembourg) and Mediterranean (Greece, Italy, Portugal and Spain) models.<sup>6</sup>

For each of the four models, Chart 1 depicts the simple means of the indicators that measure the various above-mentioned institutional aspects, while Chart 2 plots the employment and unemployment rates of different groups and the long-term unemployment rate.

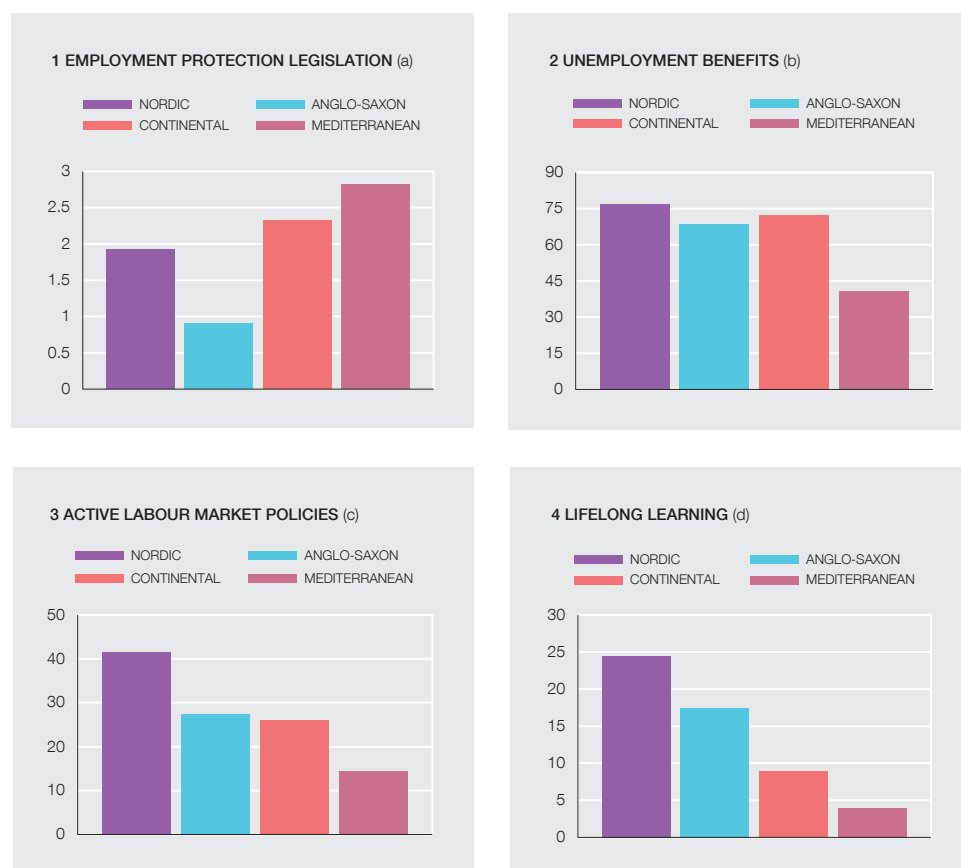
The information in the charts tends broadly to confirm Sapir's classification. Generally, the Nordic model corresponds with the highest replacement rates and the highest spending levels, both in active labour market policies and in lifelong learning. The financing of these policies leads to relatively high tax wedges. Moreover, the regulation of both labour and product markets is among the most lax on the continent. Finally, trade union density is, by far, the highest, and the degree of coordination of collective bargaining is high. In terms of results, this model posts the highest employment rates, with the highest labour market inclusion for women, the young and the over-55s, and the lowest presence of long-term unemployment.

The Anglo-Saxon model is characterised, above all, by low levels of market regulation. Net replacement rates are at an intermediate level (although in gross terms they are the lowest) and spending on active labour market policies and on lifelong learning is relatively high, despite which the tax wedges of these countries are the smallest. Their employment rates are similar to those of the Nordic economies.

In the Continental-model countries, market regulation is strict, net replacement rates and spending on active policies (though not on lifelong learning) are relatively high and the labour

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5. Further, regarding the degree of centralisation of bargaining, it has been found that, compared with bargaining at the economy-wide or at the individual firm level, bargaining at the intermediate levels is to the detriment of employment. It has been argued that, in fully centralised bargaining, the unions internalise to a greater extent the effects of their wage demands on employment in the economy as a whole and, in bargaining at firm level, wages approximate more to marginal productivity [Calmfors and Drifill (1988)]. 6. Heipertz and Ward-Warmedinger (2007) compile a different classification in which the Netherlands does not belong to the Nordic model, and they divide the group of countries in Sapir's Continental and Mediterranean models into reformers (Austria, Belgium and Spain, along with the Netherlands) and non-reformers (France, Germany, Greece, Italy, Portugal and Luxembourg). Compared with the Sapir classification, Gaard (2005) includes Finland in the Continental group and France in the Mediterranean group.



SOURCES: OECD, Eurostat and Banco de España .

a. OECD. *Employment Statistics Database*, 2003. Ranges from 0 to 6, so that a higher value denotes a higher degree of protection.

b. OECD. *Benefits and Wages*, 2004. Net replacement rates over a period of five years' unemployment and including social assistance. The average is taken for four household situations (a single individual with one or two children and a couple where only one of the two works, with one or two children) and for two income levels (67% and 100% of the average).

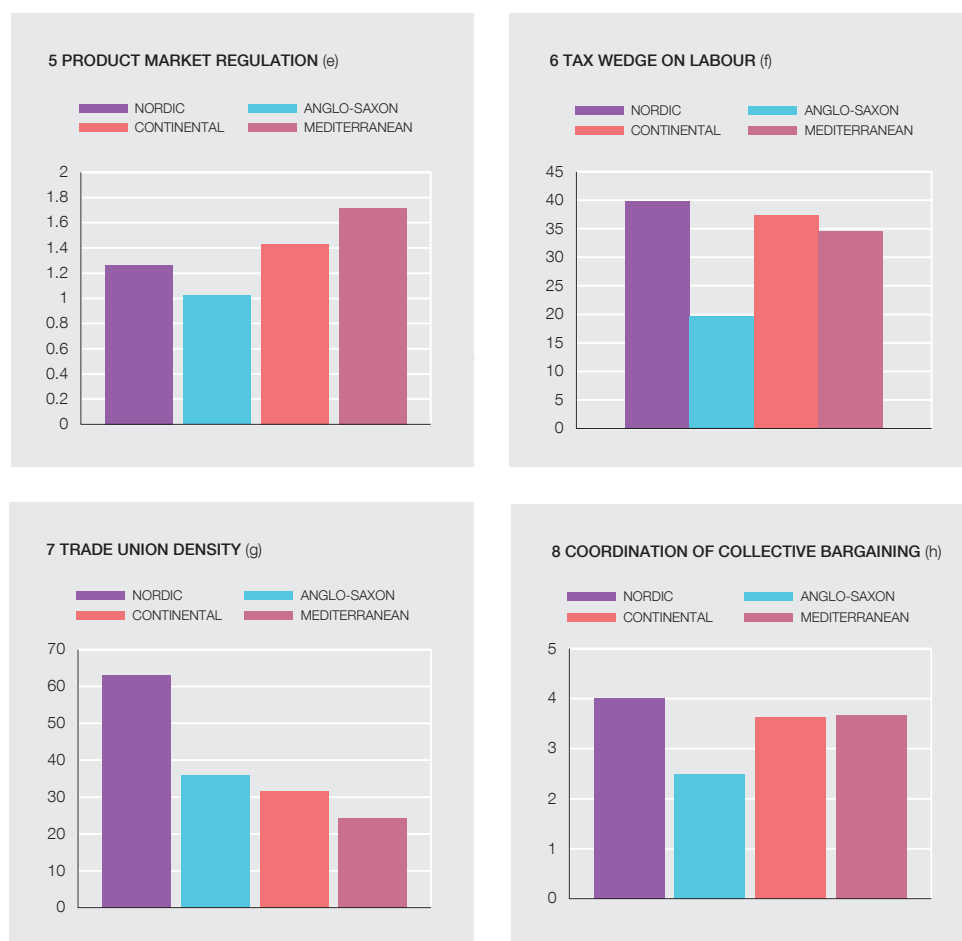
c. OECD. *SOCX Social Expenditure Database*, 2003. Spending per unemployed individual, expressed as a percentage of per capita GDP.

d. Eurostat, 2005. Percentage of the population aged 25-64 who state they have received training or education in the four weeks prior to the *European Union Labour Force Survey*.

factor tax wedge is among the highest. This model shows lower employment levels (only slightly higher than the Mediterranean countries), with lower employment among the youngest and oldest workers.

Finally, labour and product markets under the Mediterranean model evidence the highest levels of regulation. Further, unemployment protection and spending on active policies and on lifelong learning are the lowest in Europe. These countries have the lowest employment rates, with high incidence of long-term unemployment and greater labour market exclusion for the most disadvantaged groups.

Yet as indicated, the classification still shows some oversimplified factors. Table 3 offers an overview of the various institutions of the countries belonging to each of the four models. The second column reflects the relative position of the various countries, in terms of their total employment rates, as an approximation of the results of their labour markets. The remaining columns show the relative order of the countries according to the values of the indicators that



SOURCES: OECD, Eurostat and Banco de España .

e. OECD. *Market Regulation* , 2003. A higher level denotes a higher degree of regulation.

f. OECD. *Taxing Wages* , 2004. Difference between gross labour costs borne by employers and disposable income for employees, and equivalent to the sum of personal income tax and compulsory social security contributions paid by employers and employees, net of benefits in cash, as a percentage of gross labour costs. Average of two household situations: an individual with no children who earns the average income and a couple with two children where the household head earns the average income.

g. OECD. *Employment Statistics Database* , 2001. Unionised employees as a proportion of total.

h. OECD. 1995-2000.

approximate each of the institutional aspects.<sup>7</sup> Generally, the characterisations of the Nordic, Anglo-Saxon and Mediterranean models are also applicable to the countries making up each of them, although in each case there are exceptions. It is in the Continental model that heterogeneity is greatest, where the average values of the indicators representing each institutional characteristic mask notable cross-country dispersion.

### ***The Danish flexicurity model***

As indicated in the introduction, Denmark's labour market arrangements have been considered, on the basis of the good results obtained, as a potential model for the other European countries. Specifically, the Danish economy is characterised by its having the highest total employment rate of all the EU 15 countries (see Table 4). Although, in comparison with the European average, greater employment in the Danish economy spans all groups of workers by age and sex considered in the table, the differences are more accentuated in

7. Thus, for instance, in the row for Denmark, the country with the highest employment rate in the EU 15, the value in the third column shows how this economy has the third most lax employment protection legislation of all the countries considered.



SOURCES: OECD (*Labour Force Indicators*) and Banco de España.

a. Individuals unemployed for over one year as a percentage of total unemployed.

the case of women, the young and the over-55s. That indicates that Denmark has been more successful in integrating into the labour market the groups of individuals who habitually find access thereto more difficult. Denmark also has the second-highest employment rate for women, for the elderly and for the under-24s, exceeded only by Sweden in the first two cases and by the Netherlands in the third. Significantly, the labour markets of these latter countries belong, like Denmark, to the so-called Nordic model. In addition, Denmark's total unemployment rate is the lowest of all countries considered, and its long-term unemployment rate is also one of the lowest.

	Labour market outputs		Labour market institutions						
	Total employment rate	(1) Employment protection	(2) Unemployment benefits	(3) Active labour market policies	(4) Lifelong learning	(5) Product market regulation	(6) Tax wedge on labour	(7) Trade union density	(8) Coordination of collective bargaining
NORDIC	1	2	4	1	1	2	3	4	1
Denmark	1	3	15	1	3	3	8	12	3
Sweden	2	10	12	3	1	4	12	14	10
Netherlands	4	7	13	2	5	8	5	3	3
Finland	6	6	14	11	4	6	9	13	1
ANGLO-SAXON	2	1	3	2	2	1	1	3	4
United Kingdom	3	1	6	9	2	1	2	ND	13
Ireland	8	2	9	5	11	2	1	10	3
CONTINENTAL	3	3	2	3	3	3	4	2	3
Austria	5	4	8	6	6	9	11	9	3
Germany	9	9	11	7	10	10	14	5	3
Luxembourg	11	ND	10	13	8	5	3	7	ND
France	12	12	4	8	12	13	13	1	12
Belgium	13	8	5	4	9	7	15	11	2
MEDITERRANEAN	4	4	1	4	4	4	2	1	2
Portugal	7	14	7	10	14	11	4	4	3
Spain	10	13	3	14	7	12	7	2	10
Greece	14	11	2	15	15	14	6	6	ND
Italy	15	5	1	12	13	15	10	8	3

SOURCES: OECD, Eurostat and Banco de España

a. For each institution, the ordering of the countries (and models) is on the basis of the sign of the expected effect on the employment rate. Thus, the order is from higher to lower for spending on active labour market policies, on lifelong learning and on the degree of coordination of collective bargaining, as these are assumed to have a positive effect on employment. Conversely, employment protection legislation, unemployment benefits, product market regulation, the tax wedge and trade union density are ordered from lower to higher, since their effect on employment is assumed to be negative.

It is tempting to attribute the successful results in the Danish labour market (and in the other Nordic economies) to the institutional model underlying its industrial relations. This model has been baptised with the term “flexicurity” owing to the mix of flexibility in the use of the labour factor and of security for the working population. It should be clarified, however, that any labour market model combines ingredients of both types. What distinguishes one model from another are the specific forms of flexibility and security that each incorporates and which, generally, are related to the different institutional factors discussed above.

Wilthagen, Tros and van Lieshout (2003) consider the possible forms flexibility and security may take in the labour market. In particular, in the case of flexibility, regard is had to the ease with which: a) workers can be hired and fired (external numerical flexibility), which is related to the degree of laxity of EPL; b) working hours can be adapted to the conjunctural needs of the company (internal numerical flexibility), related to the regulation of the duration of working hours; c) the tasks performed by workers (functional flexibility) can be changed, which depends on the volume and effectiveness of spending on lifelong learning and on active labour market policies, and d) wages can respond to labour market conditions and to individual productivity (labour costs flexibility), which is potentially connected to variables such as trade union density or the degree of coordination of collective bargaining, insofar as these are capable of influencing the level of minimum wages or the existence or not of wage indexation.

	Unemployment rates		Employment rates by sex and by age group						Average job tenure (b)
	Total	Long-term (a)	Total (15-64)	Men (15-64)	Women (15-64)	15-24	25-54	55-64	
Denmark	4.9	25.9	75.5	80.1	70.8	62.0	83.9	59.8	8.8
EU 14 average (c)	7.5	39.1	65.9	73.4	58.5	39.3	79.0	44.6	10.8

SOURCES: OECD and Banco de España.

a. Percentage of individuals unemployed for more than one year as a percentage of total unemployed.

b. In years, in the same job.

c. Former EU 15, excluding Denmark.

Security can refer to each of the four following dimensions: a) the probability of keeping one's current job (or job security), measured by the degree of stringency of employment protection legislation; b) the probability of remaining employed, albeit not necessarily in the same job (employment security), for which active labour market and lifelong learning policies are relevant; c) the possibility of maintaining a relatively stable level of income (income security), which depends on the design of the benefits received in the event of unemployment, and d) the ease with which work can be reconciled with one's private life, e.g. through maternity or study leave (combination security).

It should be noted that, under these arrangements, there are institutional factors with counter-acting effects on labour market flexibility and security. This is the case of EPL since, if it is lax, it provides external numerical flexibility at the expense of weakening job security. Conversely, greater spending on active labour market policies or on lifelong learning should give rise to both higher functional flexibility and employment security. Lastly, it should be stressed that it is not necessarily true that any of the potential combinations of the different types of flexibility and security outlined is desirable for employment.

In the Danish flexicurity model, flexibility is obtained via the existence of scant legal restrictions to dismissal (high external numerical flexibility). Since insurance for individuals who already have a job against the risk of becoming unemployed is low (i.e. job security is low), this protection is provided alternatively through the provision of generous unemployment benefits (income security), although these are subject to strict conditionality requirements. The third constituent part of the model is the central role of active labour market policies. These policies - which include training courses, job-search assistance, programmes for placements in both the private and public sectors, and hiring subsidies - are geared to renewing the skills of unemployed workers, so as to shorten the periods of transition to their new jobs (employment security).

It is likely that the strengthening, during the 90s, of this third leg of the model and the tightening of the conditions governing unemployment benefit eligibility and its subsequent maintenance can help explain the recent success of the Danish labour market. The lower level of EPL and the generosity of unemployment benefits had been present in the Danish model beforehand. However, this did not prevent the unemployment rate rising from the mid-80s to a rate of close to 10% in 1993. The subsequent reduction in unemployment, to around 3.3% at present, has taken place alongside reforms aimed at changing the emphasis from passive labour market policies (focused on maintaining the income of the unemployed) to active policies geared to promoting a return to employment. Specifically, eligibility conditions have become progressively tighter since 1994, requiring workers to have been employed in the last three

years for at least 12 months, instead of six, as was previously the case [Madsen (2002)]. Further, the maximum duration of the benefit receipt period has been cut, having previously been unlimited in the early 90s as long as the unemployed accepted to take part in activation programmes [Andersen and Svarer (2007)]. In practice, this meant at that time that the unemployment benefits system and the activation measures (i.e. the inclusion of workers in a programme of active labour market measures) were, overall, aimed more at rolling over benefit entitlement than at getting the unemployed back to work. At present, the maximum duration of the benefits is four years, activation being obligatory from the end of the first year (or after only 13 weeks in the case of workers under 29 years of age). Finally, although there has been a reduction of approximately 15 pp in the net replacement rate from 1995 to 2003, it remains among the highest on the continent.

As indicated, active labour market policies have gained in importance in this period. The changes therein have been twofold. First, the proportion of the unemployed participating in activation programmes has increased (doubling from 1995 to 2004, up to close to 40%). And second, there has been a greater emphasis on programmes more geared to enhancing unemployed individuals' skills. Among total participants, then, there has been an increase in the weight of training programmes (up to over 50%, compared with one-third in 1995). At the same time, the share of public-sector employment programmes (generally in low-skill jobs), which stood at over 30% in 1995, has been halved. Despite the decline in the number of unemployed, the rise in the proportion of participants in activation programmes and the fact that, under this latter heading, the weight of the more expensive programs has increased, means that the overall cost of active labour market policies has held approximately stable at around 1.8% of GDP.

It is indeed the high cost for public finances that is the corollary of this labour market model, since both unemployment benefits and active policies entail, unlike the protection afforded by EPL, public spending. As a result, the tax burden is heavy.

### ***An empirical analysis***

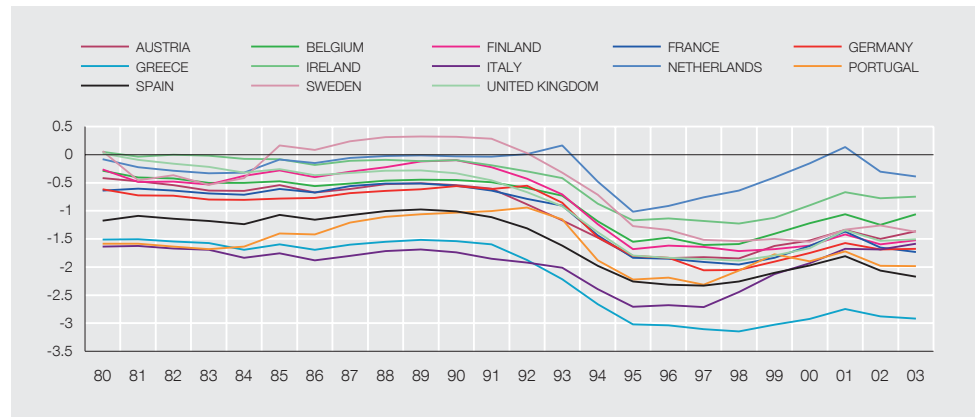
In this section an econometric analysis with panel data is conducted to explore the impact of the various labour market institutions described in the second section on employment rates. The addition here, compared with other previous contributions in the literature, is that the effects of the characteristics of the Danish flexicurity arrangements are investigated. As indicated, the Danish model combines low levels of EPL, high spending on active labour market policies and high replacement rates (albeit with benefits subject to strict conditionality), which makes it worthwhile inquiring into the joint effect of these three institutions on employment. In an attempt to respond to this question, the following flexicurity index has been constructed:

$$F_{p,t} = IF_{p,t} - IF_{DK,t}$$

where the subscript  $p$  represents each of the 14 Member States of the EU 15 other than Denmark,  $DK$  is Denmark and  $t$  is the time subscript. Accordingly,  $F_{p,t}$  measures the distance in terms of each country's flexicurity relative to Denmark.  $IF_{p,t}$  is constructed as follows:

$$IF_{p,t} = \frac{1}{3} \times \sum_{j=1}^3 x_{p,t}^j$$

where  $x_{p,t}^j$  refers to the indicators of unemployment benefits (amount and duration), active labour market policies and employment protection legislation of country  $p$ , and the decision to give equal weights to each of them is arbitrary.<sup>8</sup> The first two indicators have a positive sign, since Danish



SOURCES: OECD and Banco de España.

a. Denmark is the country of reference and its flexicurity index takes the value zero for each year.

flexicurity is characterised by its high levels of both, while the third indicator has a negative sign (since Danish EPL is limited). The time variability of the EPL indicator devised by the OECD is low, which hinders the analysis.<sup>9</sup> Furthermore, the generosity of unemployment benefits should be measured through not only their level, but also their duration and conditionality. In this exercise, generosity is approximated by means of the gross replacement rate, a variable which does not take into account the conditionality of the benefits and which captures duration only indirectly, since the replacement rate is measured over the course of the first five years following access to unemployment status. Accordingly, the duration of benefits has an effect on their level.<sup>10</sup>

Despite its simplicity, the index constructed in this way captures, albeit imperfectly, the distance of the various countries' labour markets relative to the Danish flexicurity model. As can be seen in Chart 3, the reforms to active labour market and unemployment benefit policies in Denmark in 1994 led the value of the index to fall for virtually all the countries, as it represented a distancing from the Danish flexicurity model. In contrast, the latest institutional reforms implemented by most countries have tended to draw their labour markets closer to that of the Nordic economy. At present, according to this index, the country whose labour market is closest to Denmark's is the Netherlands, while those most distant from it are, generally, the Mediterranean countries.

To empirically test the virtues of the Danish model, the following static equation is estimated for a sample encompassing the EU 15 countries (excluding Denmark itself, since the flexicurity index is defined relative to this country) in the period 1980-2003:

$$E_{ip,t} = \beta_{i0}F_{p,t} + \sum_j \beta_{ij}X_{p,t}^j + \gamma OG_{p,t} + \delta_p + \varepsilon_{ip,t} \quad [1]$$

8. Each of the three indicators has been normalised by subtracting its average across countries for any given period of time and dividing it by its standard deviation, i.e.

$$x_{p,t} = \frac{x_{p,t}^j - x_t^j}{\sigma_t^j}$$

where the capital letters denote the original values of the indicators. 9. Specifically, there are only data for three points in time: the late 80s, the late 90s and 2003. 10. The indicator of the conditionality of benefits constructed in Hasselplüg (2005) for the EU 15 countries is only available for 1997 and 2004, which prevent it being used. Moreover, it would have been preferable to use the replacement rate net of taxes and social security contributions. However, the scant availability of data mean gross rates must be resorted to.

where the subscripts  $i$ ,  $p$  and  $t$  respectively denote a group of workers (all of them, women, the young or the elderly), a country and a point in time.  $E$ ,  $X^j$  and  $OG$  are the rate of employment, the institution  $j$  (which is different from the three intervening in the construction of  $F_{p,t}$ ) and the output gap (for the purposes of controlling for the fluctuations in employment over the cycle). Finally,  $\delta_p$  are fixed effects by country. In the definition of the different variables, the measurement of the tax wedge reflects only social security contributions and personal income tax, not consumption tax.

The results of the estimation are reported in Table 5. The evidence obtained upholds the virtues of the Danish flexicurity model, since the indicator constructed here has a positive impact on employment in all the population groups considered, with the exception of women, where it is not significant. Most of the remaining effects are of the expected sign. In particular, the tax wedge adversely affects the employment rates of all the population groups, while lifelong learning has a positive bearing (although the effect is not significant in the case of total employment). Greater regulation of product markets diminishes the total and female employment rates, without impacting significantly the remaining groups of workers. The degree of coordination of collective bargaining has a sign contrary to that expected. Finally, the equations for the specific groups of workers include some additional variables. Thus, in the case of the female population, it is found that longer duration for maternity leave leads to higher employment rates. This is not the case, however, for family cash benefits. The restrictions on early retirement promote employment of the over-55s and a higher level of educational attainment among the young means that this group of workers tends to remain outside the labour market for longer, which can probably be explained by the fact that university students belong to this age group.<sup>11</sup>

The interest shown by European policymakers in transplanting the concept of flexicurity into the other EU countries leads to questions about the extent to which the success of the Danish labour market is attributable to this model. This debate implicitly suggests that the reforms to labour markets should be undertaken under an overall approach that were simultaneously to address a reduction in EPL and an increase in spending on active labour market policies, and to maintain high replacement rates (albeit with benefits subject to conditionality). Although the empirical testing of the flexicurity model is not straightforward, the evidence obtained supports the hypothesis that labour market reforms along the lines of the three flexicurity ingredients would raise employment rates.

Yet it is not possible to rule out completely that the Danish results may be due, at least in part, to factors unrelated to Denmark's current labour market arrangements. For one thing, the reforms in the recent stage have coincided with the implementation of stability-geared macroeconomic policies and, in particular, with a sharp fiscal adjustment based on the containment of spending. For another, it has been noted that there is some tendency to overstate the merits of models that work well for a certain period of time [EEAG (2007)]. Thus, for example, the Japanese model of lifelong employment and the German arrangements based on vocational training and worker participation in management decisions, which were lauded in the 80s, fell out of favour a decade later when both countries underwent a prolonged period of economic stagnation.

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11. Numerous papers in the literature have estimated similar equations to that set out here, in which the three institutions intervening in the construction of  $F_{p,t}$  enter separately. Most frequently in these cases, the dependent variable is the unemployment rate. One study that referred to the (aggregate) employment rates is that by Nicoletti and Scarpetta (2005). For the sample used in this article, the estimation of [1] with free parameters for EPL, unemployment benefits and active labour market policies provides results in line with those expected: the latter of these variables positively affects the employment rates of all the population groups, while the first two variables affect them adversely, although spending on active labour market policies is only significant in the cases of total and female employment.

Variable	Dependent variable: total rate of employment and employment by group				
	Total	Men	Women	Young (15-24)	Elderly (55-64)
Flexicurity index	1.32 **	1.48 **	0.78	4.20 **	0.76 *
Tax wedge	-0.27 **	-0.37 **	-0.31 **	-0.42 **	-0.45
Trade union density	-0.06 **	0.09 **	-0.17 **	0.12 **	-0.02
Coordination of collective bargaining	-0.10	-0.53 **	0.37	-1.34 **	-0.78 **
Lifelong learning	0.44 **	0.35 **	0.56 **	0.64 **	0.51 **
Product market regulation	-1.25 **	0.31	-1.98 **	0.61	-0.01
<i>Output gap</i>	0.41 **	0.47 **	0.31	0.64 **	0.11 *
Family cash benefits			-2.23 **		
Female education			0.30		
Maternity leave duration			0.03 **		
Relative youth education				-2.99 *	
Standard age of eligibility to pension benefits					0.29 **
Between-groups R <sup>2</sup>	0.50	0.51	0.64	0.50	0.36
Intra-groups R <sup>2</sup>	0.43	0.32	0.01	0.49	0.47
Total R <sup>2</sup>	0.44	0.37	0.18	0.52	0.47

SOURCES: Banco de España.

a. \*\*/\* indicates that the variable is significant at 5%/10%. The significant variables have been shaded.

## Conclusions

There is broad consensus on the need to reform European labour markets and welfare benefits systems, so that they may provide the appropriate incentives to stimulate an increase in the use of the labour factor. However, a frequent interpretation is that the relatively low rates of employment observed in many European countries are an almost inevitable corollary of the preference of European societies for job stability and insurance against the risk of unemployment, since the institutions covering these objectives are inclined to discourage job creation. These preferences would be responsible for reforming zeal coming up frequently against opposition from the social agents, which ultimately weakens such zeal.

Against this background, the Danish labour market model has aroused growing interest in economic policy debate, as it seems to act as a counterexample to the alleged difficulties of reconciling employment incentives with the protection that workers demand. Accordingly, the term *flexicurity*, used to designate this model, has been resolutely incorporated into European economic policy discussions. The conclusions of the March 2006 European Summit invited the Commission to explore “the development of a set of common principles on flexicurity”. In response, the Commission released a Communication in late June 2007 that will act as the basis for the adoption of such common principles by the European Council before the end of the year, so that they may inspire the forthcoming cycle of the Employment Guidelines, which begins in 2008. Foreseeably, these Guidelines will call on the Member States to report, in their National Reform Programmes, on the flexicurity strategies implemented. In turn, the Commission will review the strategies in its Annual Progress Reports.

However, for the Danish experience to point the way for other countries, a correct interpretation of this experience is required. The model in place until the mid-90s, based on flexible

hiring and firing rules and on generous unemployment benefits, was costly and did not prevent a sustained high unemployment rate. The labour market situation improved substantially when the emphasis shifted from passive incomes policies towards active labour market policies. Although the reform of unemployment benefits entailed a reduction in their level, this remains high. The fundamental change was the shortening of the duration of the benefit receipt period, both directly and through the conditions linked to activation. The aim of active policies is to equip workers with the necessary skills to smooth the transition to different jobs during their working life. The outcome is high labour market turnover. On one hand, since EPL is limited, companies are less reluctant to engage new hires. On the other, although the risk of unemployment is relatively high, the periods of unemployment duration tend to be shorter thanks to the training received through activation programmes (which, moreover, allow workers to be - at least in theory - increasingly productive). This experience points to the need for a balanced application of the different components of the model, so as to maximise its effectiveness.

Finally, while accepting that the three basic features of the Danish flexicurity model are responsible for the healthy state of Denmark's labour market, that does not necessarily mean that its characteristics may or should be exactly replicated by other Member States. Firstly, each country has its own institutional framework, in which the actual materialisation of any of these elements may prove difficult or complicated to implement in practice. In particular, it has been said that the Danish flexicurity model is not even the result of a deliberate policy strategy, but rather of protracted institutional developments over time based on successive commitments entered into by social agents.<sup>12</sup> Secondly, the Danish model involves, as indicated, a high cost for public finances, which in turn translates into a high tax wedge on labour, with the subsequent adverse effects on labour supply. Probably, the model's costs are more bearable in the presence of sectoral shocks, since in that case what it permits is precisely a rapid re-absorption of the resulting unemployment in other sectors. Nonetheless, the presence of economy-wide shocks might result in very substantial increases in spending. In this respect, the model's high cost would mean that it might not be appropriate, at least initially, in countries with a high budget deficit and high unemployment rate, since it would be more difficult to assume the increase in spending in those circumstances.

15.11.2007.

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# THE INTERNATIONALISATION OF SPANISH FIRMS THROUGH FOREIGN DIRECT INVESTMENT

The authors of this article are Esther Gordo, César Martín and Patrocinio Tello of the Directorate General Economics, Statistics and Research.

### **Introduction**

Notable among the various changes in the Spanish economy in recent decades has been the increase in Spanish firms' outward foreign direct investment (FDI) flows from the second half of the nineties. This is indicative of the maturity of the process of ongoing internationalisation of Spanish firms which, after being heavily reliant on incoming foreign capital in the early stages of the external opening up of the Spanish economy, have rapidly and decisively boosted their international activity in the past decade. As a result, since the end of the nineties the Spanish economy as a whole has been a net exporter of FDI.

In general, FDI is a complementary strategy to goods and services exports, providing for wider business opportunities and risk diversification, by reducing vulnerability to the specific conditions of a domestic or foreign market. Furthermore, the presence of emerging countries in the international arena is making foreign direct investment even more important as a channel for improving business efficiency by facilitating access to new markets and permitting the spatial fragmentation of production processes. That said, growth in firms' international investment may have certain collateral effects, such as diverting funds that would otherwise have been available for domestic productive capital increases, or potential export replacement effects.

In order to analyse the patterns and characteristics of Spain's outflows of FDI, this article presents and analyses information on these flows provided by the Banco de España's annual Balance of Payments statistics (prepared in accordance with the guidelines of the fifth edition of the IMF's Balance of Payments Manual), with breakdowns by geographical area and sector of activity. These data, with the level of detail considered in this article, are relatively recent; accordingly, in their absence, information prepared by the Ministerio de Industria, Turismo y Comercio (Ministry of Industry, Tourism and Trade) based on the Foreign Investment Register (RIE) was used to conduct this type of analysis. Box 1 briefly describes the methodological and coverage differences between the two sources which account for discrepancies in the level of and, occasionally, the changes in the data. However, there is generally a high degree of similarity between the two statistics in relation to the main spatial and sectoral distribution patterns of Spain's outward FDI.

Following this introduction, the next section summarises the main theoretical references which analyse the determinants of FDI and multinationals' location decisions. Next, the aggregate changes in Spain's FDI are described and, subsequently, the main features of its geographical and sectoral distribution. Lastly, the conclusions drawn from this analysis are presented.

### **A brief overview of FDI determinants**

The internationalisation of firms may occur through many channels which include, most notably, exporting, the outsourcing of an activity to a foreign supplier and, lastly, production abroad by the firm. Only the latter is considered FDI according to the IMF's methodological guidelines. Consequently, for a firm, which has decided to internationalise its activities, to undertake FDI in a specific country, there must be advantages to locating the activities abroad as against the alternatives of exporting and outsourcing to other foreign firms.

Compared with certain seminal models which described international expansion as a sequential process in which firms, as they gained experience, switched from exporting to outsourcing

In Spain there are chiefly two statistical sources for information on foreign direct investment (FDI) transactions. The first is the Balance of Payments, which is prepared by Banco de España in accordance with the guidelines and recommended practices of the fifth edition of the IMF's Balance of Payments Manual.<sup>11</sup> The second is prepared by the Ministerio de Industria, Turismo y Comercio (Ministry of Industry, Tourism and Trade), from information compiled by the Foreign Investment Register (RIE). Although changes in growth rates in the data from these sources are generally similar, there are conceptual and methodological differences between them that justify certain differences including, most notably, varying coverage, which is broader in the case of the Balance of Payments data. In fact, the RIE data only include investment in equity, whereas in the Balance of Payments other operations which are not related to direct investment in equity, such as inter-company loans and investment in real estate, are also included.

In any event, when uniform series are analysed as regards the coverage of operations, namely, those confined to investment in

equity, certain significant discrepancies persist which are due to the different time of recording of the financial transaction between the two sets of statistics (accrual for the RIE and proceeds and payments for the Balance of Payments) and, especially, due to the different geographical and sectoral allocation methods. Specifically, the geographic allocation of FDI in the Balance of Payments is based on the first-known counterparty, which in most cases coincides with the country of origin or final target country of the investment, whereas the RIE uses the initial source and immediate source criteria in the case of FDI inflows and final target in the case of Spain's outward FDI. As for sectoral allocation, in the Balance of Payments the sector of the resident firm involved in the FDI transaction is taken into account, while the RIE has information on the target sector of the investment and the sector of the investor.

Finally, at present both the Balance of Payments and the Register have the information available to present the FDI figures net of the operations of foreign-equity holding companies (ETVE). These companies are special-purpose vehicles resident in Spain which centralise certain large multinational groups' investments in third countries. A good number of the transactions by this type of company consist of business restructurings implemented by means of the exchange of holdings, which give rise to direct investment flows from Spain abroad and from abroad into Spain on the same scale, but which do not constitute actual provisions of funds.

1. See Banco de España (2007), *Inversión exterior directa. Comparación de las fuentes nacionales*, available on the Banco de España web page: [http://www.bde.es/bpagos/divisas/IED\\_EN\\_ESP\\_COMP\\_FUENT\\_NACS.pdf](http://www.bde.es/bpagos/divisas/IED_EN_ESP_COMP_FUENT_NACS.pdf), Merino y Muñoz (2002) and Fernández-Otho (2004). 2. Both in Spain's outward and inward FDI, the RIE data also include other forms of investment in institutions or contracts recorded in Spain (foundations, cooperatives, economic interest groupings) when the capital stock (or equivalent concept) exceeds €3,005,060.52. Furthermore, in the case of Spain's inward FDI the RIE data include the incorporation or expansion of branches of foreign companies.

and finally to production abroad, in the current setting of globalisation the prevalence of mixed formulas is evident, in which all these internationalisation alternatives may occur simultaneously at the same company and in the same market. This makes it considerably difficult to pinpoint the determinants of FDI as against other internationalisation channels.

The variety of aims behind FDI complicates matters further. Firstly, there is vertical investment, in which certain phases of the production chain are fragmented geographically in an attempt to take advantage of cost differences between the factors of production [Helpman (1984) and Helpman and Krugman (1985)]. Secondly, horizontal FDI involves replicating in the target country the same production structure as in the country of origin of the investment, in order to enlarge markets or use the target country as a platform for exporting to third markets [Markusen (1984) and Markusen and Maskus (1999)]. Furthermore, this type of FDI is usually in markets with high transport costs or high protectionist barriers (which are avoided by a direct establishment in the market itself) or in countries belonging to a customs integration agreement.

In this setting, and like the international trade theory, there are several models for the theory of investment and the international location of firms which aim to pinpoint the factors determining FDI decisions and their distribution at corporate, sector and country level. The so-called "eclectic theory" or "OLI (Ownership-Location-Internalisation) paradigm", stands out among these models and was developed by Dunning (1988) in an endeavour to reconcile various theoretical contributions in this area.

This theory classifies the various factors governing corporate international investment decisions under three categories. Firstly, the firm investing in a specific market must have certain particular characteristics giving it an edge over local competitors (these are called “ownership advantages”), including most notably innovative, business or management ability, prior experience in the target market or, in general, in international markets, and, in particular, size, which has a decisive influence on the ability to assume risk and obtain financing.

Overall, these advantages are a prerequisite but not a guarantee that the firm will acquire a multinational dimension through FDI. For this to occur “internalisation advantages” are necessary, which represent the firm’s incentives for exploiting production advantages and participating directly in production abroad, instead of, for example, outsourcing some of these activities to other companies. These incentives may arise as a result of market failures which make it difficult for the investor company to materialise potential benefits through agreements with partners abroad [see Barba-Navaretti and Venables (2004)].<sup>1</sup>

Lastly, this taxonomy separates “location advantages” referring to the institutional or production characteristics in potential FDI recipient countries which determine their ability to offer new business opportunities and to attract new investment. In the past, location advantages tended to be related to an abundance of production factors such as the availability of natural resources or plentiful labour, in addition to other socio-institutional characteristics of target markets such as possible tax advantages, the geographical distance between the country of origin and the target country, a shared language and transparent and stable institutions. More recently, the new theory of international trade and the “new economic geography” have placed greater emphasis on the quality of production factors and the infrastructures of target markets and market size insofar as they have a decisive influence on the possibility of agglomeration economies emerging, which give rise to the creation of large industrial centres around a specific market [see Norman (1998)].

### ***Aggregate changes in Spain’s outward FDI<sup>2</sup>***

Broadly speaking, Spain’s outward FDI flows in 1995-2006 outpaced world FDI transactions<sup>3</sup> (see Chart 1), especially in the second half of the nineties when the internationalisation of Spanish firms took off. On UNCTAD figures, whereas in 1990 Spain’s cumulative investment abroad scarcely represented 3% of its GDP, in 2006 the outward FDI stock amounted to 41% of GDP, which is higher than the world average of 26% and the average for the developed economies of 31%. Also, the relative weight of Spanish investment in world FDI increased notably to approximately 6% on average in 2001-2006 (see Chart 2), a percentage which was considerably higher than the share of the Spanish economy in world output or the weight of Spanish exports in international merchandise trade (just under 2% in both cases).

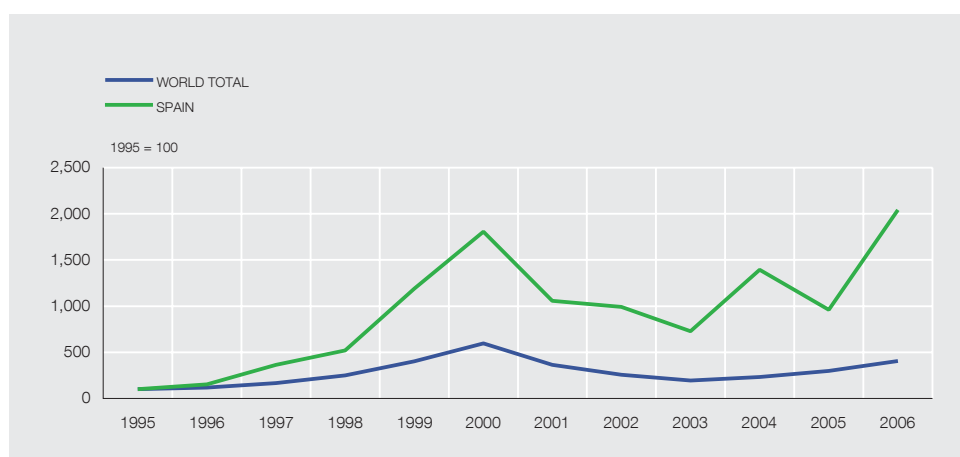
This boom in Spanish FDI occurred despite the shortfalls detected in Spanish firms in certain areas, which according to the theory discussed above influence their international projection, especially as regards their technological ability and their smaller size vis-à-vis their European counterparts. Accordingly, some studies focusing on the analysis of FDI in the nineties [see, inter alia, Ramírez et al. (2004) and Campa and Guillén (1996)] underline the presence of a geographical and sectoral pattern of distribution which is highly different from that of other

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1. This may be the case, for example, of an investment target country in which there are not sufficient legal guarantees that potential partners will comply with contracts, where it is difficult to apply the required quality control to products manufactured by a foreign partner, or where it is extraordinarily complex to set a price or value for a technology or business knowledge transfer. 2. At this point it should be underlined that the world FDI data relating to various geographical groups which are mentioned throughout the article do not exclude transactions between the various constituent countries of these areas. Likewise, the figures are presented in euro unless otherwise indicated. 3. The FDI data for the world and Spain include, unless otherwise indicated, the transactions of *Special Purpose Entities* (SPE) which include foreign-equity holding companies (ETVE by their Spanish name), whose operations are briefly described in Box 1.

## SPANISH AND WORLD OUTWARD FOREIGN DIRECT INVESTMENT FLOWS

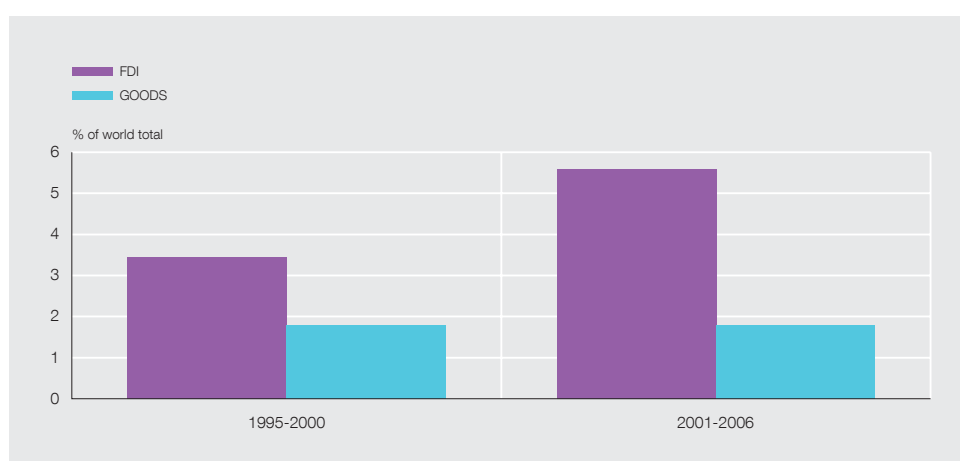
CHART 1



SOURCES: Banco de España and UNCTAD.

## WORLD SHARE OF SPANISH GOODS EXPORTS AND WEIGHT IN WORLD TOTAL OF SPAIN'S OUTWARD FDI FLOWS

CHART 2



SOURCES: Banco de España and UNCTAD.

developed economies. According to these papers, in the nineties the FDI of Spanish firms comprised a small number of large-scale operations undertaken by a few big firms, mainly in the services sector. Target markets were also not very diversified, since the bulk of the operations were centred on long-standing partners in the EU and on the Latin American market. Another important feature was the scant importance of the industrial sector which could be a sign of the relatively small size of Spanish manufacturing firms. Accordingly, it is important to determine whether or not the latest figures reveal any changes in this pattern of behaviour.<sup>4</sup>

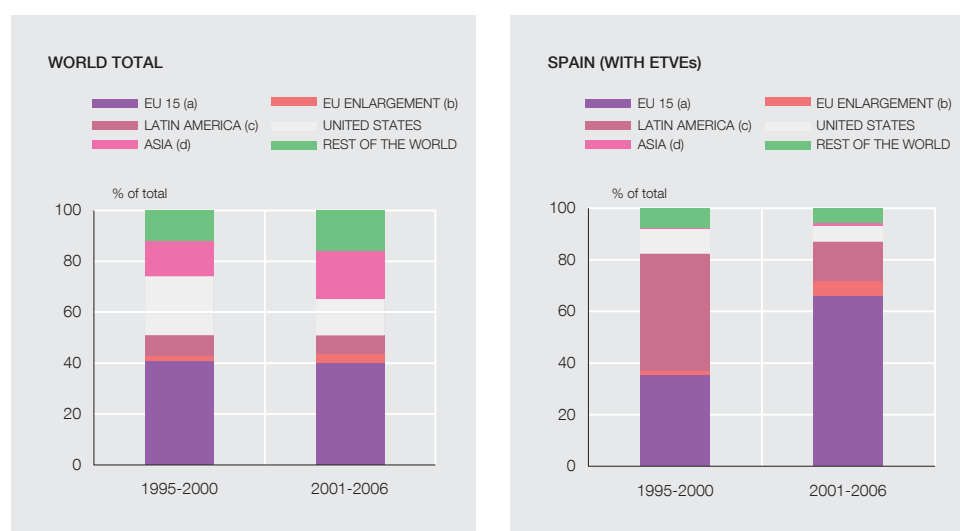
### ***Geographical and sectoral pattern of Spain's outward FDI***

This section analyses the changes in the geographical and sectoral pattern of Spain's outward FDI flows in the 1995-2006 period. Since the distribution in a particular year may be influenced by specific large-scale operations, the geographical and sectoral distribution

4. For an analysis of the internationalisation of Spanish firms, see Guillén (2006). Romana and Guillén (2007) and Fernández Otheo (2005) offer a recent perspective of the change in FDI for the whole economy and for the traditional manufacturing sector, respectively.

**SPANISH AND WORLD OUTWARD FOREIGN DIRECT INVESTMENT FLOWS**  
**Breakdown by geographical area**

CHART 3



SOURCES: Banco de España and UNCTAD.

- a. The EU 15 includes the euro area (excluding Slovenia), the United Kingdom, Sweden and Denmark.  
b. Candidates for EU enlargement in 2004 (Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovenia and Slovakia) plus Rumania and Bulgaria.  
c. Includes South America, Central America (excluding Belize), Mexico, Cuba, Haiti and the Dominican Republic.  
d. Turkey is not included.

was analysed by calculating the average values for the periods 1995-2000 and 2001-2006.

**GEOGRAPHICAL PATTERN**

The geographical pattern of Spanish direct investment is significantly different to that of world FDI transactions (see Chart 3). In the second half of the nineties, the internationalisation of Spanish firms essentially centred on the Latin American market, which became the focus for 45% of Spanish FDI transactions, whereas this market scarcely accounted for 7% of world FDI transactions. The aim of Spanish firms' investment in Latin America was expansion in new markets, profiting from the privatisation of state-owned companies and the deregulation of certain sectors of activity in those years [see López and García (2002)], and gaining access to raw materials and important natural resources for the activity of firms in the electricity sector by using clear location advantages. Undoubtedly, cultural proximity to this market also played an important role. The second target market for Spanish investment in this period were the EU 15 countries, which attracted nearly 40% of FDI flows, a similar percentage to that at world level. Conversely, the importance of the United States as a target for Spanish FDI flows was significantly lower than that for the world total.

Between 2001 and 2006 there were significant changes in the pattern of geographical distribution of FDI. Spanish firms' investment in Latin American markets lost momentum, influenced by the high level of investment achieved (in 2006, Spain's FDI stock in Latin America accounted for more than 17% of the total for this region). It was also affected by the petering out of the process of privatisation of state-owned companies, the adverse impact of the economic and financial crises at the beginning of this decade and regulatory uncertainty in some of these cases. Conversely, investment in European markets was revitalised, driven by the investment in the euro area and, in particular, the United Kingdom, which has been the target of large investment operations by resident companies in recent years. As a result, the relative

weight of Latin America in Spain's total outward FDI flows dropped to approximately 15% on average during 2001-2006 (a percentage, in any case, which is double that of the rest of the world), while the importance of the EU 15 as an investment target within total Spanish FDI amply exceeds the role of this area as a recipient of global FDI funds (above 66% and below 40%, on average in the 2001-2006 period, respectively). The USA continued to show a relatively lower weight than that observed as a recipient of capital in world FDI transactions.

Another of the noteworthy patterns of the geographical distribution of Spain's FDI is that its presence in other emerging areas (Asia – China and India – and the new EU Member States) is small in comparison with the world average or with peer economies, although it has increased considerably over the last decade. This discrepancy is particularly significant in the case of Asia, an area which attracted approximately 19% of world FDI transactions in 2001-2006 and only 2% of Spain's total outward FDI. However, although China's share of Spain's total outward FDI is very small, the presence of other European economies is not particularly high in relative terms either, and Spain's investment in recent years is on a clearly growing trend.

Spain's FDI transactions in new EU Member States have grown notably in recent years. Nevertheless, Spain's importance in this region as an investor country is less than that of other euro area economies such as Germany, the Netherlands, Austria and France, which are the source of most of the investment there<sup>5</sup>.

Spanish firms are less oriented to emerging Asian economies and, in particular, to new EU Member States due to geographical distance, the lack of cultural links and the pattern of specialisation of the two areas, which is different to that shown by Spain's FDI. Therefore, the flow of FDI to China focuses principally on industrial sectors. The attraction, among other factors, is the advantages of low labour costs and the large size of the domestic market. The direct investment targeted on new EU Member States is varied and driven by the advantages offered by these countries as export platforms, as a result of their trade and economic integration into the EU, their geographical proximity to the centre of the Union (especially to Germany) and their relatively low-cost skilled human capital. Privatisation programmes linked to the process of European integration have also contributed to the increase in direct investment.

In any event, the technological capacity of Spanish industry and the small size of many of its firms could be an obstacle to harnessing the opportunities offered by these markets, considering the entry costs represented by the set-up of new marketing networks and the strategies of the division of production processes [see Turrión y Velázquez (2004)]. Also, the poor command of their languages or cultural distance may constrain Spanish investment in these markets.

#### SECTORAL PATTERN<sup>6</sup>

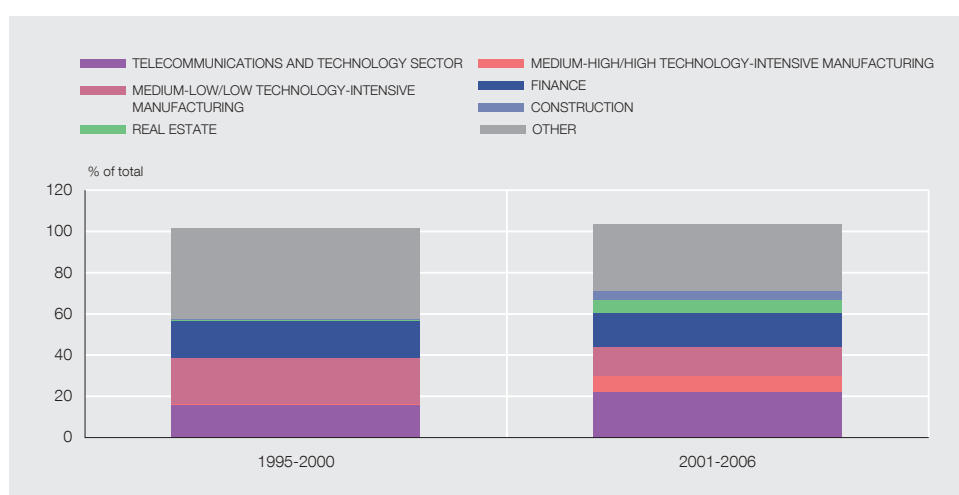
At sectoral level, Spain's outward FDI transactions show a high degree of concentration in the services sectors, which on average accounted for more than 78% of this type of transaction during the 2001-2006 period (see Chart 4).<sup>7</sup> Noteworthy among these activities are the financial and telecommunications sectors in particular, dominated by large companies, which have incorporated the latest technological advances and, consequently, have the "ownership advantages" necessary for internationalisation.

<sup>5</sup>. Germany and the Netherlands accounted overall for more than 40% of total FDI inflows into new EU Member States between 1998 and 2004, followed by Austria and France, with percentages of between 8% and 9% each [see ECB (2005)].

<sup>6</sup>. In this section, data on investments abroad do not include the operations of ETVE companies (foreign-equity holding companies). <sup>7</sup>. It should be pointed out here that the changes observed in the two periods under consideration in the pattern of specialisation by sector of activity must be interpreted with caution since the procedure used for this breakdown was changed in 2002, which contributed to improving the quality of the allocation by sector of activity.

**SPAIN'S OUTWARD FOREIGN DIRECT INVESTMENT FLOWS**  
**Sectoral breakdown (excluding ETVs)**

CHART 4



SOURCE: Banco de España.

**NOTES:**

Telecommunications and technology sector: post and telecommunications, IT activities and R&D.

The classification of branches of manufactured products by technology intensity is prepared by the OECD (2005).

Real estate: development, buying and selling, lease, management and administration of properties. FDI transactions are allocated to this sector of activity not by the activity of the resident company but by the nature of the transaction.

The predominance of services in Spain's FDI has scarcely changed since the mid-nineties, although a shift in structure can be seen here towards the telecommunications and real estate sectors to the detriment of the financial sector. Nevertheless, the pattern of FDI can swiftly change since the FDI of the financial sector includes large-scale transactions which introduce significant volatility into the data that should not be ignored. Consequently, the relatively lesser significance apparent in recent figures should not be interpreted as less progress in the ongoing internationalisation of financial institutions, which retain favourable conditions for positioning themselves in the international market.<sup>8</sup>

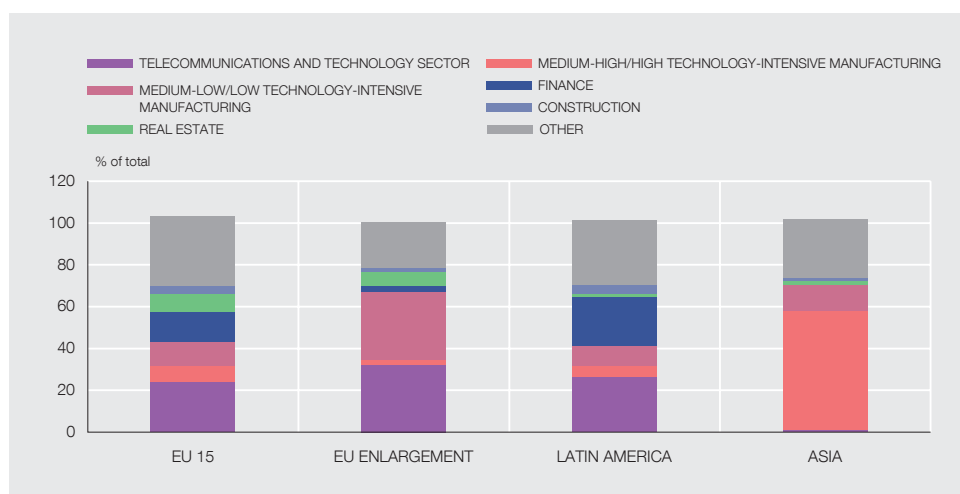
Although the relative weight of manufacturing remains low, in recent years there has been greater dynamism in the internationalisation of firms in this sector. Within these branches, the sectors with the highest relative significance in FDI flows are included in medium/low and low-technology manufacturing, in particular textiles and textile products, food, beverages and tobacco, and non-metallic mineral products. Nevertheless, in recent years FDI flows of higher technology-content industries have picked up significantly. Furthermore, this performance has been quite widespread among the items in these branches, notably among motor vehicles and electronic appliances, along with chemicals and pharmaceuticals.

These results hold when the figures are analysed at company level. In general, FDI operations are highly concentrated: between 2003 and 2006, 105 firms alone (1.1% of the total firms which undertake FDI operations) accounted for more than 90% of the total value of Spain's outward FDI.<sup>9</sup> This concentration is particularly pronounced in the services branches. The concentration of FDI operations in manufacturing is high, although slightly lower, and is also

<sup>8</sup>. Mention should be made here of the sizeable transactions in 2006 and 2007 by the two biggest Spanish banks. <sup>9</sup>. The data at company level only include shares and other direct equity holdings. This is not of importance regarding the analysis since on average approximately 90% of Spain's FDI in recent years has been undertaken through these instruments.

**SPAIN'S OUTWARD FOREIGN DIRECT INVESTMENT FLOWS  
IN 2001-2006**  
Breakdown by sector and geographical area (excluding ETVs)

CHART 5



SOURCE: Banco de España.

NOTES:

The geographical areas and sectoral breakdowns match those in Charts 3 and 4, respectively.

dominated by the operations performed by a small number of medium-sized or large companies. Perhaps the most significant fact is that within these sectors the number of firms undertaking FDI operations is on a rising trend and, among them, there is an increasing number of SMEs.

Significant differences can be seen in the pattern of sectoral distribution of FDI by geographical area (see Chart 5). In Latin America, services firms (telecommunications and financial companies, in particular) have dominated the internationalisation process. In this area Spanish banking institutions have sought to penetrate the various national markets and, consequently, their investment has spread through much of the region. However, telecommunications or energy firms have tended to centre their involvement on a smaller number of countries, based on privatisation processes and the existence of strategic resources. Unlike Latin America, in Asia the relative weight of manufacturing is noticeable, in keeping with the location advantages of these regions, and amounts to nearly 70% of the total FDI in this area.

In the case of the EU, the distribution of FDI flows is more balanced between services and industry. In particular, in the case of the EU-15 the investment in manufacturing is distributed in a similar fashion between higher and lower-technology-content manufacturing, and investment in high and medium/high technology-content sectors are centred on the euro area. The importance of telecommunications and the financial sector should also be underlined (located to a large extent in the United Kingdom), as should, in recent years, the increase in real estate activities.

Finally, the sectoral distribution of Spain's FDI transactions in the new EU Member States shows high concentration in the telecommunications and technology sectors and, unlike in the rest of the EU and the world total, in low and medium/low technology-intensive manufacturing, in keeping with the consideration of these countries as export platforms to the rest of the EU. In 2001-2006 these two sectors accounted for a similar share (approximately 65%) of Spain's total FDI in that area.

## Conclusions

Against a background of growing globalisation, the competitive edge of firms lies increasingly in their ability to take advantage of the growth potential of certain markets and sectors and to exploit the improvements in efficiency that can be obtained through global production chains. This article describes the main features of the internationalisation of Spanish firms in recent years by analysing their patterns of spatial and sectoral location and their outward FDI flows.

This process has involved two clearly different phases. The initial development phase observed in the second half of the nineties was characterised by high geographical and sectoral concentration. In this stage, the increase in international activity was spearheaded by large companies which were able to take advantage of the ongoing privatisation and deregulation in certain emerging markets. Conversely, in recent years the investment process has been slightly more diversified at a geographical, sectoral and business level. This approach to the analysis of FDI flows is useful insofar as it can provide an indication of the reasons promoting or constraining the international expansion of Spanish firms. Nevertheless, the analysis of FDI determinants requires a more detailed study, which will be addressed in a forthcoming paper.

From a geographical perspective, perhaps the most significant change is the gradual reorientation of investment to new European partners and, to a lesser extent, to Asian markets. Even so, the share of these markets in Spain's FDI flows is small in comparison with other peer economies, which could represent lost opportunities for Spanish firms.

In the sectoral area, the most noticeable feature is the increasing significance of manufacturing in traditional sectors (food or textiles) and other sectors with higher technological requirements (chemicals, motor vehicles and non-metallic mineral products). There are still few firms in these sectors which make significant investments in the form of outward FDI; however, all the signs are that there is a growing base of firms undertaking smaller operations and that through their international experience or cooperation agreements with other firms they could increase their activities abroad.

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## SIMPLIFICATION OF IMF LENDING

The authors of this article are Miguel de Las Casas and Xavier Serra of the Associate Directorate General International Affairs.

### **Introduction**

The International Monetary Fund (IMF) is currently conducting an ambitious strategic review, prompted by a perception that the institution has become less relevant in the international arena. The current levels of Fund lending, which are at all-time lows, have been interpreted as a manifestation of this situation. Apart from the current absence of crises in emerging countries, some members have repaid loans early and the possibility of resorting to alternative insurance mechanisms that may displace IMF lending, such as the Chiang Mai Initiative, is increasingly being considered. The paltry levels of financing granted are, moreover, insufficient to enable the IMF to cover its operating costs, since the revenues of the institution depend almost entirely on its volume of lending. The IMF is considering alternative sources of financing to break this strong link between lending and revenues.

In recent years, the IMF has made a significant effort to adapt to a continuously evolving international economy, but the changes made have not been sufficient. Certain aspects of the institution still need reviewing, such as its role in the surveillance area, the best way of responding to the needs of its members, especially the emerging economies and low-income countries, and how to improve countries' representation in its decision-making bodies. These are all priority reforms and constitute the main objective of the strategic review currently under way. Along with the search for a financing model that is not so dependent on credit, the strategic review offers an excellent opportunity to re-examine the IMF's lending activity, and that is the aim of this article.

Study of the IMF's lending apparatus and its use during the present and the last decade provides arguments for the introduction of a number of improvements. The current range of financial facilities is not the result of systematic planning, but of a process of adaptation to the different types of balance of payments need and crisis that have arisen during the IMF's existence. The introduction of new lines in response to new financial challenges has given rise to a proliferation of instruments that appears to be excessive. Indeed, some of these facilities have been used only temporarily and others have never actually been used at all.

The IMF has successively eliminated the most obsolete instruments, but there is still room to simplify the current lending mechanism. At the same time it could also be made more flexible, to enable the adaptation to possible crises to be more rapid and effective, and its incentive structure could be improved, to ensure that countries make the best possible use of the institution's resources. This would involve precise adjustment of the volume and duration of credits, with the twofold aim of preserving resources and increasing their availability to members. With these considerations in mind, this article reflects upon the possibility of replacing the IMF's current credit lines by a single one that would incorporate the improvements mentioned above, while also eliminating the risk of arbitrage across instruments, for which the Fund has been criticised.

In order to develop these issues, this article begins by analysing the IMF's present lending mechanism and its use over the period 1990-2006. It goes on to explore the advantages of merging all the ordinary credit lines into a single credit line or financial facility and then considers the main features that such a mechanism should incorporate, its impact and its interaction with other elements of the IMF's lending framework. The article ends by drawing some conclusions.

**The IMF's lending  
framework and its  
evolution**

CURRENT LENDING FRAMEWORK

IMF financing is designed to cover the temporary balance of payments needs of member countries, when they are unable to obtain in the market, on accessible terms, sufficient funds to make their international payments. This financial assistance may be accessed through three channels which share the common purpose of transferring reserve currencies to the countries: regular operations, allocations of Special Drawing Rights (SDRs) and concessional operations. This article focuses solely on regular operations, which are the cornerstone of the IMF's lending activity. These operations are financed with funds from the General Resources Account (GRA), the backbone of the IMF's financial structure, made up of members' contributions in the form of quotas.

IMF lending takes place through a mechanism of currency purchases and repurchases, equivalent to the disbursements and repayments of a conventional loan. When financing is granted to a country, the latter purchases SDRs or some other *strong* currency from the IMF, in exchange for the equivalent amount of its own currency. Subsequently, to repay this financing, the country repurchases its own currency using SDRs or some other *strong* currency. It should be noted that, strictly speaking, credit only exists when the member country's purchases exceed the whole of its quota, since until then it is merely making use of its contribution to the institution.

The credit granting process is based on an arrangement which stipulates, on the one hand, the specific policies and measures that the country commits to implement to resolve its balance of payments problem and, on the other hand, the amounts that the IMF shall make available through its facilities. The IMF will previously have assessed the situation of the borrower country, whether recourse to its funds is justified and whether there are sufficient guarantees that these funds will be returned. The IMF will also estimate the borrower's financing needs and the volume and maturities it is able to assume, taking into account the internal adjustment it will necessarily have to make and the private sector's participation in the coverage of these needs. On this basis, the country negotiates an economic programme with the IMF which it presents in a Letter of Intent to its Executive Board. Once the arrangement has been approved, the credit will be made available in the form of periodic disbursements conditional upon implementation of the successive phases of the programme or, in IMF terminology, upon compliance with the conditionality.

The IMF has a number of financial facilities or credit lines, to respond to the various needs of its members arising from various types of crisis:

- *Stand-by Arrangements* (SBA). These are designed to help countries to address short-term balance of payments problems and, as we shall see below, channel most of the resources lent by the IMF.
- *Extended Fund Facility* (EFF). This facility basically works in the same way as the SBA, but its objective is to help to address longer-term balance of payments problems requiring reforms of a more structural nature.
- *Supplemental Reserve Facility* (SRF). This credit line is designed for countries suffering exceptional balance of payments difficulties, which need short-term financing on a large scale, as a result of a sudden and disruptive loss of confidence in the markets. Access to the SRF is not subject to the ordinary access limits, although it is subject to the *exceptional access framework* (defined below), and depends on the country's financing needs, its repayment capacity, the soundness of its programme and its economic and financial record.

Facility	Access limits (% quota)	Surcharges* (basis points)	Periods (months)		
			Arrangement	Repayment	
				Expected	Compulsory
SBA	100% per annum 300% in total	100 if $200\%Q < V < 300\%Q$ 200 if $V > 300\%Q$	12-18 (max.36)	27-48	39-60
EFF	100% per annum 300% in total	100 if $200\%Q < V < 300\%Q$ 200 if $V > 300\%Q$	36 (max. 48)	54-84	54-120
SRF	Unlimited**	300 the first year 50 extra each 6m, max. 500	max. 12	24-30	27-36
CFF	10-55%	100 if $200\%Q < V < 300\%Q$ 200 if $V > 300\%Q$	—	27-48	39-60
EAF	25-50%	—	—	—	39-60

\* Q: quota; V: volume drawn down. \*\* Subject to compliance with the exceptional access framework criteria.

Memorandum item: service charge of 50 basis points.

- *Compensatory Financing Facility* (CFF). This facility is used to assist countries experiencing either a sudden shortfall in export earnings or an increase in the cost of cereal imports, as a result of world commodity price fluctuations. The reason for the application for this facility must be short-term and beyond the member country's control.
- *Emergency Assistance Facility* (EAF). This credit line is granted to support the recovery of countries following a natural disaster or armed conflict, sometimes at subsidised interest rates. A special feature is that it is backed up not by conditionality, but by economic policy advice and Technical Assistance.

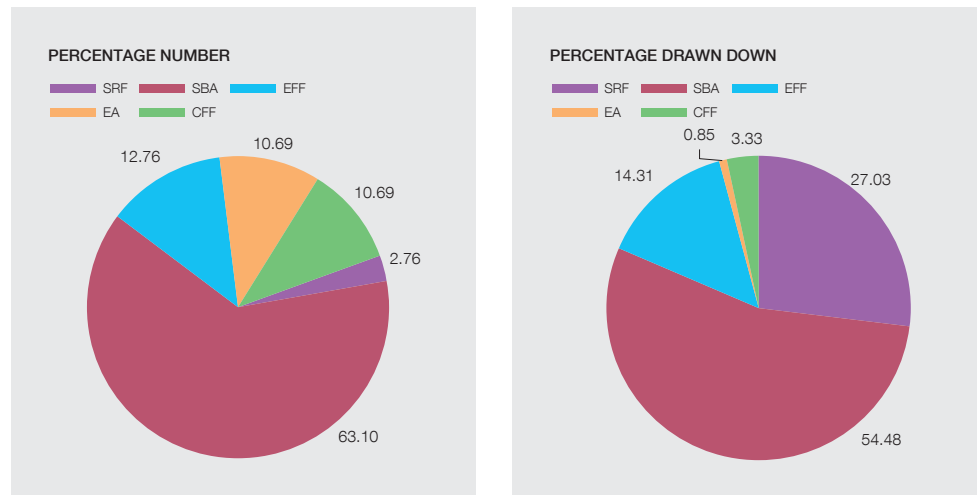
Table 1 shows the main features of these five facilities. The volume of financing that a country can obtain, i.e. its *access limit*, varies according to the type of loan and is expressed as a multiple of its IMF quota. All facilities are subject to what is known as the *rate of charge*, which is the SDR interest rate plus a profit margin and a further mark-up for specific reserves. The SDR rate is a market rate, which is calculated weekly as the weighted average of the short-term interest rates of the money markets of the currencies that make up the SDR valuation basket (US dollar, euro, Japanese yen and pound sterling). In addition to the rate of charge, the IMF charges premiums or *surcharges*, based on the volume drawn down or the time elapsed, depending on the type of facility.

As Table 1 shows, three facilities (SBA, EFF and CFF) have a volume surcharge, and only in one case (SRF) does the cost increase with the length of the programme. Also, the arrangement and repayment periods vary according to the facility used. The latter are divided into compulsory periods and expected periods, a distinction introduced by the IMF to provide incentives for a limited use of its resources over time.

In addition to these credit lines, the framework regulating the IMF's lending activity consists of *policies* or rules which establish how access to financing may be obtained in particular circumstances. The main ones are the exceptional access framework and the Lending into Arrears (LIA) policy. The former dictates the conditions that must be fulfilled for a country to be able to gain access to larger volumes of credit than those detailed in Table 1, while the latter stipulates the circumstances that should exist and the measures that a country must take to have access to IMF lending when it is in arrears to its private creditors.

## USE OF FACILITIES

CHART 1



SOURCES: IMF and Banco de España.

## LENDING DEVELOPMENTS

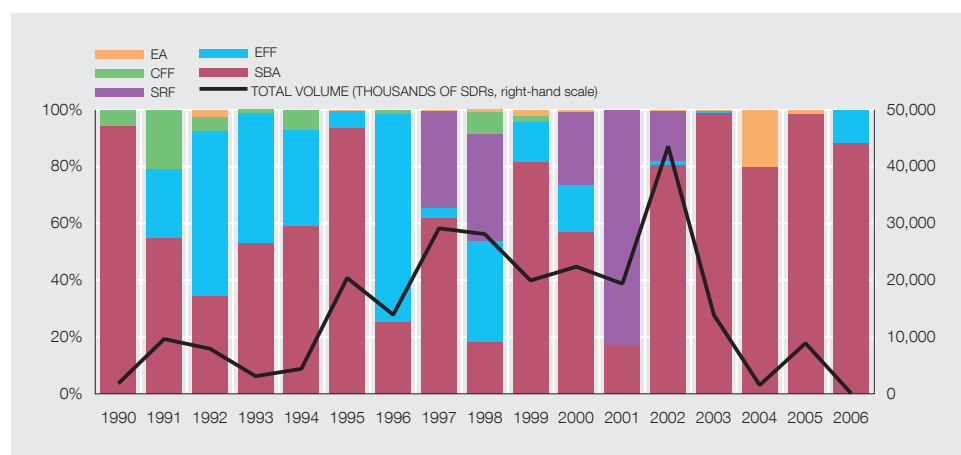
During the period 1990-2006 the IMF financed 290 programmes in favour of 90 countries<sup>1</sup>. This is the most representative period of Fund lending, since it ranges from short- and medium-term current account imbalances, the Fund's traditional activity, to the so-called 21st century crises (Mexico 95, south-east Asia 97, Russia and Brazil 98, Turkey and Argentina 01 and Uruguay 02), and also includes the financing granted to economies in transition from a planned to a market model in the first half of the 1990s.

The left-hand panel of Chart 1 shows the distribution of facilities granted by number. The first conclusion to be drawn is the predominance of SBA arrangements. Also striking is the fact that SBA and EFF programmes together account for more than 75% of the total. Even more revealing is the analysis of the volumes actually drawn down under these programmes, which are shown in the right-hand panel. These volumes could be interpreted as being the amounts that the countries really needed to cover their financing shortfalls after exhausting market channels, internal adjustment and private-sector involvement.

The main difference between these two panels is that the analysis of the volume of credit shows the true weight of the SRF facility, since its creation in 1997, and the residual use of the EAF and CFF. Also, comparison of the two panels shows the intense use, in volume terms, of the SRF, i.e. the large amounts drawn down under this facility in a very small number of programmes (eight in all).

The distribution of the volume of financing drawn down by line also shows that practically all the institution's lending (97.2%) is concentrated in three lines: SBA, EFF and SRF. This high degree of concentration, the great similarity between the SBA, EFF, CFF and EAF facilities (especially the first two, which only differ in terms of their duration and the type of conditionality associated with them), and the fact that the SRF line is always granted in conjunction with another one (normally an SBA or, very rarely, an EFF) are arguments for a possible reduction in the number of available facilities.

<sup>1</sup>. The following analysis does not consider the use of credit lines that were eliminated during the reference period. Their inclusion would have strengthened the argument that the number of facilities is excessive when compared to their actual use, but for the purposes of this article it was considered more rigorous to base the analysis on the current catalogue of facilities.



SOURCES: IMF and Banco de España.

The concentration of lending in these facilities has been constant over the years. Chart 2 shows the volume of credit approved and its percentage distribution among the various facilities during the period of study. The use of SBA arrangements has shown a marked preponderance, shared firstly with the EFF facility (1991-98), and subsequently with the SRF facility (1997-02). It should also be noted that the correspondence between lines and objectives has not always been clear. Although each facility is designed, in principle, to resolve a specific balance of payments need, in practice their granting has not faithfully reflected such needs, giving rise to *arbitrage across facilities*.

### Would one single facility be sufficient?<sup>2</sup>

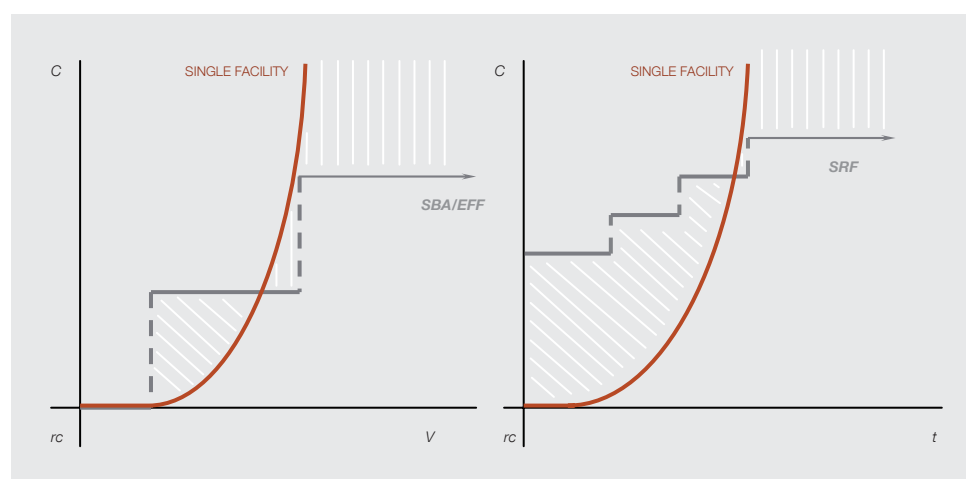
Analysis of the current lending framework and how it has been used suggests two possible areas for improvement. First, there are arguments to support the view that it might be possible to simplify the IMF's catalogue of facilities and to make it more flexible, without any loss of usefulness to its members. Second, its incentive structure could be strengthened, to ensure that the use of the IMF's resources is in line with the actual needs of the country in difficulty, given their scarcity and the need for them to be available to all members. In accordance with this approach, this section raises the possibility of replacing the current credit lines with a single facility, flexible enough to meet the different demands of the borrower countries. This facility would have a cost structure that rises with the volume and duration of the credit, and periods that are better aligned with borrowers' needs.

### COST STRUCTURE

As already mentioned, the current SBA and EFF facilities have a stepped cost profile, rising with the volume of financing granted, irrespective of the duration of the programme. The opposite is true for the SRF facility, the cost of which rises as its duration lengthens, irrespective of the amount of the financing (see Figure 1).

Combining these two criteria, the cost of a hypothetical single facility would be determined by two variables. The cost-setting system would be based on the IMF's current rate of charge (rc), adding extra basis points (ebp) as the volume (V) – in terms of the quota – and the duration (t) of the financing increase. To achieve the objectives mentioned above, this system would offer cheaper loans for those volume and duration tranches considered appropriate<sup>3</sup> while, at the same time, making financing above certain thresholds more expensive.

2. The forthcoming Banco de España Occasional Paper *Streamlining the IMF Lending Mechanism. Why not a Single Financial Facility?* contains an in-depth analysis of this possibility. 3. These tranches would be set by the IMF and could be revised periodically to adapt them to the current international economic conditions.



SOURCE: Banco de España.

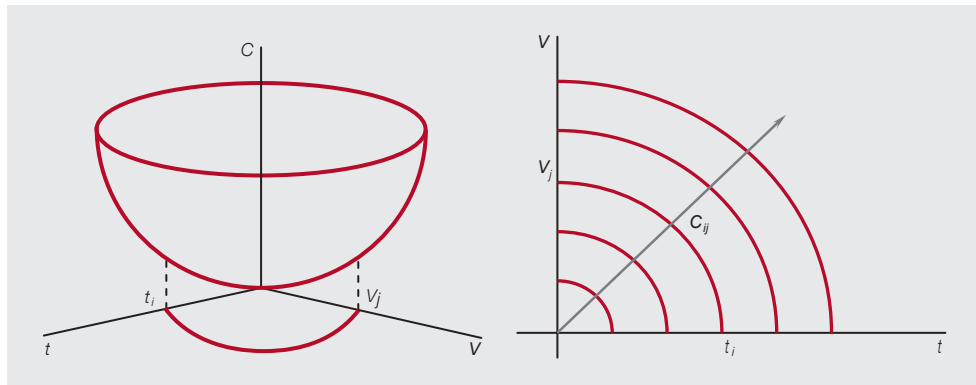
Figure 1 compares, by way of example, a facility having these features with the current SBA/EFF facilities (left-hand panel) and with the SRF (right-hand panel). The areas marked with oblique lines represent cheaper financing with the single facility or, in other words, an incentive to apply to the IMF in such terms as involve a sparing use of resources, in line with its objectives, thereby minimising the risks for both parties and promoting sustainable borrowing that is balanced across the various sources of financing. The areas with vertical lines represent a relative rise in the cost of resources or an incentive not to use IMF financing on conditions that generate risks or diverge from the functions for which the IMF is conceived.

It is important to note that the decline in costs referred to above would not in any event entail a relaxation of the requirements for access to IMF credit. The justification required for the granting of a loan would of course be just as necessary as at present. Also, the IMF would continue to establish the terms of the programme, in accordance with its assessment of the borrower's financing needs and repayment capacity. Finally, once the programme were agreed and in effect, purchases would continue to be subject to compliance with the conditionality established therein.

The representation of the cost of this hypothetical single facility, which depends on its two variables, in three dimensions<sup>4</sup> gives rise to a function like the one in the left-hand panel of Figure 2. Also, the projection of this function on the lower plane ( $t, V$ ), on which the axes reflect the programme volume and duration variables, generates a map of *indifference curves* or *isocosts*, in which the greater the distance from the origin the higher the cost (see right-hand panel of Figure 2). This map could be helpful for the decision-taking of a country in difficulty, which would be able to study, a priori, the cost of the different combinations of time and volume sufficient to meet its needs.

The terms on which the IMF considers it appropriate to provide financing would be reflected graphically in the degree of openness of the cup. More stringent conditions, i.e. more expensive financing, would give rise to a more vertical cup and vice versa. Likewise, market financing conditions can be represented by another corolla (see Figure 3). In crisis situations, the latter would always be contained by the cup of IMF financing since, given its public good nature, the IMF will always offer easier terms than the market.

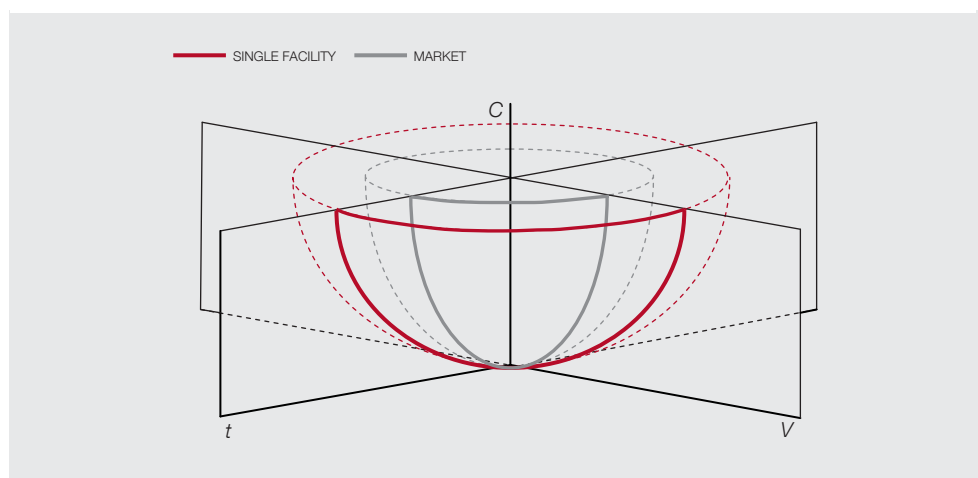
4. For the sake of clarity, the function is assumed to be continuous and symmetric, i.e. costs grow in proportion to volume and time.



SOURCE: Banco de España.

## FINANCING TERMS

FIGURE 3

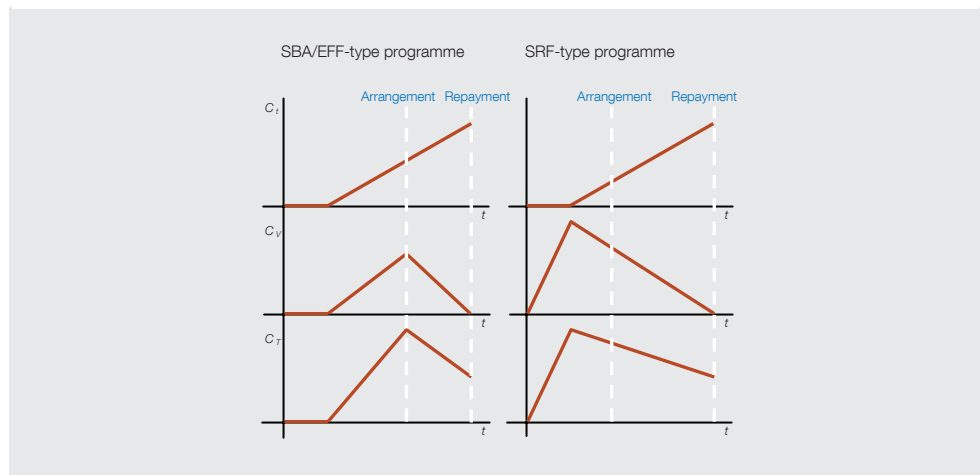


SOURCE: Banco de España.

## PERIODS

Two basic periods are distinguished in IMF credit lines: the *arrangement period*, which is the period during which the country can make purchases up to the total amount granted, and the *repayment period*, i.e. the time within which the loan shall be fully repaid. The arrangement period of a single facility like the one described above could be determined in accordance with the conditionality associated with each programme, unlike the current arrangement periods, which are fixed for each facility. This option would increase flexibility.

Likewise, the repayment period could be set by the IMF in each case, in accordance with the borrower's needs and debt sustainability profile. As for the sequence of repayments, an orientative schedule of repurchases could be established to avoid excessive market reaction in the event of failure. Such cases would not constitute default, although the borrower would be required to justify the delay. This option would have a number of advantages; it would facilitate IMF liquidity forecasting and resource rotation; it would provide a date to which expectations (both of the country and the markets) regarding the completion of the programme could be anchored; it would permit those programmes with accumulated arrears to be identified and it would provide an additional incentive, along with those already incorporated in the single facility (via costs) and other elements of the lending framework (conditionality, *preferred creditor status*, etc.), for the appropriate use of the Fund's resources. It would not be necessary to maintain the distinction between expected and compulsory periods, since the combination of the orientative schedule and rising costs over time would be sufficient to avoid unnecessary



SOURCE: Banco de España.

a. Note that the origin does not represent a nil total cost ( $C = 0$ ), but a total cost equal to the rate of charge described in the section entitled «current lending framework» ( $C = rc$ ).

delays in the repurchases. Eliminating this distinction, which is not always well understood, would help to simplify the current lending mechanism.

Alternatively, it would be possible, at least in theory, to fix the repayment deadline only and to let the debtor country choose the repurchase sequence. This option would also involve trusting the structure of incentives described above to be sufficient for the borrower to return the amounts drawn down as soon as an improvement in its situation were to enable it to do so. This alternative would not give rise to alarm on the markets either, nor would it cast doubt on the actions and credibility of the Fund, given the absence of the schedule. Moreover, in the event that the programme were not capable of resolving the crisis, the country would have more room for manoeuvre to correct the imbalances without the need for a new arrangement.

#### EVOLUTION OF COSTS OVER TIME

Figure 4 illustrates two possible examples of how the cost of the single facility would evolve over time. In both cases, the total cost of the facility ( $C$ ) would be obtained by aggregating the costs that rise with the duration of the programme ( $C_t$ ) and those that increase with the volume drawn down ( $C_v$ ). For the sake of simplicity, the analysis considers a linear evolution of the use of credit, and therefore of the cost associated therewith. The arrangement and repayment periods are marked on the x-axis which represents time.

The left-hand panel shows the time profile of the cost of a programme under a single facility granted to address an external imbalance of the type currently covered by an SBA or EFF arrangement. After an initial grace period (marked by the absence of surcharges)  $C$  grows in line with the time elapsed and the volume drawn down, until the arrangement period ends, when the country can no longer make further purchases and, in principle, begins repayment. From that point,  $C$  diminishes, although not as sharply as  $C_v$ , owing to the effect of the increase in the cost associated with the passage of time,  $C_t$ . As already explained, this cost associated with the total time elapsed is the distinguishing feature of a single facility with respect to an SBA or EFF arrangement and is the main additional incentive for early repayment.

The right-hand panel shows the time profile of the cost of a single facility when it replaces an SRF facility. Unlike in the previous case,  $C$  increases in proportion to  $C_v$ , as a result of the

frontloading nature of this type of loan. Once market confidence has been restored and the foreseeable repayment period has therefore commenced,  $C$  diminishes, although less sharply than  $CV$ , again due to the effect of the cost associated with the passage of time,  $Ct$ . The distinctive feature of the single facility with respect to an SRF is the penalisation it introduces for the use of a large volume of financing in the early stages of the arrangement.

#### INTERACTION WITH OTHER ELEMENTS OF THE IMF'S LENDING FRAMEWORK

##### Preferred creditor status and programme conditionality

Apart from the incentives incorporated in the financial facilities, the IMF has two important lines of defence of its resources: preferred creditor status and programme conditionality. The former, implicitly recognised by the international financial community, preserves the Fund from credit risk and could effectively strengthen the granting of a single financial facility. The protection of the IMF's resources provided by conditionality is even more solid, as it is not based on a tacit multilateral agreement, but on compliance with a set of concrete measures upon which the continuity of the credit is conditional. The conditionality of the Fund would be included as an integral part of the functioning of a mechanism like the one mentioned above, in the same way as in the facilities available now. In support of this argument it should be noted that the structure of conditionality does not vary according to the type of facility and that its tools (prior actions, performance criteria, indicative targets, structural benchmarks, etc.) are common to all the programmes, although their presence and weight in each varies according to the type of crisis involved. Conditionality would, moreover, play a significant role when the length of the arrangement period of a single facility is determined.

##### Exceptional access framework

As already mentioned, the IMF does not, strictly speaking, grant credit until the country in difficulty has borrowed beyond its quota. Currently, access to the Fund's resources is subject to an annual limit of 100% and a cumulative limit of 300% of the country's quota. Credit beyond these limits is regulated by the 1983 *exceptional circumstances clause* and by the 2002 *exceptional access framework*, which lay down the criteria that must be fulfilled to gain access to financing beyond these limits. Despite its short life, the framework has been violated on various occasions, possibly as a consequence of its excessively rigid design. A facility like the one considered in this article would not overcome the limitations of the current framework, but neither would it conflict with it. A single facility, like the current facilities, could channel IMF resources beyond the normal access limits, provided that the country were to comply with the criteria mentioned or with such criteria as the IMF may decide to adopt in future. Moreover, its introduction would simplify the application of the framework, by not giving rise to a situation that varies according to the facility used. The flexibility of the facility and its cost structure, in particular the component that increases according to the volumes drawn down, should not be seen as offering a *blank cheque* to the borrowing country. Rather, these two elements serve the lender role attributed to the Fund more effectively.

##### Precautionary arrangements

IMF financial assistance is not only granted to resolve crises, but may also be precautionary. Precautionary arrangements are ordinary SBA and EFF arrangements, in which the authorities of the country declare, normally when signing the arrangement, their commitment to implement a programme supported by the Fund, with all its associated conditionality, and their non-binding intention not to make purchases during the arrangement period. The aim of this type of arrangement, like the cases in which it is used, is multifarious, although it normally has two applications: to cover a possible balance of payments imbalance or to reduce the impact of financial decoupling from the IMF. A single financial facility, capable of replacing all the Fund's facilities, could also fulfil the precautionary role that is sometimes given to SBA and EFF facilities and thus satisfy the same objectives at an appropriate cost. A single facility streamlining and simplifying the Fund's lending apparatus could also help improve the communication of precautionary arrangements, which are often not correctly interpreted by third parties.

The *labelling* of a single facility as precautionary would not raise substantial problems in terms of cost either. Precautionary granting would not involve any charges as long as the country were not to request resources from the Fund. If it were to, the facility would lose its precautionary nature and would be activated with a structure of costs such that they increase with the volume drawn down and with the time elapsed from the first drawdown.

#### Reserve Augmentation Line (RAL)

Apart from the use of instruments designed for crisis resolution for precautionary purposes, the debate on prevention focuses on the idea of designing and introducing specific lines for this function. A first attempt was the extinct Contingent Credit Line (CCL). Currently the possibility is being considered of introducing a new facility known as the Reserve Augmentation Line (RAL).

As conceived so far, the objective of the RAL would be to provide requesting countries with an *insurance* mechanism to protect them from a possible unfavourable change in financial conditions. Its most characteristic feature would be the possibility that countries with solid fundamentals would be able to obtain the right to make purchases if they were to fulfil certain prerequisites. In other words, the country would comply with *ex ante* conditionality in order to be able to draw down resources immediately, should it need them.

According to this initial conception, the RAL may be considered to have two dimensions. First there is the precautionary one, i.e. in the absence of the contingency. This would include the pre-qualification criteria, the system to assess compliance with such criteria and the duration of the insurance. Second there is the resolution dimension, which would come into play if and when the contingency occurred. In this respect, the design of the RAL envisages the definition of the applicable financial conditions and the level of access to resources. All the features included in this second group, which are in principle very similar to the terms of the current SRF, would be completely covered by a single facility. In fact, the features of the precautionary dimension form an *access policy* and would therefore be perfectly compatible with a mechanism like the one proposed. Before the contingency, a country could be considered to have applied for pre-qualification for the single financial facility, or to have gained access to this facility as a precautionary measure. From the time purchases are made, the single facility would work as described. We might therefore conclude that the single financial facility would replace the RAL's financing components and would be perfectly consistent with an access policy aiming to fulfil the RAL's insurance objectives.

#### Exit strategies

Exit strategies are basically required because of the perception of countries that it is difficult to abandon their financial relationship with the IMF and the security it entails without causing alarm on the markets. A priori, the influence of a single facility on this question would be positive or neutral. On the one hand, with a single financial facility, the current mechanisms which countries can rely on as an exit strategy (basically precautionary arrangements and Post-Programme Monitoring (PPM))<sup>5</sup> could continue to operate in exactly the same way as at present or their role could even be enhanced, to enable them to supervise and monitor the country's performance from the end of the arrangement period until the end of the repayment period. Also, a single facility would not interfere with the potential use of the RAL for this purpose, depending on its eventual design.

The establishment of a mechanism of this type would also open up new possibilities for borrowers of a trauma-free exit from their financial relationship with the IMF. The greater flexibility

5. The purpose of PPM is to provide additional supervision of the country's performance after the end of the arrangement and while the outstanding credit exceeds 100% of the quota.

for countries provided by the repayment periods of a single financial facility could be used as a strategy to smooth their exit in certain cases.

#### Lending into arrears (LIA) policy

The LIA policy basically establishes two conditions that should be fulfilled for the Fund to lend to countries in arrears to their private creditors. First, the IMF's financial assistance should be crucial to the success of the country's adjustment programme and, second, the country should be applying appropriate measures and *making a good faith effort* to reach a collaborative agreement with its creditors. This second condition has at least two elements: the country must i) maintain a confident dialogue with all its creditors from the moment a restructuring is deemed to be necessary until it is completed, and ii) share with them all appropriate, relevant and non-confidential information. As in the case of the exceptional access framework referred to above, the suitability of the design of the LIA policy is currently subject to debate. However, for the purposes of this article, justification of the IMF's involvement as lender in this type of situation is independent of how the financial assistance is given, so that the introduction of a mechanism like the one mentioned would not interfere in the LIA policy.

#### Conclusions

The strategic review being conducted by the IMF and the reform of its mechanism for generating revenues offer the perfect occasion to re-examine its lending framework and to identify any areas that need updating or strengthening.

With the passage of time and the emergence of new types of financial crisis, the IMF's lending mechanism has turned into a complex catalogue of financial facilities with an incentive structure that could be improved. The IMF's lending over the last 16 years has, moreover, been concentrated in just two financial facilities (SBA and SRF, especially the former), which have different cost setting systems (costs depend on the volume drawn down in the case of SBA arrangements and time elapsed in that of the SRF).

This article seeks to open a debate on this mechanism and to analyse the possibility of simplifying it, making its operation more flexible to adapt it to different types of need, increasing its potential attractiveness vis-à-vis other financing alternatives and giving it a solid incentive structure which promotes a use of resources, both in terms of volume and duration, more in line with borrowers' needs. This latter improvement would attempt to promote fund rotation, to stimulate the rapid adoption of corrective measures by debtor countries and to limit the potential risk of excessive indebtedness.

For this purpose the article studies the possibility of replacing the current range of financial facilities with a single facility, capable of fulfilling the functions currently attributed to the existing instruments and achieving the objectives mentioned above, with the added value of avoiding the possibility of undesired arbitrage across the various facilities. The cost of this line, which would rise with the volume of credit drawn down and the duration of the programme, would reward limited and short-term use of financing and would penalise loans above certain volume and duration thresholds that the IMF may consider inappropriate at any given moment.

A credit line like the one described would incorporate ad hoc arrangement and repayment periods according to the needs of the programme, which would provide greater flexibility and country ownership in the design of programmes, when adapting the IMF credit to their conjunctural situation. It should be stressed that, although a mechanism with these characteristics would tend to reduce the cost of credit in certain circumstances, and to make periods more flexible, its introduction would not entail any relaxation of the requirements for access to IMF financing, nor would it weaken the requirement for compliance with conditionality.

To conclude, without prejudice to a more detailed analysis, a scheme of this nature, besides increasing the clarity of the lending framework, offers the possibility of improving the incentives for borrower countries and reorientating them towards the achievement of the objectives mentioned above. At the same time, the introduction of a single facility would either boost IMF lending policies, or at least not come into conflict with them.

21.11.2007.

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The author of this article is Juan Carlos Casado Cubillas, of the Directorate General Economics, Statistics and Research.

### **Introduction**

New financial legislation was more abundant in 2007 Q4 than in the same period of previous years.

Some changes were made to the monetary policy instruments and procedures of the Eurosystem and to the general clauses applicable to monetary policy operations and those relating to the uniform conditions for participation in TARGET by the Banco de España. Also, a regulation modifying the consolidated balance sheet of monetary financial institutions as a result of the entry of new Member States, and a regulation relating to the transitional provisions for application of minimum reserve requirements by the ECB after the introduction of the euro in Cyprus and Malta, were adopted.

In the field of credit institutions, first, the law on minimum own funds was amended so as to transpose partially the latest Community provisions in this respect, which require a level of own funds in consonance with the actual risk profile of these institutions, along with improved internal management of such risks. Second, mortgage market law was reformed, basically to address the expansion of the range of new products available, the improvement of financing instruments and the regulation of reverse mortgages and dependency insurance.

In the securities market, three pieces of legislation can be highlighted. First is the amendment of securities market law so as to incorporate into the Spanish legal system various Community directives which modernise the Spanish securities markets, broaden the range of investment services, regulate different systems or methods for the execution of transactions in financial instruments and strengthen investor protection. Second, the amendment of the pension scheme and pension fund regulations introduced changes in various sections of pension scheme legislation so as to incorporate the latest developments, particularly employee social insurance schemes. Third, the process of incorporating into Spanish law the Community regime on transparency of information about listed companies was completed.

The supervisory authorities published an information brochure on how the users of financial services should submit complaints and claims under the “one stop shop” system.

Regarding Community legislation, a directive on payment services in the internal market was published in order to establish a modern and consistent legal framework for payment services throughout the European Union.

In corporate law, as a result of the recent accounting harmonisation and adjustment to the criteria of international financial reporting standards (IFRSs), a new Spanish general chart of accounts was published, accompanied by a new general chart of accounts for small and medium-sized enterprises tailored to the special characteristics of the latter.

Lastly, the new developments, mainly relating to monetary, financial and tax matters, in the State Budget for 2008 are analysed.

**Monetary policy  
instruments  
and procedures  
of the Eurosystem**

The *Guideline of the European Central Bank (ECB/2007/10)* of 20 September 2007 (OJ of 30 October 2007) amending Annexes I and II to Guideline ECB/2000/7 of 31 August 2000 on monetary policy instruments and procedures of the Eurosystem was published in order to incorporate the decisions adopted recently by the ECB Governing Council.

First, it sets out the recent changes to the definition and implementation of the Eurosystem's single monetary policy. These refer, among other things, to the removal of outright transactions from the list of fine-tuning operations, and to changes relating to assets accepted as collateral in Eurosystem credit transactions.

Second, it amends the terminology contained in Guideline ECB/2007/2 of 26 April 2007 on a Trans-European Automated Real-time Gross settlement Express Transfer system, which establishes the TARGET2 system as a replacement for the current TARGET system.

Lastly, it includes some amendments derived from the enlargement of the euro area, given that the ECB Governing Council considered that Cyprus and Malta fulfil the necessary conditions for adoption of the euro on 1 January 2008<sup>1</sup>.

The first two sections came into force on 19 November 2007 and the last on 1 January 2008.

**Banco de España:  
amendment of the general  
clauses applicable  
to monetary policy  
operations and of those  
relating to participation  
in TARGET**

The Law of Autonomy of the Banco de España, Law 13/1994 of 1 June 1994<sup>2</sup>, adapted the legal status of the Banco de España to the provisions of the Treaty on European Union regarding monetary policy, relations with the Treasury and future links of the former to the ESCB. Subsequently, in application of the mandate of the Law of Autonomy, came the publication of the Regulation of the Banco de España by means of the Resolution of 14 November 1996<sup>3</sup> of the Governing Council of this Institution, later repealed by the Resolution of 28 March 2000<sup>4</sup>, which constitutes the basic and highest ranking provision of the Institution's self-government regime. In addition, a Resolution of 11 December 1998<sup>5</sup> of the Executive Commission of the Banco de España established the general clauses applicable to monetary policy operations, constituting the general framework for such operations in accordance with the guidelines of the ECB, which have been amended on various occasions.

The adoption by the ECB of Guideline ECB/2007/10, mentioned in the preceding section, was followed by publication of the *Resolution of 21 September 2007* (BOE of 14 November 2007) of the Executive Commission of the Banco de España, which amended that of 11 December 1998 amending the general clauses applicable to the Banco de España's monetary policy operations, and of the *Resolution of 20 July de 2007* (BOE of 20 December 2007) of the Executive Commission of the Banco de España approving the general clauses relating to the uniform conditions of participation in TARGET2-BE, for the purpose of adapting the terminology of those clauses to the new TARGET, known as TARGET2-Banco de España (TARGET2-BE).

First, for technical reasons, the terminology of the clauses is adapted to the new TARGET, and so the references to the Banco de España Settlement Service (SLBE) are replaced by references to TARGET2-BE.

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1. Via Council Decision 2007/503/EC of 10 July 2007 and Council Decision 2007/504/EC of 10 July 2007. 2. See "Regulación financiera: segundo trimestre de 1994", *Boletín Económico*, July-August 1994, Banco de España, pp. 86-92. 3. See "Regulación financiera: cuarto trimestre de 1996", *Boletín Económico*, January 1997, Banco de España, pp. 104-106. 4. See "Financial regulation: first quarter 2000", *Economic Bulletin*, April 2000, Banco de España. 5. See "Financial regulation: fourth quarter 1998", *Economic Bulletin*, January 1999, Banco de España, pp. 79-82.

Second, Clause II “scope of application” provides for the possibility that the Banco de España may, if necessary for the implementation of monetary policy, share with other Eurosystem members individual information, such as operational data, related to counterparties participating in Eurosystem operations. However, such information is subject to the requirement for professional secrecy.

Also, the Resolution of 21 September updates the rest of the clauses through the introduction of other lesser amendments which, in accordance with the General Documentation on Eurosystem Monetary Policy Instruments and Procedures, were already being applied in monetary policy operations.

Thus, Clause III “monetary policy operations” gives a new definition of open market operations<sup>6</sup> which, based on their purpose, periodicity or procedures, can be divided into various categories, and, furthermore, establishes that reverse transactions entered into by the Banco de España include repo transactions and collateralised loans. Lastly, an addition to the clauses provides that fine-tuning operations may be conducted on the last day of a minimum reserve maintenance period to counter liquidity imbalances which may have accumulated since the allotment of the last main refinancing operation.

A new development in Clause V “procedures applicable to monetary policy operations” with respect to bilateral operations is that the Banco de España may also execute outright transactions through stock exchanges and market agents. In these cases, the range of counterparties is not restricted a priori and the procedures shall conform to market conventions for the debt instruments involved in the transactions.

Finally, under Clause VI “collateral” the securities located in Spain eligible as collateral in monetary policy operations may be transferred through outright and repo transactions, in accordance with the procedures approved in each case.

**Changes to the consolidated balance sheet of the monetary financial institutions sector**

*Regulation 1489/2007 (ECB/2007/18) of the ECB of 29 November 2007* (OJ of 15 December 2007) amending Regulation 2423/2001 (ECB/2001/13) of 22 November 2001 concerning the consolidated balance sheet of the monetary financial institutions (MFIs) sector was published as a result of the accession of new Member States to the European Union. From its entry into force on 4 January 2008, MFIs have to continue reporting quarterly statistical data by country and currency and their positions vis-à-vis counterparties resident in the territories of Member States, but taking into account the entry of the new Member States.

NCBs can decide to relieve small MFIs that are not credit institutions of full reporting requirements, although they have to continue, as a minimum, to collect data relating to the total balance sheet at least at an annual frequency so that the competent authorities can monitor small institutions. They may also exempt from the statistical reporting requirements individual electronic money institutions in certain situations. If an individual electronic money institution is not exempted from the minimum reserve requirements, it will be required to report, as a minimum, the quarterly data necessary to calculate the reserve base.

Finally, the conditions under which shares issued by MFIs should be classified as deposits instead of as capital and reserves are clarified. Specifically, they are as follows: if there is a

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6. Previously, open market operations were defined as operations conducted in financial markets at the initiative of the Banco de España involving one or more of the following transactions: outright purchase or sale of assets, either spot or forward; 2) purchase or sale of assets via a repo transaction; 3) extension of collateralised loans; 4) issuance of ECB debt certificates; and 5) taking of deposits.

debtor-creditor economic relationship between the issuing MFI and the holder (regardless of any property rights in these shares), and if the shares can be converted into currency or redeemed without significant restrictions or penalties. In addition, these shares must meet certain requirements set out in the Regulation.

**European Central Bank:  
minimum reserves  
following the introduction  
of the euro in Cyprus  
and Malta**

The Statutes of the European System of Central Banks and of the ECB require the Member States to adopt at national level the appropriate measures to collect the statistical information needed to fulfil the statistical reporting requirements of the ECB following the introduction of the euro.

The ECB Governing Council considered that Cyprus and Malta fulfil the necessary conditions for adoption of the euro on 1 January 2008<sup>7</sup>. This means that credit institutions and branches of credit institutions located in these countries will be subject to reserve requirements from that date. The integration of these institutions and their branches into the minimum reserve system of the ECB requires the adoption of transitional provisions in order to ensure smooth integration without creating a disproportionate burden for credit institutions in participating Member States, including Cyprus and Malta.

For this purpose, *Regulation (EC) No 1348/2007 of the European Central Bank of 9 November 2007* (OJ of 17 November 2007) concerning transitional provisions for the application of minimum reserves by the ECB following the introduction of the euro in Cyprus and Malta was published.

Institutions located in Cyprus or Malta will be subject to a transitional maintenance period from 1 January 2008 to 15 January 2008. The reserve base for this period shall be defined in relation to elements of their balance sheet as at 31 October 2007<sup>8</sup> and reported to their central banks in accordance with the ECB's reporting framework for monetary and financial statistics.

This transitional maintenance period shall not affect the maintenance period applicable to institutions located in other Member States. However, these institutions may decide to deduct from their reserve base for the maintenance periods from 12 December 2007 to 15 January 2008 and from 16 January to 12 February 2008 any liabilities owed to institutions located in Cyprus or Malta, even though at the time the minimum reserves are calculated such institutions will not appear on the list of institutions subject to reserve requirements. If they wish to deduct such liabilities, they shall, for the aforementioned maintenance periods, calculate their minimum reserves on the basis of their balance sheet at 31 October 2007 and 30 November 2007, respectively, and report a table (which can be found in the annex to the Regulation) in which institutions located in Cyprus or Malta are considered as already subject to the ECB's minimum reserve system.

**Amendment of the law on  
minimum own funds and  
limitations on the activity  
of credit institutions for  
solvency reasons**

Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006<sup>9</sup> relating to the taking up and pursuit of the business of credit institutions (recast) replaced Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000<sup>10</sup> and proceeded to unify and codify all the directives relating to the taking up and pursuit of the business of credit institutions. The new directive, although retaining the basic principles of its predecessors (mutual recognition and supervision by the home Member State), substantially alters the

7. Via Council Decision 2007/503/EC of 10 July 2007 and Council Decision 2007/504/EC of 10 July 2007. 8. Except for small monetary financial institutions, which shall calculate a reserve base on the basis of their balance sheet as at 30 September 2007. 9. See "Financial regulation: 2006 Q2", *Economic Bulletin*, July 2006, Banco de España, pp. 142-144. 10. See "Financial regulation: 2000 Q2", *Economic Bulletin*, July 2000, Banco de España, pp. 82-83.

philosophy in respect of the treatment of credit institutions' solvency. Hence, to the basic aims of ensuring a sufficient level of solvency and achieving competitive equality among banks, it adds those of making the regulatory capital requirements more sensitive to actual risks and fostering improved risk management by institutions<sup>11</sup>.

This directive has been partially transposed into Spanish law via *Law 36/2007 of 16 November 2007* (BOE of 17 November 2007) amending Title II of 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 regard to the minimum own funds requirements of credit institutions, the new Law establishes general guidelines to be amplified by subsequent implementing regulations. The Law itself includes a more extensive range of risks to be considered (as compared with the previous wording of the Law, which left the task of determining the different risk classes to the implementing regulations) under the calculation methods to be established in the regulations. These risk classes include the following: for all business activities, foreign-exchange risk, commodities risk and operational risk; for all business activities except trading book, credit risk and dilution risk; and, finally, for trading book business, position risk, settlement risk and counterparty risk. The implementing regulations shall specify the calculation methods for weighting the different investments, transactions or positions, the possible additional charges due to the institution's risk profile and the allowable credit risk mitigation techniques. The Banco de España shall be responsible for determining the conditions under which the more advanced risk measurement methods may be used.

The main new development is that, for some of these methods, external credit assessments provided by firms recognised by the Banco de España in accordance with the criteria established therefor may be used, evaluating in all cases the objectivity, independence, transparency and ongoing review of the assessment methodology applied. Also, the authorisation of the Banco de España, under the conditions stipulated by it, shall be required to use for these purposes the internal credit assessments or the internal methods of measuring operational and market risk developed by the institutions themselves.

Also, mention is made of the Banco de España's obligations as the authority responsible for supervising credit institutions and their consolidatable groups. These obligations include review of the systems, strategies, procedures or mechanisms of any type used in complying with solvency rules and the drafting and publication of guidelines for supervised institutions and groups, indicating the criteria, practices or procedures considered appropriate for properly assessing the risks to which they are or may be exposed and for optimum compliance with the organisational and disciplinary rules applicable to supervised entities. These guidelines may include the criteria that the Banco de España itself will follow in the exercise of its supervisory activities.

Similarly, the functioning of Community supervision on a consolidated basis is regulated, both when responsibility lies with the Banco de España and when it has to co-operate with the supervisor of the responsible EU Member State. In particular, the Banco de España shall: co-

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<sup>11</sup> The directive incorporates the provisions of the document approved by the Basel Committee on Banking Supervision on 26 June 2004 (known as Basel II) establishing a set of structured measures based on three mutually reinforcing pillars: the adoption of uniform rules for determining 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 risk profile, risk exposure and risk management practices (Pillar 3). These must all be taken into account simultaneously so that the level of own funds held by institutions is in accordance with their overall risk profile.

ordinate the collection of information and its dissemination to the other authorities responsible for supervising institutions in the group, and the dissemination of information that it considers important in both normal and urgent situations; plan and co-ordinate all supervisory activities in either type of situation; and co-operate closely with other competent authorities with supervisory responsibility for parent, subsidiary or investee foreign credit institutions in the same group. In particular, the Banco de España shall co-operate with the aforementioned competent authorities in the granting of authorisation for the use of internal credit assessments or internal operational risk measurement methods to be applied in Spanish groups of credit institutions.

Additionally, the obligations of credit institutions to report and disclose information to the public are specified. They have to publish at least once a year a document entitled *information of prudential significance*, which shall contain data on their financial situation and activity for the purpose of assessing the risks they face, their market strategy, their risk control, their internal organisation and their situation, so as to comply with the minimum own funds requirements specified in this Law. The minimum content of this document shall be set by the Banco de España to ensure comparability between institutions, but each institution has to define a formal policy of solvency disclosure to the public, compliance with which shall be overseen by the Banco de España.

Furthermore, the Banco de España is endowed with new executive powers to enable it to carry out its disciplinary tasks in regard to compliance by credit institutions with their solvency obligations. These tasks include, for example, obliging credit institutions to hold own funds additional to the minimum requirements in certain circumstances, seeing that credit institutions strengthen the procedures, mechanisms and strategies adopted to comply with such requirements, and restricting or limiting the business activity, operations or network of institutions.

The Law includes a transitional provision which sets a lower limit on the minimum own funds requirements established therein for the two years following its entry into force on 1 January 2008. This was done for reasons of prudence given the difficulty of evaluating the enormous changes in the calculation of minimum own funds requirements entailed by the Law.

Finally, the Law takes the opportunity to amend, first, Legislative Royal Decree 1298/1986 of 28 June 1986 on the adaptation of current law on credit institutions to European Community legislation and, second, Law 26/1988 of 29 July 1988 on the discipline and intervention of credit institutions. In the first case, the purpose is to specify the terms governing the exchange of information between competent authorities within the framework of supervision on a consolidated basis. In the second, the aim is to adjust the obligations of credit institutions, such as that of having an adequate organisational structure with well defined, transparent and consistent lines of responsibility or that of having robust corporate governance procedures, as specified by Directive 2006/48. Furthermore, new types of serious and very serious infringements are defined concerning non-compliance with certain obligations, such as deficiencies in organisational structures or in the internal control mechanisms of institutions, the failure to make prudential reporting disclosures or other breaches of specific policies set by the Banco de España.

***Amendment of mortgage market law and regulation of reverse mortgages and dependency insurance***

The regulation of the mortgage market, initially set out in Law 2/1981 of 25 March 1981 on mortgage market regulation, has been changed several times to adapt this market to new developments. Particularly noteworthy were, among others, the provisions relating to transparency, to loan securitisation mechanisms and to subrogation and novation, which were in-

troduced to protect the interests of mortgage customers, and Law 2/1994 of 30 March 1994<sup>12</sup> on subrogation and modification of mortgage loans, which adopted measures to promote competition and lower the cost of mortgage novation and subrogation. These measures were subsequently improved by Law 36/2003 of 11 November 2003<sup>13</sup> on economic reform measures, which in turn fostered the development and dissemination of new interest rate risk insurance products.

*Law 41/2007 of 7 December 2007* (BOE of 8 December), amending Law 2/1981 of 25 March 1981 on mortgage market regulation and other mortgage and financial system rules, on the regulation of reverse mortgages and dependency insurance was enacted recently. The two basic lines of action are as follows: first, the removal of obstacles to the supply of new products and second, the provision of incentives for so-called reverse mortgages and the introduction of technical improvements in financing instruments.

#### TRANSPARENCY IN THE EXTENSION OF MORTGAGE LOANS

In regard to transparency in the extension of mortgage loans, the Ministry of Economy and Finance is empowered to determine the minimum information that credit institutions have to furnish to their customers before the signature of a contract. This precontractual information must enable the customer to ascertain the key characteristics of the products available and ascertain whether they are appropriate to his needs and financial situation. Also, the current information requirements are made extensive to mortgages of all kinds taken out by natural persons.

#### REFINANCING MECHANISMS: MORTGAGE COVERED BONDS AND MORTGAGE BONDS

The second area of modernisation addressed by the Law relates to the mechanisms for refinancing credit institutions through the issuance of mortgage covered bonds and mortgage bonds. The technical improvements are along two lines: the removal of administrative obstacles, which were particularly onerous in the case of mortgage bonds; and, more importantly, clearing the way for mortgage covered bond and mortgage bond issues to become increasingly sophisticated from the financial standpoint.

First, the mortgage loans and credits used to collateralise mortgage covered bonds may not include any loans or credits assigned to a mortgage bond issue or used for mortgage transfer. To facilitate the segregation of loans and credits in the pool of collateral and foster the transparency of that collateral, a special accounting register has been conceived. This register will include all mortgage loans and credits forming collateral for mortgage covered bonds and mortgage bonds and will identify those meeting the legal requirements. The annual accounts shall contain the essential elements of this register. Also, institutions may not issue mortgage covered bonds for an amount exceeding 80% of the outstanding principal of the mortgage loans and credits on their books (previously 90%), less the amount of those assigned to mortgage bonds. The present value of mortgage bonds may amount to 98% of the present value of the assets assigned to the issue.

Second, administrative obstacles hindering the development of mortgage bonds have been removed so as to achieve a more neutral administrative treatment of mortgage bonds as compared with mortgage covered bonds. To this end, the need to include a marginal note in the Property Register for each of the mortgages assigned is dispensed with and the previously compulsory setting-up of a bondholders' syndicate becomes optional. Also, as with covered bonds, these issues continue to be backed by the issuer's unlimited liability in the event the specific collateral does not cover the amount of the debt.

<sup>12</sup>. See "Regulación financiera: segundo trimestre de 1994", *Boletín Económico*, July-August 1994, Banco de España, pp. 96-97. <sup>13</sup>. See "Financial regulation: 2003 Q4", *Economic Bulletin*, January 2004, Banco de España, p. 91.

Third, certain reforms in both covered bonds and mortgage bonds pave the way for the increased financial sophistication of issues. Noteworthy is the possibility of including substitute liquid assets either in the bond issue portfolio or for the total covered bonds issued (these assets must also be included in the aforementioned accounting register). This helps to cover liquidity risk in the event of insolvency proceedings and to facilitate the coverage of interest rate risk through financial derivatives contracts associated with an issue, which arises upon the entry of economic inflows generated by these instruments in favour of the institution into the pool of segregated assets over which the mortgage bondholder has a preferential claim.

#### APPRAISAL COMPANIES

With regard to appraisal companies, the Law acts in three areas, under the basic principle of preserving and strengthening the professionalism and independence of these companies. First, it establishes that, in certain cases<sup>14</sup>, appraisal companies must have in place appropriate mechanisms to underpin their independence and avoid conflicts of interest.

Also, the credit institutions by which they are controlled shall set up a *technical committee* to verify compliance with the independence requirements contained in the aforementioned mechanisms. This committee shall draft a report every year and send it to the board of directors or equivalent body of the institution and to the Banco de España.

Second, the sanctioning regime of appraisal companies is modified. New infringements derived from the new obligations contained in the Law are defined and the existing infringements, which are included in full, are totally revised and updated.

Third, a regime is established for significant holdings<sup>15</sup>, similar to that envisaged for credit institutions, which will enable the shareholder structure to be controlled. The direct or indirect acquisition of a significant holding in an appraisal company will entail the obligation to inform previously the Banco de España. The latter will have a maximum of three months to oppose the proposed acquisition.

#### SUBROGATION, NOVATION AND REPAYMENT OF MORTGAGE LOANS

The scope of application of the Law is specified in relation to subrogations and novations of mortgage loans and credits<sup>16</sup> in which the mortgage is over a dwelling and the borrower is a natural person or a legal person subject to the small-companies regime under corporate income tax.

The Law retains the tax benefits of subrogations and novations, which thus continue to be exempt from transfer tax and stamp tax.

The cases in which public deeds of mortgage loan subrogation or novation can be modified are extended. Previously, changes could only be made in the initially agreed or current ordinary or default interest rate conditions, in the loan maturity, or in both. This Law adds the following cases: capital increases or reductions, the repayment method or system and any other financial conditions of the loan, and the provision or modification of personal guarantees. These modifications shall in no case entail any alteration or loss of the rank of the reg-

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<sup>14</sup> Specifically, when they provide services to credit institutions in their group, or when at least 25% of their total income in the regulatorily specified time period derives from their relationship with a credit institution or institutions in the same group, provided that one or more of said credit institutions has issued mortgage bonds that are in circulation. <sup>15</sup> For the purposes of this Law, a significant holding in an appraisal company is defined as a direct or indirect interest of at least 15% of the capital or voting rights of the company, or one which, although not reaching this percentage, enables significant influence to be exercised in the company. <sup>16</sup> Hereafter, the term "mortgage loans" will be used to refer to both concepts.

istered mortgage, except when they increase the amount of mortgage liability or lengthen the loan term due to this increase or lengthening. In these cases, acceptance by the holders of registered rights with a lower rank under current mortgage law is needed to preserve the mortgage's rank. In both cases, the change shall be entered in the register through a marginal note to the mortgage subject to the modifying novation. In no event may this be done if the register contains a request for information about the outstanding amount in an enforcement of subsequent liens.

Additionally, the Law changes the name of the prepayment penalty to "compensation for withdrawal" (*compensación por desistimiento*) and extends it not only to subrogations but to other loan transactions of this nature. Hence in the total or partial repayment of mortgage loans, the amount receivable by the creditor institution as compensation for withdrawal may not exceed:

- 1 0.5% of the principal repaid early if the prepayment was in the first five years of the term of the loan or credit, or
- 2 0.25% of the principal repaid early if the prepayment was at a later date.

If compensation for withdrawal of an equal or lower amount was agreed, the compensation receivable shall be that agreed upon.

Along with the compensation for withdrawal, the Law regulates the compensation for interest rate risk. The creditor institution shall not be entitled to receive compensation for interest rate risk in total or partial subrogatory or non-subrogatory settlements of mortgage loans taking place within an interest rate adjustment period the agreed duration of which is twelve months or less. The fee applicable to other mortgage loans shall be that agreed, although the creditor institution shall not be entitled to receive the fee if the loan settlement generates a capital gain in its favour<sup>17</sup>.

Lastly, there are changes in the rates charged for subrogation, modifying novation and settlement of mortgage loans. Specifically, notary fees shall be calculated at the rates for *documentos sin cuantía* (documents with no stated amount) and registry fees shall be calculated at the rates for *inscripciones* (registrations), taking as a basis the amount of outstanding principal reduced by 90%.

Table 1 compares the regime applicable in mortgage loan subrogations and novations with that under previous legislation.

#### CAPPED MORTGAGES

Mortgage market flexibility is enhanced by the regulation of capped mortgages (*hipotecas de máximo*), also known in law as floating mortgages (*hipotecas flotantes*)<sup>18</sup>, although they can only be constituted in favour of credit institutions as security for one or several present and/or future obligations of any type or in favour of government agencies holding tax or social security receivables. A novation agreement is not necessary for them.

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<sup>17</sup> A capital gain arising from exposure to interest-rate risk is defined as the positive difference between the principal outstanding at the time of prepayment and the market value of the loan or credit. This shall be calculated as the sum of the present value of the outstanding payments up to the next interest rate adjustment and the present value of the outstanding principal that would remain at the adjustment date if the loan were not repaid early. When the difference is negative, a capital loss for the creditor institution is deemed to exist. <sup>18</sup> The purpose of these mortgages is to provide backing. They are used to provide collateral for one or several obligations when the exact amount of these is not known and only the maximum mortgage liability can be specified.

MORTGAGE LOAN SUBROGATION		
LAW 2/1994 OF 30 MARCH 1994	LAW 36/2003 OF 11 NOVEMBER 2003 (ROYAL DECREE-LAW 2/2003 OF 25 APRIL 2003)	LAW 41/2007 OF 7 DECEMBER 2007
Cases	Cases	Cases
Improvements can only be made in the initially agreed or current ordinary or default interest rates.	As before, except that the term of the loan may be extended too, either on its own or in tandem with an improvement in the interest rate.	As before, except that the lender must be a credit institution, in which case the public deeds modifying the mortgage loan may refer to one or more of the following circumstances: 1) capital increases or reductions; 2) alteration of the loan term; 3) the initially agreed or current interest rate conditions; 4) the repayment method or system and any other financial conditions of the loan; 5) the provision or modification of personal guarantees.
The deed shall set out, inter alia, the new interest rate conditions.	As before, except that, where applicable, the new term of the loan shall be included.	These modifications shall in no case entail any alteration or loss of the rank of the registered mortgage, except when they involve an increase the amount of mortgage liability, and they shall be entered in the Register. In no event may this be done if the register contains a request for information about the outstanding amount in an enforcement of subsequent liens.
Tax concessions: exempt from the progressive rates of stamp duty.	No change.	No change.
Notary and registry fees	Notary and registry fees	Notary and registry fees
Notary and registry fees shall be calculated on the basis of the amount obtained by applying the difference between the existing and the new interest rates to the amount of the outstanding mortgage liability.	Notary and registry fees shall be calculated on the basis of the amount of outstanding principal at the subrogation date and the authorised document shall be deemed to contain a single item.	Notary fees shall be calculated at the rates for documents with no stated amount ( <i>documentos sin cuantía</i> ). Registry fees shall be calculated at the rates for registrations ( <i>inscripciones</i> ), taking as a basis the amount of outstanding principal reduced by 90%.
Prepayment penalty	Prepayment penalty	Compensation for withdrawal
In variable-rate mortgages, where a prepayment penalty of 1% or less has been agreed, the penalty payable shall be that agreed. In all other cases, it shall be 1%.	In variable-rate mortgages, where a prepayment penalty of 0.5% or less has been agreed, the penalty payable shall be that agreed. In all other cases, it shall be 0.5%.	Prepayment penalties cease to exist and are replaced by "compensation for withdrawal" ( <i>compensación por desistimiento</i> ). In this respect, in total or partial repayments of mortgage loans, the amount receivable by the creditor institution as compensation for withdrawal may not exceed: 1) 0.5% of the principal repaid early if the early repayment was in the first five years of the term of the loan or credit, or 2) 0.25% of the principal repaid early if the early repayment was at a later date. Where a compensation for withdrawal has been agreed that is equal to or less than this, the compensation receivable by the creditor institution shall be that agreed.
		Compensation for interest rate risk
		The creditor institution shall not be entitled to receive compensation for interest rate risk in subrogatory or non-subrogatory settlements of mortgage loans whose interest rate is subject to adjustment in a period of one year or less or which mature in one year or less from the settlement date. The fee applicable to other mortgage loans shall be that agreed, although the creditor institution shall not be entitled to receive the fee if the loan settlement generates a capital gain in its favour.

SOURCES: BOE and in-house preparation

MORTGAGE LOAN NOVATION		
LAW 2/1994 OF 30 MARCH 1994	LAW 36/2003 OF 11 NOVEMBER 2003 (ROYAL DECREE-LAW 2/2003 OF 25 APRIL 2003)	LAW 41/2007 OF 7 DECEMBER 2007
Cases	Cases	Cases
Improvements can only be made in the initially agreed or current interest-rate conditions. A change to the loan term can also be agreed together with such improvement.	Modification refers to initially agreed or current interest-rate conditions, or to alteration of the loan term, or both.	No change
Tax concessions: exempt from the progressive rates of stamp duty.	No change	No change
Notary and registry fees	Notary and registry fees	Notary and registry fees
Notary and registry fees shall be calculated on the basis of the amount obtained by applying the difference between the existing and the new interest rates to the amount of the outstanding mortgage liability.	Notary and registry fees for these deeds shall be calculated on the basis of the amount obtained by applying the difference between the existing and the new interest rates to the amount of the outstanding principal at the novation date. In the case of novations which only alter the loan term, the basis for the calculation shall be 0.1% of the outstanding principal at the novation date.	As for subrogation
Fees for extending the loan term	Fees for extending the loan term	Fees for extending the loan term
Not envisaged.	In the case of novations which only alter the loan term, the basis for the calculation shall be 0.1% of the outstanding principal at the novation date.	As for subrogation

SOURCES: BOE and in-house preparation.

For the constitution of a mortgage of this kind, it shall suffice to specify such constitution in the mortgage deed and state the following details in the mortgage registration: its name and, if required, a general description of the basic legal acts from which the collateralised obligations derive or may derive in the future; the maximum amount of the claim on the property; the term of the mortgage; and the method of calculating the final net amount secured. The mortgage deed may also specify that the amount claimable in the event of foreclosure shall be the result of the settlement effected by the creditor financial institution in the manner agreed by the parties in the deed.

#### REGISTRATION OF RIGHTS IN REM UNDER A MORTGAGE

Other measures aim to specify the content of the registration of rights in rem under a mortgage and ensure that registry entries have a more uniform structure. For this purpose, the registration of rights in rem under a mortgage shall state the principal amount of the debt and, where applicable, that of the agreed interest, or the maximum amount of the mortgage liability, identifying the collateralised obligations, whatever their nature and term. The other financial clauses, such as those relating to early maturity, collateralised by the mortgage, shall be included in the entry in the terms set out in the mortgage deed, provided always that the clauses concerning rights in rem have been approved by the registrar.

#### REVERSE MORTGAGE

For the purposes of this Law, a reverse mortgage is a mortgage loan or credit taking the form of a mortgage over real property constituting the principal residence of the applicant, provided that it meets the following requirements: a) the applicant and any beneficiaries designated by him or

her must be of age 65 or over or in a situation of severe or considerable dependency; b) the mortgagor must draw the loan amount in periodic withdrawals or as a lump sum; c) the debt must only be claimable by the creditor and the security interest enforceable upon the death of the borrower or, if so stipulated in the contract, upon the death of the last of the beneficiaries; and d) the mortgaged residence must have been appraised and insured against damage.

The maximum amount drawable by the mortgagor shall be determined as a percentage of the appraisal value on the date of constitution. When this percentage is reached, the elderly person or dependent shall cease to draw income and the debt continues to incur interest. The credit institution normally recovers the credit drawn down plus interest as a lump sum upon the owner's death, through repayment of the debt by the heirs or enforcement of the mortgage by the credit institution.

The reverse mortgage envisaged in this Law may only be granted by credit institutions and by insurance companies authorised to operate in Spain, without prejudice to the limits, requirements or conditions imposed on insurers by their sectoral regulations.

The legal regime governing the transparency and marketing of reverse mortgages and the advisory services to those applying for this product shall be set in place subsequently by the Ministry of Economy and Finance.

The public deeds documenting these transactions shall be exempt from stamp tax. As for other mortgage loans, the notary fees for deeds of constitution, subrogation, novation and settlement shall be calculated at the rates for *documentos sin cuantía* (documents with no stated amount) and registry fees shall be calculated at the rates for *inscripciones* (registrations), taking as a basis the amount of outstanding principal reduced by 90%.

Finally, the Law provides that any amounts received periodically by the beneficiary as a result of a reverse mortgage may be used fully or partly to join an insured social welfare scheme. The mathematical reserve of the insured social welfare scheme may not be transferred to another social welfare instrument, nor may the vested rights or mathematical reserves of other social welfare systems be transferred to the former.

#### DEPENDENCY INSURANCE

With regard to dependency insurance, the Law includes the regulation of private dependency coverage instruments, whether in the form of insurance policies taken out with insurance companies, including social welfare mutual societies, or through pension schemes.

The coverage of dependency under an insurance policy obliges the insurer, in the event of a situation of dependency, to provide the agreed benefit in order to deal with, fully or partially, directly or indirectly, the detrimental consequences of this situation for the insured. This insurance may be arranged by insurance companies that have the required administrative authorisation to carry on life or sickness insurance activities. If a pension scheme provides for coverage in the event of dependency, this must be expressly stated in the specifications. Wherever provision has not been expressly made, the legislation regulating pension schemes and funds shall apply.

The Law came into force on 9 December 2007.

#### **Amendment of securities market legislation**

Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments established the general regulatory framework for financial markets in the European Union and set out, inter alia, authorisation and operating conditions for investment firms, the conditions under which investment services are to be provided, the organisational and

operational requirements to be met by regulated markets, and certain matters relating to the supervisory powers of national competent authorities and co-operation between them.

This Directive was subsequently implemented by two pieces of Community legislation: Commission Regulation 1287/2006 of 10 August 2006<sup>19</sup> implementing Directive 2004/39/EC as regards record-keeping obligations for investment firms, transaction reporting, market transparency and admission of financial instruments to trading; and Commission Directive 2006/73/EC of 10 August 2006<sup>20</sup> implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms.

Also, Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006<sup>21</sup> on the capital adequacy of investment firms and credit institutions, based on international projects to harmonise supervisory tasks (which, together with Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006, incorporated the 2004 Basel II Capital Accord into the European regulatory framework), sought to bring the measurement of risk by supervisors to determine own funds requirements more into line with the institutions' own measurement mechanisms. It also aimed to stimulate the development of appropriate internal risk management procedures in investment firms, and required these to disclose publicly significant information on key aspects of their business profile, risk exposure and risk management processes.

Recently, *Law 47/2007 of 19 December 2007* (BOE of 20 December 2007) amending Law 24/1988 of 28 July 1988 on the securities market was enacted to incorporate into Spanish law Directive 2004/39/EC and certain aspects of Directives 2006/73/EC and 2006/49/EC.

#### PURPOSE OF THE REFORM

The main aims of the reform are as follows. First, the Spanish securities markets are modernised to adapt them to current needs. To do this, the Law introduces new types of investment firms, widens the range of investment services they can provide, extends the gamut of negotiable financial instruments and recognises that transactions in financial instruments may be executed by systems or methods different from those in traditional secondary markets.

Second, investor protection measures are strengthened and the need to differentiate between different types of investors according to their knowledge is recognised. Hence the Law sets out extensive rules with which investment service providers must comply.

Third, the organisational requirements to be met by firms providing investment services are adapted to ensure that their organisation is suitable for the complex range of services offered by them. Also, in regard to financial requirements, firms must adapt to the new risk management processes in the area of solvency. Finally, the supervisory powers of the CNMV are extended and the instruments and mechanisms for fostering national and international co-operation between supervisors are strengthened.

#### SCOPE OF APPLICATION

A new list of financial instruments is included and legal status is afforded to the concept of negotiable securities, which are defined as any rights to assets, by whatever name they may be known, which, owing to their particular legal structure and transfer rules, are suitable for general, impersonal trading on a financial market, and a list of those currently existing is set out. Also enumerated are the other financial instruments, which include, in addition to negotiable securities, the different contracts of options, futures, swaps, forward rate agreements and other

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19. See "Financial Regulation: 2006 Q3", *Economic Bulletin*, October 2006, Banco de España, p. 148. 20. See "Financial Regulation: 2006 Q3", *Economic Bulletin*, October 2006, Banco de España, pp. 146-147. 21. See "Financial Regulation: 2006 Q2", *Economic Bulletin*, July 2006, Banco de España, pp. 144-146.

derivative financial instrument contracts relating to different variables, derivative financial instruments for the transfer of credit risk, and financial contracts settled net, among others.

Finally, the concept of group is redefined to clarify that its meaning is as set out in Article 42 of the Spanish Commercial Code<sup>22</sup>, as worded in Law 16/2007 of 4 July 2007 on reform and adaptation of accounting-related corporate law for international harmonisation according to European Union law.

OFFICIAL SECONDARY  
SECURITIES MARKETS  
(REGULATED MARKETS)

Directive 2004/39/EC on markets in financial instruments was transposed to Spanish law, although Spain retained the term *mercados secundarios oficiales de valores* (official secondary securities markets) because it is deeply rooted in the Spanish legal system.

A significant new development is that the Law breaks with the principle that shares are traded exclusively on the stock exchanges. Hence, each regulated market will decide on the financial instruments that can be traded on it, provided that legal requirements are met. In addition, the Law recognises and regulates multilateral trading facilities (MTFs) and the systematic internationalisation of orders as financial instrument trading systems, with a view to encouraging competition between the different ways of executing transactions.

Furthermore, the body responsible for authorising the creation of official secondary markets will be the Ministry of Economy and Finance, instead of the Council of Ministers as in the past. This change is mainly due to the particularly technical nature of such authorisation and to the need to speed up the process so as to raise the competitiveness of Spanish securities markets compared with European competitors.

The legal regime governing official secondary markets is completed with the specific market regulations which have to be authorised by the Ministry of Economy and Finance.

A new regime for the suspension and removal of financial instruments from trading is set in place. Thus, to the CNMV's continuing powers to adopt these decisions in similar terms to those so far in place are added the new powers of the operator of the official secondary market to suspend or remove from trading a financial instrument which no longer complies with the rules of the regulated market unless such a step would be likely to cause significant damage to investors' interests or to the orderly functioning of the market.

The Law regulates a new transparency regime for shares traded on official secondary markets, so that the market is sufficiently informed of the transactions that can be carried out at any time and of completed transactions in shares. In short, it seeks to set in place a pre-trade and post-trade transparency regime for share transactions on official secondary markets. This transparency regime is completed with that required of MTFs and of systematic internalisers in the trading of such shares.

MULTILATERAL TRADING  
FACILITIES

The Law regulates MTFs for the first time, although it does not consider them to be regulated markets. MTFs are systems operated by an investment firm, by an operator of an official

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22. Article 42 establishes that a group exists if a company directly or indirectly controls or can control one or more others. In particular, control shall be presumed to exist when an company, denoted the parent, has any of the following relationships with another one, denoted the subsidiary: a) the parent holds a majority of the voting rights in the subsidiary; b) the parent has the power to appoint or remove a majority of the members of the board of directors of the subsidiary; c) through agreements with third parties, the parent can exercise a majority of the voting rights in the subsidiary; and d) the parent has, with its votes, appointed most of the members of the board of directors of the subsidiary in office at the time the consolidated accounts have to be prepared and during the two immediately preceding accounting periods.

secondary market or by a company set up for the purpose by one or more market operators that has the sole corporate purpose of managing the system and is fully owned by one or more market operators. These systems bring together multiple third-party buying and selling interests in financial instruments – in the system and in accordance with its non-discretionary rules – in a way that results in a contract.

MTFs may be freely set up, subject to the regime of prior verification and supervision by the CNMV. These systems shall be overseen by an operator, which shall be responsible for their internal organisation and functioning and shall hold the resources needed to manage the market.

Furthermore, specific pre-trade and post-trade requirements are established to promote MTF transparency and an efficient price formation process. Hence MTFs have to provide publicly available information on transactions in shares admitted to trading which, in turn, are admitted to trading on regulated markets, on the purchases and sales at any given time, and on completed transactions in MTFs.

The supervision of MTFs is the responsibility of their operators, which shall communicate to the CNMV any significant breach of their rules or market abuse.

Finally, the operators of Spanish MTFs may establish appropriate mechanisms to facilitate remote access to and use of their systems to users or members established in other Member States. Analogously, the operators of a MTF in another EU Member State may establish in Spain similar mechanisms to facilitate remote access to and use of their systems to users or members established in Spain. In both cases, it will be necessary to previously notify the respective competent authorities.

#### SYSTEMATIC INTERNALISATION

Another change introduced by the Law is systematic internalisation, which is actually a third alternative form of trading financial instruments, outside regulated markets and MTFs. The Law sets out the rules applicable to credit institutions and investment firms which deal on own account by executing client orders regarding shares admitted to trading on regulated markets, whenever this is done on an organised, frequent and systematic basis and the orders are for amounts less than or equal to the standard market size for the security in question<sup>23</sup>.

The Law establishes rules and obligations for systematic internalisers. If there is a liquid market, they have to publish a firm quote of a general nature that is readily available to interested parties on reasonable commercial terms. In the case of shares for which there is not a liquid market, it shall suffice to disclose quotes to the clients on request.

Also, they have to make public the volume and price of their transactions outside regulated markets or MTFs in shares admitted to trading on a regulated market and the time at which they were concluded. This information shall be made public as soon as possible, on a reasonable commercial basis, and in a manner which is easily accessible to interested parties.

Internalisers shall regulate their clients' access to their quotes and observe the principle of best execution.

#### TRANSACTION CLEARING AND SETTLEMENT

The Law stipulates that regulated markets and MTFs are free to choose a clearing and settlement system of another EU Member State. The consequences of this are twofold: first, the

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<sup>23</sup>. The standard market size for each class of share shall be a size representative of the arithmetic average value of the orders executed in the market for the shares included in each class of shares.

corporate purpose of the system operator<sup>24</sup> is broadened to allow it to clear and settle transactions on regulated markets and MTFs of other EU Member States. Second, Spanish official secondary markets and MTFs are permitted to conclude agreements with entities of other EU Member States to entrust them with the clearing and settlement of transactions. These agreements must be approved by the CNMV, which can oppose them if they could be detrimental to the orderly functioning of Spanish markets and MTFs.

Members of official secondary markets and of MTFs can freely designate the system for the settlement of transactions in those venues subject to certain conditions and regardless of the settlement system of the official secondary market or MTF.

#### PUBLIC-DEBT BOOK-ENTRY MARKET

It should be noted that under the new Law the public-debt book-entry market no longer has the sole purpose of the trading of fixed-income securities represented by book entries issued by public agencies or entities. Now, other financial instruments can be traded on it provided they comply with the applicable regulations and with its technical specifications.

The Banco de España continues to be the market operator, although the Public Debt Book-Entry Market Advisory Committee has ceased to exist and the Banco de España will carry out securities financial services when this is agreed with the issuers. To become a market member, which previously required the authorisation of the Ministry of Economy and Finance at the proposal of the Banco de España, the procedure will now be the same as for any other market.

#### REGIME GOVERNING THE REPORTING OF TRANSACTIONS IN FINANCIAL INSTRUMENTS

Another new feature of the Law is the regime under which investment firms and credit institutions report to the CNMV all transactions in financial instruments carried out by them, regardless of the market, system or mechanism in or by which they were executed. This obligation aims to make it easier for the CNMV to carry out its supervision and inspection duties as rapidly and efficiently as possible.

In this respect, investment firms and credit institutions executing transactions in financial instruments have to report them to the CNMV as quickly as possible, and provide the related basic identification data no later than the close of the following working day. Excluded from this obligation are transactions in units or shares in collective investment institutions not admitted to trading on regulated markets or MTFs.

This reporting task should be carried out by the institution itself, by a third party acting on its behalf, by the operator of the regulated market or MTF through which the transaction was carried out, or by a trade-matching or reporting system approved by the CNMV. Additionally, it must furnish to the CNMV, in the manner, level of detail and periods stipulated by law, the identity of the clients for the account of which the transactions were carried out.

Finally, the Ministry of Economy and Finance is empowered to establish any additional reporting requirements it considers necessary to enable the CNMV to carry out its functions properly, provided that certain requisites set out in the Law are met.

#### INVESTMENT FIRMS

The list of investment services grew notably owing to two major additions: first, investment advice, defined as the provision of personal recommendations to a client relating to financial instruments. For this purpose, the Law creates a new type of investment firm authorised solely to engage in such advisory services: *the financial advice firm*. Under the authorisation

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<sup>24</sup> The system operator is the entity currently entrusted with carrying out the functions of clearing and settlement of transactions on Spanish securities markets such as stock exchanges and the public-debt book-entry market.

and operating regime set in place by the Law, these services can be provided by both natural and legal persons. Like portfolio management companies, these firms may not carry out transactions in securities or cash on their own behalf, except to administer their own assets and subject to the constraints established by law. Nor are they authorised to hold clients' funds or securities and for that reason are not allowed at any time to place themselves in debit with their clients. Finally, their activities shall not be covered by the Investment Guarantee Fund.

Second, management of the MTFs described above is legally considered a financial service. The inclusion of such management in investment services means that it is restricted exclusively to firms duly authorised to provide investment services. When MTFs are to be managed by official secondary market operators or by entities formed ad hoc by one or more market operators, which must have the sole corporate purpose of system management and be fully owned by one or more market operators, such operators must meet the requirements laid down by the Law for the authorisation of investment firms.

Also, the performance on a professional basis of the activities of marketing investment services and financial instruments and of attracting clients is restricted to investment firms and their agents, since these activities are closely related to the provision of investment services.

In any event, as has been the case so far, credit institutions may carry out any investment service, provided that their legal regime, their articles of association and their specific authorisation permit them to do so. Management companies of collective investment institutions may also provide certain investment services.

The Law sets out exhaustively the internal organisation requirements to be met by investment firms. This is because Directive 2004/39/EC confers a Community passport on all Community investment firms, so the level of harmonisation must be sufficient to ensure they are all competing on an equal footing. For the same reason, it regulates in detail the cross-border operations of firms that provide investment services.

Additionally, the Law devotes space to fine-tuning and updating the regulations on the supervision of solvency of investment firms and their consolidated groups, which will continue to be the responsibility of the CNMV. The Law delimits the latter's powers over other natural and legal persons in its actions relating to the securities market, particularly its powers over: securities issuers; Spanish credit institutions (including their branches abroad and their agency network) and non-Community credit institutions; EU investment firms (including their branches in Spain and their tied agents); the branches in Spain of EU credit institutions; and any other natural and legal persons that may be affected by the Law.

## INVESTOR PROTECTION

One of the basic principles of this Law is to ensure adequate investor protection, and an extensive list of rules of conduct is therefore laid down which must be observed by all entities providing investment services. Specifically, three possible categories of investors are distinguished: retail clients, professional clients and eligible counterparties. The highest level of protection is afforded to retail clients.

The Law specifies that professional clients shall be understood as those who possess the experience, knowledge and expertise to make their own investment decisions and properly assess the risks that they incur. By exclusion, all those that are not professionals shall be considered to be retail clients. Nevertheless, retail clients may, provided they fulfil certain conditions, request to be treated as professional clients.

The following professional clients are in turn considered to be eligible counterparties: investment firms, credit institutions, insurance companies, collective investment institutions and their management companies, pension funds and their management companies, other financial institutions authorised or regulated under Community legislation or the national law of a Member State, national governments and their services, regional (autonomous) communities and supranational organisations. Also classifiable as eligible counterparties shall be other professional clients that so request and the entities of third countries subject to equivalent requirements and conditions.

Entities providing investment services should act with diligence and transparency in the interests of their clients, caring for such interests as if they were their own. They must also keep their clients adequately informed at all times. The information, including that of an advertising nature, should be impartial, clear and not misleading. Clients or potential clients<sup>25</sup> shall be provided with appropriate comprehensible information about the investment firm and its services, financial instruments and investment strategies, execution venues, and costs and associated charges, so that they are reasonably able to understand the nature and risks of the investment service and of the specific type of financial instrument that is being offered and, consequently, to take investment decisions on an informed basis. The information about financial instruments and investment strategies should include appropriate guidance on and warnings of the risks associated with investments in those instruments or strategies.

When providing investment advice or portfolio management the investment firm shall obtain the necessary information on the retail client's knowledge and experience<sup>26</sup>, his financial situation and his investment objectives so as to enable the firm to recommend the investment services and financial instruments that are suitable for him. When the firm does not obtain this information, it shall not recommend investment services or financial instruments to the client or potential client. For other services, the investment firm must ask the client or potential client to provide information regarding his knowledge and experience in the investment field relevant to the specific type of product or service offered or demanded so as to enable the investment firm to assess whether the investment service or product envisaged is appropriate for the client. If it is not, the investment firm shall warn the client or potential client. In cases where the client or potential client does not provide the requested information, or the information provided is insufficient, the investment firm shall warn the client or potential client that such a decision will not allow the firm to determine whether the investment service or product envisaged is appropriate for him.

When the service provided is the execution or the reception and transmission of client orders, the foregoing procedure need not be followed, provided that, in the case of non-complex financial instruments, certain organisational and reporting conditions are met. In any event, reasonable measures should be taken to obtain the best possible result for the client.

The Law establishes certain obligations in respect of preventing conflicts of interest and registering contracts.

The Law sets out a number of transitional provisions to allow investment firms to adapt their articles of association, activity programmes and internal rules of conduct within a period of six months from the entry into force of the Law, which was on 21 December 2007. The same time

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25. A potential client is considered to be a person that has had direct contact with the entity for the provision of an investment service, at the initiative of either party. 26. In the case of professional clients, the firm need not obtain information on the client's knowledge and experience.

period is set for the existing unofficial trading organised markets or systems to transform themselves into MTFs. Otherwise, they will have to cease operating.

Finally, the government is authorised to draft, within one year from the entry into force of this Law on 21 December 2007, a consolidated text to regularise and clarify the Law and harmonise it with other related legislation.

***Amendment of the  
pension scheme and  
pension fund regulations***

The Pension Scheme and Pension Fund Regulations enacted by Royal Decree 304/2004 of 20 February 2004<sup>27</sup> updated, systematised and completed the adaptation of the law governing pension schemes and funds, having regard to past experience in this area and taking as a reference the developments in the European Union.

Law 35/2006 of 28 November 2006<sup>28</sup> on personal income tax and partially amending the corporate income tax, non-resident income tax and wealth tax laws, among others, introduced amendments to the consolidated text of the law regulating pension schemes and funds approved by Royal Legislative Decree 1/2002 of 29 November 2002<sup>29</sup>. In turn, Royal Decree 439/2007 of 30 March 2007<sup>30</sup>, approving the personal income tax regulations and amending the pension scheme and pension fund regulations approved by Royal Decree 304/2004 of 20 February 2004, amended the latter to adapt it to changes in the law.

Recently, *Royal Decree 1684/2007 of 14 December 2007* (BOE of 15 December 2007) amended the pension scheme and pension fund regulations approved by Royal Decree 304/2004 of 20 February 2004 and the regulations on the implementation of firms' pension commitments to employees and beneficiaries enacted by Royal Decree 1588/1999 of 15 October 1999.

The Royal Decree makes changes in various areas of pension scheme law: actuarial aspects of pension schemes, obligations to provide information to participants and beneficiaries, regime governing pension funds, rules on internal control of management companies, rules of conduct and on separation of depositories, and rules on administrative registers, particularly those relating to cross-border activities.

As a result of the creation by Law 35/2006 of 28 November 2006 of occupational social insurance schemes as a new instrument for externalising firms' pension commitments to their workers, a number of adaptations to the law on pension schemes and on pension commitment implementation were made to regulate certain aspects of this new instrument of occupational supplementary welfare.

In particular, the changes focus on two basic matters: mobility between social insurance instruments with homogeneous tax treatment derived from Law 35/2006 of 28 November 2006 on personal income tax and partially amending the corporate income tax, non-resident income tax and wealth tax laws; and the adaptation of the principle of non-discrimination so as to prevent the simultaneous existence of both instruments in a firm.

The regulations on implementation of firms' pension commitments to workers and beneficiaries enacted by Royal Decree 1588/1999 of 15 October 1999 were amended to regulate certain essential aspects of occupational social insurance schemes, such as the regime governing the provi-

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27. See "Financial Regulation: 2004 Q1", *Economic Bulletin*, April 2004, Banco de España, pp. 97-98. 28. See "Financial Regulation: 2006 Q4", *Economic Bulletin*, January 2007, Banco de España, pp. 111-114. 29. See "Financial Regulation: 2002 Q4", *Economic Bulletin*, January 2003, Banco de España, pp. 113-114. 30. See "Financial Regulation: 2007 Q1", *Economic Bulletin*, April 2007, Banco de España, pp. 142-143.

sion of information to insured workers and their representatives, and to delimit those aspects of the rules on externalisation via group insurance that apply to occupational social insurance schemes.

Regarding the regulation of actuarial aspects of pension schemes, the Royal Decree updates, systematises and delimits more clearly the professional activity of actuaries in the different areas in which they act and, in particular, insofar as actuarial reviews are concerned. Moreover, in view of the accumulated experience and of the level of acceptance and maturity currently offered by the system of pension schemes, the reserve requirements aimed at maintaining the solvency margin have been reduced in order to continue flexibilising the conditions imposed on pension schemes.

The amendments to the investment regime aim, on the one hand, to adapt the legal framework of the Pension Scheme and Pension Fund Regulations to the changes in pension funds in particular, and in the financial sector in general, owing to the appearance of new investment alternatives for pension funds, and, on the other, to adapt it to the existing trends in the rest of the financial sector in relation to internal control procedures.

In particular, regarding the investments eligible for pension funds, the list of the various assets and rights considered eligible is updated to include credit derivatives, non-financial derivatives and non-harmonised collective investment institutions, among others. The general regime governing derivative instruments is set out in greater depth, the eligibility criteria for venture capital firms are flexibilised and structured assets are subjected to more complete regulation.

Also, progress is made in the administrative organisation of management companies, internal control and risk management procedures, rules of conduct and rules to ensure that the management company is separate from the depository, all in clear harmony with the national and international regulatory trends in other financial system sectors and with the recommendations of international bodies.

In regard to legal aspects of information disclosures to participants, of special registers, of administrative procedures for authorisation and registration and of notification of registrable data and events, specific improvements are made, including most notably the registry references to pension funds derived from Law 11/2006 of 16 May 2006 adapting Spanish legislation to the regime of cross-border activities regulated in Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision. The aforementioned Law 11/2006 made it compulsory to keep a register of occupational pension funds of other Member States operating in Spain.

Except for the adaptation to Organic Law 3/2007 of 22 March 2007 for the effective equality of men and women, which came into force on 21 December 2007, the bulk of the Royal Decree came into force on 1 January 2008.

**Transparency  
requirements in relation  
to information about listed  
companies**

Law 6/2007 of 12 April 2007<sup>31</sup> reforming Law 24/1988 of 28 July 1988 on the securities market, incorporated partially into Spanish law Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004<sup>32</sup> and Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004, known as the transparency

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31. See "Financial Regulation: 2007 Q2", *Economic Bulletin*, July 2007, Banco de España, pp. 114-118. 32. Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids (the takeover directive) established a common minimum framework in the Member States for regulating takeover bids for companies whose shares are at least partially admitted to trading on a regulated market, in order to protect the holders of securities admitted to trading on a regulated market in a Member State and, in particular, those with minority holdings, when they are the target of a takeover bid or of a change in control of their companies.

directive, subsequently implemented by Commission Directive 2007/14/EC of 8 March 2007.

Law 6/2007 adapted the regime governing the publication and dissemination of the key information referred to in the basic provisions of the transparency directive. Hence, among other things, it specified that securities issuers have to make public and disseminate immediately to the market and to the CNMV all information as soon as the underlying event becomes known. The Law recognises the CNMV's power to require the auditors of the issuer to provide any information it needs to carry out its supervisory tasks and introduces the regime of periodic information set out in the transparency directive, i.e. the annual, half-yearly and quarterly reports that the issuer has to draft, publish and disseminate. Finally, the Law incorporates the regime governing disclosure by the issuer to the CNMV of the acquisition or loss of significant shareholdings with voting rights or of financial instruments carrying the right to acquire such securities (for the exercise of which a transitional procedure was envisaged while the implementing regulations of the new regime were being set in place), which was completed with the issuer's obligation to notify to the CNMV, publish and disseminate the transactions carried out by it in its own shares.

Recently *Royal Decree 1362/2007 of 19 October 2007* (BOE of 20 October 2007) implementing Law 24/1988 of 28 July 1988 on the securities market addressed transparency requirements in relation to information about issuers whose securities are admitted to trading on an official secondary market or on another regulated market in the European Union. This legislation culminates the incorporation into Spanish law of the Community regime on the transparency of information about listed companies. Hence the main aim of this Royal Decree is to spell out the aforementioned requirements so as to incorporate into Spanish law that part of Directive 2004/109/EC not included in Law 6/2007 and Directive 2007/14/EC implementing the former.

Regarding the content of Law 6/2007, it specifies the items composing the regulated information about listed companies and establishes the obligation of the issuer to publish on its website and disseminate that information and to send it simultaneously to the CNMV. The issuer can opt to disseminate it directly or entrust the task to a third party, which can be the CNMV itself or others such as a stock exchange or the mass media.

Regulated information includes periodic information (annual, half-yearly and, in the case of listed issuers of shares, the quarterly interim management statement), that relating to significant holdings and to issuers' transactions in their own shares, that relating to the total number of voting rights and capital at the end of each calendar month in which an increase or decrease of such total number has occurred, and the significant events. Regarding preparation and dissemination of the periodic information, several matters are specified, such as the content, the remittance date, the accounting principles applicable and the liability derived from its preparation and publication, as well as the conditions under which the rules on the periodic public information of companies listed in Spain whose registered office is located in a non-EU third country shall be considered as equivalent to Spanish rules.

The annual report shall comprise the audited annual financial statements and management report of the entity, both individual and, where applicable, of its consolidated group, as well as the statements of responsibility for its content signed by the directors of the issuer. The half-yearly report shall comprise the condensed financial statements and interim management report of the entity, both individual and, where applicable, of its consolidated group, as well as the statements of responsibility for its content signed by the directors of the issuer. If the half-

yearly report has been audited voluntarily, the audit report shall be published in full. Otherwise, it shall contain a statement by the issuer that it has not been audited or reviewed by auditors. The interim management report shall include at least: an indication of important events that have occurred during the reporting period and their impact on the condensed financial statements; a description of the principal risks and uncertainties for the remaining six months of the financial year; and major related parties transactions, including particular information, although the Ministry of Economy and Finance and, if expressly empowered by it, the CNMV, may stipulate additional requirements for information on transactions with related parties.

The interim management statement shall provide an explanation of the events and transactions that have taken place during the relevant period and their impact on the financial position of the issuer and its group, as well as a general description of the group and of the results of the issuer and its controlled undertakings in the period.

The Royal Decree also sets out implementing regulations for the information required about significant holdings and treasury shares under Law 24/1988 of 28 July 1988 on the securities market. This law required shareholders and holders of certain financial instruments to notify the issuer and the CNMV of the acquisition or loss of a significant holding in the voting rights of the company, and now the Royal Decree specifies various matters regarding that obligation. Hence a shareholder that acquires or transfers voting shares of an issuer for which Spain is the home Member State and whose shares are admitted to trading on an official secondary market or on another regulated market domiciled in the European Union must notify the issuer and the CNMV of the proportion of voting rights of the issuer held by the shareholder as a result of these transactions where that proportion reaches, exceeds or falls below the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 35%, 40%, 45%, 50%, 60%, 70%, 75%, 80% and 90%. For this purpose, the Royal Decree defines what is meant by a shareholder and how the percentage of voting rights is to be calculated.

It also extensively sets out which persons other than shareholders have to notify a significant holding, the exceptions to the notification requirement, the time limits for making that notification and the content thereof. Similarly, provision is made for notification of significant holdings under special circumstances, such as capital increases with a charge to reserves, transfer of securities due to death or liquidation of a company, corporate merger or spin-off, and during the course of a takeover bid.

Another new feature is that certain notification obligations of the issuers of shares admitted to trading on an official secondary market or on another regulated market of the European Union for which Spain is the home Member State are specified with regard to the own shares held by them (treasury stock), such as the proportion of voting rights that has to be notified and the content of the notification. In this respect, the issuer must, within a maximum of four trading days, notify the CNMV when it acquires own shares to which voting rights are attached, at one or several times, either itself or through a controlled entity or interposed person, and the acquisition equals or exceeds 1% of the voting rights.

The conditions are defined in which the transparency rules for significant holdings and treasury stock of companies listed in Spain whose registered office is located in a non-EU third country can be considered equivalent to the Spanish rules.

Lastly, other information requirements for issuers are established in order to provide shareholders and debt securities holders with all the information and all the mechanisms needed for them to exercise their rights. Also, the Royal Decree includes obligations already existing in

Spanish law, such as that of directors and managers of listed companies to notify the CNMV if they are granted any compensation involving the delivery of shares of the company in which they hold office or of options which are based on such shares or the settlement of which is linked to their price.

The Royal Decree, which repeals Royal Decree 377/1991 of 15 May 1991 on the notification of significant holdings in listed companies and on the acquisition by the latter of their own shares, and various ministerial orders, came into force on 20 December 2007. The provisions regarding the annual financial report will come into force with regard to the annual financial statements for reporting periods beginning from 1 January 2007. The provisions on half-yearly financial reports and interim statements will come into force with regard to information for reporting periods beginning from 1 January 2008.

**Information brochure for  
customer complaints in  
the financial services area**

Law 44/2002 of 22 November 2002<sup>33</sup> on reform of the financial system (the Financial Law) aimed, inter alia, to enhance the efficiency and competitiveness of the Spanish financial system, without reducing the protection of financial services users. Regarding the latter, it created certain administrative bodies to defend customers. Specifically, these were the commissioner for the defence of bank customers, the commissioner for the defence of investors and the commissioner for the defence of insurance policyholders and pension scheme participants, attached to their respective supervisory authorities, namely the Banco de España, the CNMV and the Directorate General for Insurance and Pension Funds (DGS)<sup>34</sup>.

Subsequently Royal Decree 303/2004 of 20 February 2004<sup>35</sup> approving the regulations for the protection of financial services customers and, subsequently, Ministerial Order ECO/734/2004 of 11 March 2004 on the customer service department and ombudsman of financial institutions, were published.

Recently the supervisory authorities (Banco de España, CNMV and DGS) have issued an *information brochure* on how users should make complaints and claims.

The initiative, undertaken in concert with the National Consumer Affairs Institute, will familiarise users with how they should submit a complaint of this nature, the stages comprising the procedure and the effects of the decision issued at the end of the process.

Under the “one stop shop” system, the complaint may be submitted to any of the three bodies, although it will be processed more quickly if it is made directly to the body competent to deal with the case.

The brochure explains that the Banco de España responds to complaints about banking products or services, the CNMV deals with investment products and services, and the DGS looks after matters relating to insurance and pension schemes.

The brochure specifies the minimum content and documentation that has to accompany a complaint or claim, which shall consist, among other things, of: the specific reason for the complaint, the user’s personal particulars, the institution against which the complaint is made

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<sup>33</sup>. See “Financial Regulation: 2002 Q4”, *Economic Bulletin*, January 2003, Banco de España, pp. 101-113. <sup>34</sup>. The functions entrusted to the Commissioners were to attend to the complaints and claims presented by financial service users in relation to their legally recognised interests and rights (whether they derive from contracts, from the legislation on transparency or customer protection or from good financial practices and conduct) and remit to the supervision services those cases in which evidence of non-compliance with or infringement of transparency and customer protection law is observed. <sup>35</sup>. See “Financial Regulation: 2004 Q1”, *Economic Bulletin*, April 2004, Banco de España, pp. 92-93.

and accreditation that the complaint was previously lodged with the institution's customer service department or ombudsman<sup>36</sup>.

The brochure also explains the stages in the procedure, the maximum duration of which shall generally be four months from submission of the written complaint, except in the case of circumstances which must be duly explained in the final report.

Lastly, it is pointed out that the final report at the end of the complaint procedure is of an informational nature and not binding on the parties. It therefore is not considered to be an administrative action and an appeal against it cannot be lodged with administrative or judicial bodies. Nor does it provide economic assessments of the possible damages to financial service users, since only the courts can do this.

### **Directive on payment services in the internal market**

At present, payment services markets in the European Union are organised separately according to the dictates of each Member State, and thus their legal framework is fragmented into different national regimes, since the various Community legal provisions adopted so far in this area<sup>37</sup> have not sufficiently resolved this situation.

In order to establish a coherent legal framework at Community level, the EU has published *Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007* (OJ of 5 December 2007) on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC, which establishes a legal framework ensuring the co-ordination of national provisions on prudential requirements, the access of new payment service providers to the market, information requirements, and the respective rights and obligations of payment services users and providers.

The Directive will apply to payment services within the European Union, although it establishes certain exemptions<sup>38</sup>. These services, which are listed in the annex to the Directive, include most notably the following: services enabling cash to be placed on or withdrawn from a payment account as well as all the operations required for operating a payment account; execution of payment transactions, including transfers of funds on a payment account with the user's payment service provider or with another payment service provider; issuing and/or acquiring of payment instruments; money remittance; and execution of payment transactions where the consent of the payer to execute a payment transaction is given by means of any telecommunication, digital or IT device and the payment is made to the telecommunication, IT system or network operator, acting only as an intermediary between the payment service user and the supplier of the goods and services.

The Directive lays down the rules in accordance with which Member States shall distinguish the six categories of payment service provider: credit institutions; electronic money institutions; post office giro institutions which are entitled under national law to provide payment services; payment institutions within the meaning of this Directive; the ECB and NCBs, when not acting in their capacity as monetary authority or other public authorities; and the Member States or their regional or local authorities when not acting in their capacity as public authorities.

---

<sup>36</sup>. Financial intermediaries are obliged to make available to the public the information on the existence and functioning of these services. <sup>37</sup>. Including Directive 97/5/EC of the European Parliament and of the Council of 27 January 1997 on cross-border credit transfers and Regulation 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro. <sup>38</sup>. The exemptions include, among others, payment transactions made exclusively in cash directly from the payer to the payee, without any intermediary intervention; payment transactions from the payer to the payee through a commercial agent authorised to negotiate or conclude the sale or purchase of goods or services on behalf of the payer or the payee; and professional physical transport of banknotes and coins, including their collection, processing and delivery.

ties. No other professional payment service providers shall be permitted. Furthermore, the Directive lays down rules concerning transparency of conditions and information requirements for payment services, and the respective rights and obligations of payment service users and payment service providers in relation to the provision of payment services as a regular occupation or business activity.

The requirements for authorisation as a payment institution under the Directive (a programme of operations; initial capital; description of the business management methods and of the internal control mechanisms, etc.) are set out, as are the cases in which the competent authorities may revoke that authorisation. Also established is the requirement to hold, at all times, own funds calculated in accordance with one of the three methods described in the Directive.

Member States shall establish a public register of authorised payment institutions, their agents and branches. This register shall identify, inter alia, the payment services for which the payment institution is authorised. The register shall be publicly available for consultation, accessible online, and updated on a regular basis. Also, payment institutions may provide services through agents, branches or entities to which activities are outsourced, of which it shall notify the competent authorities in its home Member State.

The Directive stipulates that Member States shall designate public authorities as the competent authorities responsible for the authorisation and prudential supervision of payment institutions. Member States shall ensure that the controls exercised by the competent authorities for checking continued compliance are proportionate, adequate and responsive to the risks to which payment institutions are exposed.

The competent authorities of the different Member States shall co-operate with each other and, where appropriate, with the ECB, NCBs and other competent authorities designated under Community or national legislation applicable to payment service providers.

The so-called *Community passport*, i.e. the right of establishment and freedom to provide services throughout the whole of the EU shall apply to payment institutions. Hence any authorised payment institution can provide payment services in another Member State, it sufficing to inform the competent authorities in its home Member State. Within one month of receiving that information, the competent authorities of the home Member State shall inform the competent authorities of the host Member State of the name and address of the payment institution, the names of those responsible for the management of the branch, its organisational structure and the kind of payment services it intends to provide in the territory of the host Member State.

Another section of the Directive refers to transparency of conditions and information requirements for payment services. In this respect, the payment service provider is obliged to furnish the information and conditions to the user in an easily accessible manner, subject to the specificities of each particular transaction. Here the Directive distinguishes single payment transactions from those covered by a framework contract. The information and conditions shall be given in easily understandable words and in a clear and comprehensible form, in an official language of the Member State where the payment service is offered or in any other language agreed between the parties.

Single payment transactions shall specify the information that has to be provided by the payment service user in order for a payment order to be properly executed; the maximum execution time for the payment service to be provided; all charges payable by the payment service

user to his payment service provider and, where applicable, the breakdown of the amounts of any charges; and, where applicable, the actual or reference exchange rate to be applied to the payment transaction. In transactions governed by framework contracts, information shall be provided, inter alia, on the payment service provider, on use of the payment service, on charges, interest and exchange rates, on means of communication between the provider and the user, and on safeguards and corrective measures.

In transactions covered by a framework contract, the payment service user may terminate the framework contract at any time, unless the parties have agreed on a period of notice. Such a period may not exceed one month. Termination of a framework contract concluded for a fixed period exceeding 12 months or for an indefinite period shall be free of charge for the payment service user after the expiry of 12 months. In all other cases charges for the termination shall be appropriate and in line with costs. The payment service provider may terminate a framework contract concluded for an indefinite period by giving at least two months' notice. However, Member States may provide more favourable provisions for payment service users.

Another significant facet of the Directive relates to rights and obligations in relation to the provision and use of payment services. In this respect, Member States may provide that they apply to microenterprises in the same way as to consumers.

No later than 1 November 2012, the Commission shall present to the European Parliament, the Council, the European Economic and Social Committee and the European Central Bank a report on the implementation and impact of this Directive, in particular on the possible need to extend the scope of the Directive to payment transactions in all currencies and to payment transactions where only one of the payment service providers is located in the Community.

Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive before 1 November 2009.

#### NEW GENERAL CHART OF ACCOUNTS

Law 16/2007 of 4 July 2007<sup>39</sup> on reform and adaptation of accounting-related corporate law for international harmonisation according to European Union law aimed, among other things, to bring Spanish corporate law into line with international financial reporting standards (IFRSs).

The first final provision of Law 16/2007 authorised the government to approve a new Spanish general chart of accounts, hereafter referred to by its Spanish acronym PGC (*Plan General de Contabilidad*), as well as amendments to it and supplementary provisions, with a view to implementing the instructions contained in the law. It also authorised the approval of a general chart of accounts for small and medium-sized enterprises (hereafter "PGC for SMEs") to that the special characteristics of these companies would be taken into consideration.

In exercise of these two prerogatives, the government enacted *Royal Decree 1514/2007 of 16 November 1007* (BOE of 20 November 2007) approving the PGC, and *Royal Decree 1515/2007 of 16 November 1007* (BOE of 20 November 2007) approving the PGC for SMEs and specific accounting criteria for microenterprises.

#### GENERAL CHART OF ACCOUNTS (PGC)

The PGC consists of five parts preceded by an introduction explaining the basic features of the PGC and the main differences from the 1990 chart of accounts approved by Royal Decree 1643/1990 of 20 December 1990, now repealed. Nevertheless, in drafting the current Royal

<sup>39</sup>. See "Financial Regulation: 2007 Q3", *Economic Bulletin*, October 2007, Banco de España, pp. 92-93.

Decree, the legislators followed the same technique used in the previous one, giving emphasis to its explanatory component in order to make it easier to apply, given the number of new transactions, balance sheet elements and accounting criteria included in it.

Part One, entitled *conceptual accounting framework*, sets out the documents composing the annual accounts, as well as the information requirements, accounting principles and recognition and measurement criteria which, if properly applied, enable the annual accounts to present fairly the net worth, financial position and financial performance of the company. It also defines the elements of the annual accounts.

Part Two, *recognition and measurement rules*, develops in greater depth the accounting principles and other provisions contained in Part One. It sets out the recognition and measurement criteria for the transactions and balance sheet elements of companies from a general perspective, i.e. considering the transactions usually carried out by companies without going into specific cases. The appropriate accounting treatment of particular cases will, as in the past, be determined by the successive rulings issued by the *Instituto de Contabilidad y Auditoría de Cuentas* (Accounting and Audit Institute) in exercise of the powers conferred on it by the first final provision of Law 16/2007.

Part Three, *annual accounts*, includes rules for preparing annual accounts, along with definitions and clarifying explanations of the content of the documents forming part of them. Next come complete and condensed formats of the documents composing the annual accounts.

Part Four, *chart of accounts*, contains the groups, sub-groups and the accounts, duly numbered in decimal form, with a descriptive title indicating their content. The chart of accounts will, for the sake of flexibility, continue to be non-obligatory insofar as account numbers and titles are concerned, although it is compulsory in respect of the items of the annual accounts.

Part Five, *accounting definitions and relationships*, includes definitions of the various items in the balance sheet, income statement and statement of changes in equity, and of each account in these items, as well as the main reasons for charges and credits to accounts. The part on accounting definitions and relationships is not compulsorily applicable, except insofar as it refers to or contains recognition or measurement criteria enlarging on the provisions in Part Two on recognition and measurement rules or serves to interpret them more clearly.

A number of transitional provisions are laid down for first-time application of the PGC and for the transition to the new accounting legislation, which came into force on 1 January 2008. Hence the rules and criteria contained in the PGC must be applied retrospectively in the first accounting period beginning on or after 1 January 2008, with the exceptions indicated in the Royal Decree.

The notes to the first annual accounts prepared under the PGC shall include a section entitled *matters arising from the transition to the new accounting rules*. This section will explain the main differences between the accounting criteria applied in the previous year and in the current one, along with a quantification of the impact that this change in accounting criteria has had on the company's net worth. In particular, a reconciliation as at the opening balance sheet date shall be included.

Companies may voluntarily submit comparative information on the previous year adapted to the current PGC. For this purpose, they shall prepare an opening balance sheet for the previous year according to the new criteria and to the provisions of this Royal Decree. In this case,

apart from including in the notes to financial statements an explanation of the main differences between the accounting criteria applied in the previous and current periods, the impact of this change in accounting criteria on the company's net worth and profit shall be quantified.

The Ministry of Economy and Finance is empowered to approve the sectoral adaptations of the PGC. Until it does so, the existing sectoral adaptations will remain in force transitionally so long as they do not conflict with current legislation. Also remaining in force are the transitional regime applicable for accounting purposes to the externalisation of pension commitments and the accounting regulations for co-operatives regarding the delimitation between own funds and borrowed funds, which will continue to apply until 31 December 2009.

When companies have, prior to their first-time application of the PGC, prepared consolidated annual accounts in accordance with the Community regulations adopting international financial reporting standards, the valuations included in those accounts shall generally be accepted, provided that the criteria used are equivalent to those of the PGC.

Lastly, the final provisions specify the powers conferred under current legislation for the adaptation and implementation of the PGC.

#### PGC FOR SMES

The PGC for SMEs may be applied by all enterprises, whether their legal form be sole trader or corporate, which in two successive accounting periods meet, as at the closing date of each of them, at least two of the following conditions: a) total assets do not exceed €2,850,000; b) annual turnover does not exceed €5,700,000; and c) the average number of employees during the accounting period is no more than 50.

Enterprises shall forfeit the right to apply it if they cease to meet, for two consecutive accounting periods, as at the closing date of each of them, two of the above conditions. If so, they must apply the PGC.

The Royal Decree permits SMEs to use either the PGC or the PGC for SMEs, although, whichever they choose, they must use it continuously for a minimum of three accounting periods, unless, as a consequence of having ceased to fall within the scope of application of the latter, they are obliged to apply the PGC.

The structure of the PGC for SMEs is the same as that of the PGC. It consists of five parts preceded by an introduction explaining the basic features of this text and its main differences from the PGC.

Part One, which contains the *conceptual accounting framework*, shows no major differences from Part One of the PGC, except in regard to the cash flow statement, the preparation of which is voluntary.

Part Two, *recognition and measurement rules*, omits the rules on certain transactions considered to be little used by these enterprises. It also simplifies certain recognition and measurement criteria contained in the PGC, basically relating to financial instruments.

Part Three contains, in addition to rules for preparing annual accounts, the financial statement formats for SMEs, which are the same as the condensed formats in Part Three of the PGC, albeit dispensing with the sub-groupings, captions, items and explanatory footnotes relating to transactions not detailed in the PGC for SMEs. The statement of changes in equity of SMEs is simplified. It will consist of one document including all the changes in equity

carried out in transactions with equityholders or with third parties or simply due to reclassification of items.

Parts Four and Five include the groups, sub-groups and accounts needed to record the transactions addressed in Part Two of the PGC for SMEs, along with definitions, accounting relationships and movements giving rise to charges and credits in the accounts.

The transitional provisions regulate the first-time application of the PGC for SMEs following its entry into force, which was on 1 January 2008, similarly to the regulation of the first-time application of the PGC, albeit simplifying the rules for the transactions not broken down in this text.

Further, Royal Decree 1515/2007 includes regulations implementing the first final provision of Law 16/2007, which called for certain simplified and specific criteria applicable to microenterprises (SMEs of very small size). For this purpose, the PGC for SMEs includes the special conditions to be met by SMEs for them to be able to apply these accounting criteria. These conditions relate to total assets, which may not exceed €1 million, net turnover, which may not exceed €2 million, and the average number of workers, which may not exceed ten. These same conditions shall apply to non-commercial entities, particularly foundations. In general, although most of the general criteria are maintained for SMEs, there are some differences in the accounting treatment of finance leases and other similar agreements and in accounting for income tax.

The PGC and, where appropriate, the PGC for SMEs shall be obligatory for all enterprises, whether their legal form be sole trader or corporate, without prejudice to the special characteristics for financial institutions that may be established in their specific accounting regulations. Under the new framework, the regulatory powers in accounting matters conferred on the financial system's supervisory centres, bodies and institutions shall remain in place.

Lastly, both royal decrees address situations of transition from one chart of accounts to another. Thus, Royal Decree 1514/2007 (PGC) specifies the criteria to be followed by SMEs whose business growth leads them at a later stage to apply the standard criteria included in the PGC. Similarly, Royal Decree 1515/2007 (PGC for SMEs) sets out the criteria to be followed under the PGC for SMEs if the specific accounting criteria for microenterprises are no longer applicable or if it is decided to move from the PGC to the PGC for SMEs. In all cases, at the beginning of the first accounting period in which the enterprise applies the new chart of accounts, it shall be applied retrospectively and all the assets and liabilities that have to be recognised under the new chart of accounts shall be recorded. The balancing entry of the adjustments that have to be made shall be a reserves item or, if applicable, other equity items. Also, the notes to the first-time annual accounts shall include a specific section named accordingly, which shall explain the main differences between the accounting criteria applied in the previous period and in the current one, along with a quantification of the impact that this change in accounting criteria has had on the enterprise's net worth.

### ***State Budget for 2008***

Following the usual practice in December, Law 51/2007 of 26 December 2007 on the State budget for 2008 (BOE of 27 December 2007) was published.

From the standpoint of financial regulation, the following monetary, financial and fiscal sections call for comment. In relation to State debt, the government is authorised to increase the outstanding State debt in 2008, subject to the condition that it shall not exceed the level at the beginning of the year by more than €7,924 million. This limit may be exceeded during the course of the year with the prior authorisation of the Ministry of Economy and Finance, and those cases in which it shall be automatically revised are established

Most notable with regard to personal income tax is that the two components of the tax rate, namely the State one and the regional or supplementary one, are updated so that an increase in income derived from the mere adjustment to inflation does not increase the tax burden and so as to protect low-income earners in particular. For this purpose, adjustments of 2% were also made to the personal and family allowances of the taxpayer for descendents, ascendants and disability.

Also raised by the same percentage are the amounts applicable as a reduction of net earned income and of net income from business activities applicable to self-employed persons whose income depends on a single firm. For transfers of real estate not used in business activities, a rise of 2% in the acquisition cost adjustment coefficient is included.

The tax rebates granted in previous budget laws for principal residences were abolished in 2007 both for tenants whose rental contract dates from prior to 20 April 1998 and for purchasers of houses prior to 4 May 1998. However, a tax deduction for purchase of principal residence is granted to taxpayers who purchased their principal residence before 20 January 2006. The amount is equal to the difference between that established in the personal income tax law enacted by Royal Legislative Decree 3/2004 of 5 March 2004 and that established recently by Law 35/2006 of 28 November on personal income tax.

A tax rebate is granted on certain income from capital with a generation period exceeding two years in 2007, with respect to that established in the personal income tax legislation (the personal income tax law enacted by Royal Legislative Decree 3/2004 of 5 March 2004) in force up to 31 December 2006.

In relation to corporate income tax, the measures are those with annual effectiveness referred to by the corporate income tax law. Thus, the coefficients applicable to real assets to enable an adjustment to be made for monetary depreciation upon their transfer, are updated. Also, the manner of determining the advance payments of the tax in 2008 is determined. Finally, in relation to local taxes, the rateable values of properties are raised by 2%.

Other measures of a financial nature relate to the legal interest rate, which is raised from 5% to 5.5% and to default interest, up from 6.2% to 7%.

9.1.2008.

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

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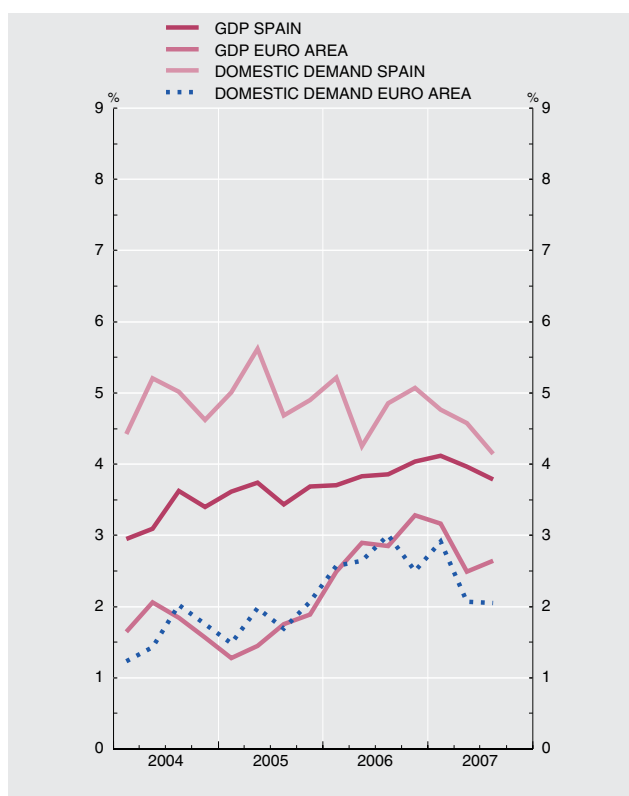
# 1.1. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES, REFERENCE YEAR 2000=100.DEMAND COMPONENTS. SPAIN AND EURO AREA (a)

■ Series depicted in chart.

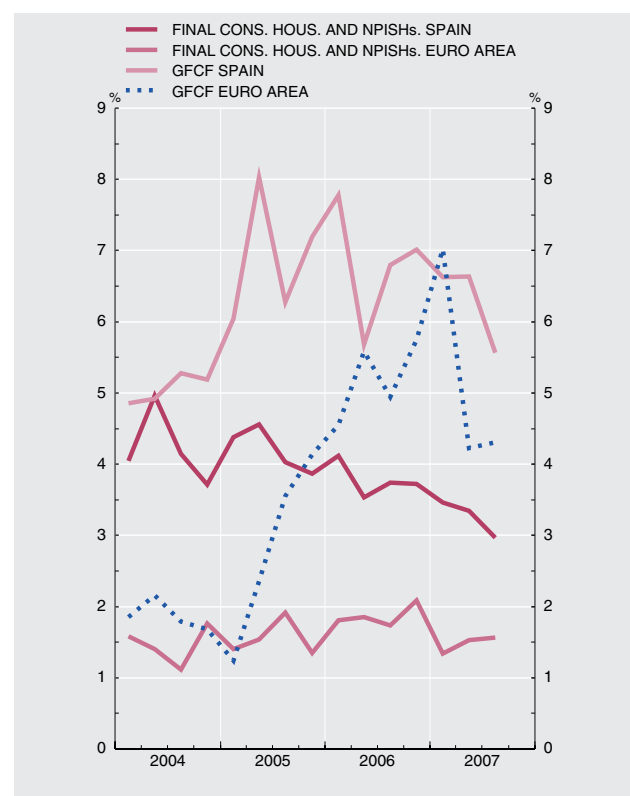
Annual percentage changes

		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
04	P	3.3	1.8	4.2	1.5	6.3	1.3	5.1	1.9	4.8	1.6	4.2	6.5	9.6	6.3	841	7 748
05	P	3.6	1.6	4.2	1.6	5.5	1.4	6.9	2.8	5.1	1.8	2.6	4.7	7.7	5.5	908	8 024
06	P	3.9	2.9	3.8	1.9	4.8	1.9	6.8	5.2	4.9	2.7	5.1	7.9	8.3	7.6	981	8 410
04 Q4	P	3.4	1.6	3.7	1.8	6.4	0.7	5.2	1.7	4.6	1.6	3.7	6.3	8.1	7.1	216	1 958
05 Q1	P	3.6	1.3	4.4	1.4	5.6	1.1	6.0	1.2	5.0	1.3	0.2	4.2	5.4	5.0	220	1 974
Q2	P	3.7	1.5	4.6	1.5	5.9	1.5	8.0	2.4	5.6	1.5	3.1	3.8	9.7	5.5	225	1 995
Q3	P	3.4	1.8	4.0	1.9	5.1	1.4	6.3	3.5	4.7	1.8	3.7	5.5	8.0	5.5	229	2 016
Q4	P	3.7	1.9	3.9	1.4	5.4	1.6	7.2	4.1	4.9	1.9	3.4	5.2	7.7	5.9	234	2 038
06 Q1	P	3.7	2.5	4.1	1.8	4.9	2.2	7.8	4.5	5.2	2.5	5.7	8.5	10.6	9.1	238	2 061
Q2	P	3.8	2.9	3.5	1.8	4.0	1.6	5.7	5.6	4.3	2.9	4.9	7.8	6.1	7.3	243	2 092
Q3	P	3.9	2.8	3.7	1.7	4.8	1.9	6.8	4.9	4.9	2.8	4.2	6.6	7.5	7.1	247	2 115
Q4	P	4.0	3.3	3.7	2.1	5.7	2.1	7.0	5.7	5.1	3.3	5.7	8.8	8.9	6.9	252	2 142
07 Q1	P	4.1	3.2	3.5	1.3	5.7	2.0	6.6	7.0	4.8	3.2	3.6	6.5	5.9	6.0	257	2 181
Q2	P	4.0	2.5	3.3	1.5	5.0	2.0	6.6	4.2	4.6	2.5	4.8	5.8	6.6	4.8	261	2 202
Q3	P	3.8	2.6	3.0	1.6	5.8	2.1	5.6	4.3	4.1	2.6	8.0	7.3	8.3	5.9	264	2 228

**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.

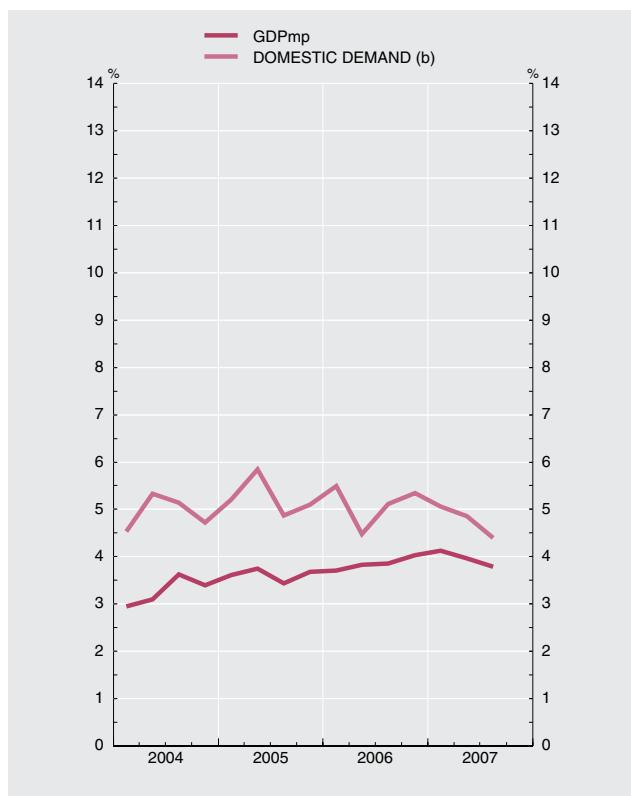
## 1.2. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES. REFERENCE YEAR 2000=100. DEMAND COMPONENTS. SPAIN: BREAKDOWN (a)

■ Series depicted in chart.

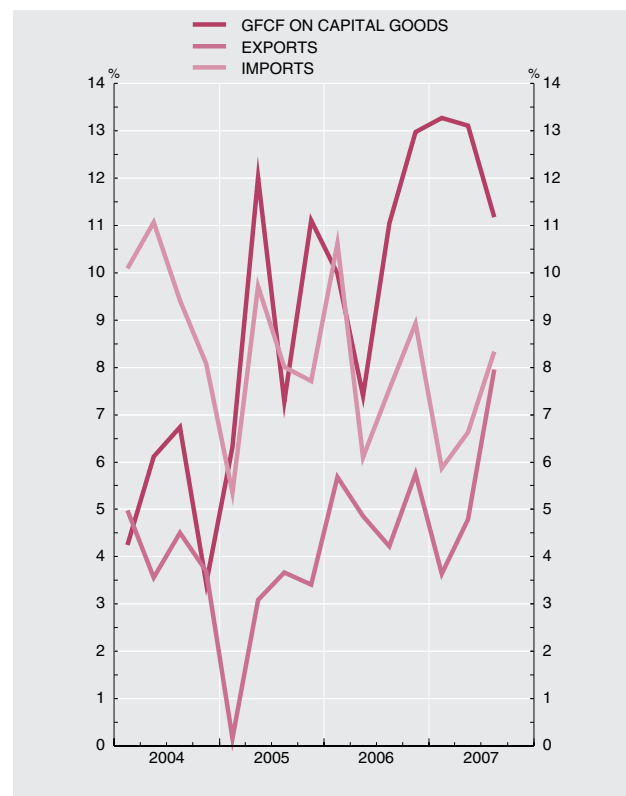
Annual percentage changes

		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
04	P	5.1	5.1	5.4	3.8	0.0	4.2	5.1	0.1	4.5	9.6	9.7	19.3	7.6	4.9	3.3
05	P	6.9	9.2	6.1	6.4	-0.1	2.6	1.1	2.3	9.7	7.7	7.1	20.6	8.2	5.3	3.6
06	P	6.8	10.4	6.0	4.6	0.1	5.1	4.6	1.5	11.0	8.3	8.0	6.0	10.0	5.1	3.9
04 Q4	P	5.2	3.4	6.0	5.0	0.1	3.7	2.6	3.3	9.5	8.1	7.6	22.4	7.9	4.7	3.4
05 Q1	P	6.0	6.3	5.8	6.4	-0.0	0.2	-2.0	1.8	8.3	5.4	4.8	23.5	4.5	5.2	3.6
05 Q2	P	8.0	12.0	6.4	7.9	-0.1	3.1	1.8	1.7	10.5	9.7	10.4	24.9	3.5	5.8	3.7
05 Q3	P	6.3	7.3	6.1	5.6	-0.1	3.7	1.8	3.2	12.6	8.0	6.2	19.0	14.5	4.9	3.4
05 Q4	P	7.2	11.1	6.0	5.6	-0.1	3.4	2.7	2.3	7.4	7.7	6.8	15.7	10.3	5.1	3.7
06 Q1	P	7.8	10.0	7.1	7.1	-0.0	5.7	5.2	0.5	13.2	10.6	10.4	4.6	13.0	5.5	3.7
06 Q2	P	5.7	7.4	5.5	3.8	0.0	4.9	3.9	5.5	8.2	6.1	4.7	4.0	13.6	4.5	3.8
06 Q3	P	6.8	11.0	5.9	3.7	0.1	4.2	4.5	0.6	6.6	7.5	8.0	11.4	4.5	5.1	3.9
06 Q4	P	7.0	13.0	5.5	3.8	0.1	5.7	4.8	-0.5	16.2	8.9	9.1	4.2	9.4	5.3	4.0
07 Q1	P	6.6	13.3	5.2	2.2	0.0	3.6	3.4	1.5	6.5	5.9	5.7	7.0	6.7	5.1	4.1
07 Q2	P	6.6	13.1	4.6	4.2	0.0	4.8	4.8	-2.2	11.9	6.6	6.2	4.5	9.3	4.9	4.0
07 Q3	P	5.6	11.2	3.8	3.5	-0.0	8.0	6.4	-0.7	22.8	8.3	7.2	6.0	14.3	4.4	3.8

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.

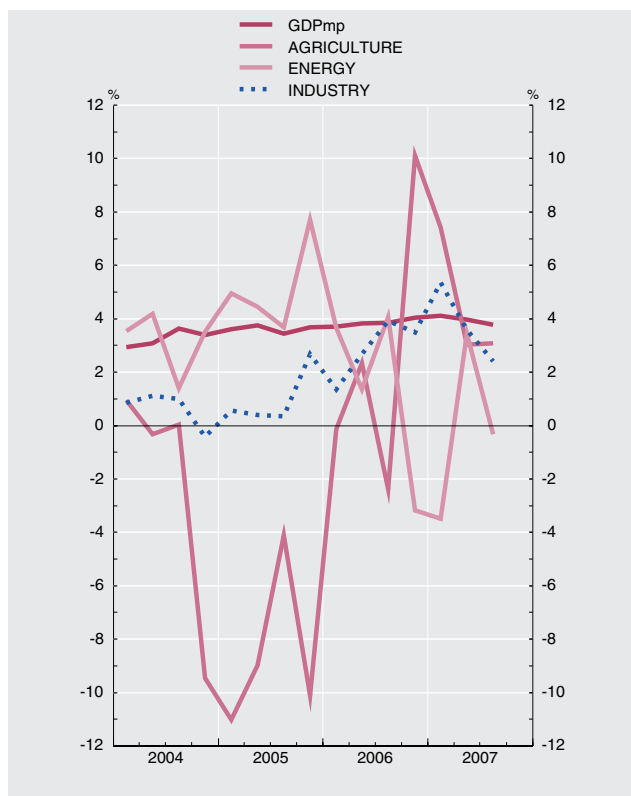
### 1.3. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES. REFERENCE YEAR 2000=100. BRANCHES OF ACTIVITY. SPAIN (a)

■ Series depicted in chart.

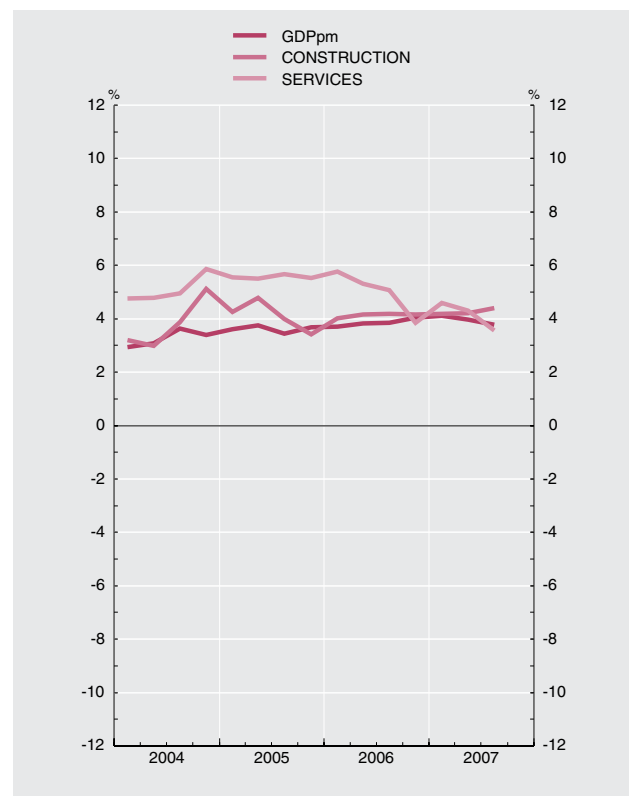
Annual percentage changes

			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
<b>04</b>	P		3.3	-2.3	3.2	0.6	5.1	3.8	3.8	3.7	2.6	12.4	7.0
<b>05</b>	P		3.6	-8.6	5.2	1.0	5.6	4.1	4.1	3.9	5.5	4.9	7.3
<b>06</b>	P		3.9	2.4	1.4	2.9	5.0	4.1	4.1	4.3	4.3	5.9	2.3
<b>04 Q4</b>	P		3.4	-9.5	3.5	-0.4	5.9	5.1	5.1	5.0	3.2	18.7	-3.0
<b>05 Q1</b>	P		3.6	-11.0	5.0	0.6	5.5	4.2	4.2	4.6	6.2	-1.1	9.1
<b>Q2</b>	P		3.7	-9.0	4.4	0.4	5.5	4.8	4.6	5.3	6.0	7.7	2.4
<b>Q3</b>	P		3.4	-4.1	3.7	0.4	5.7	4.0	4.3	2.7	5.4	4.9	3.4
<b>Q4</b>	P		3.7	-10.1	7.7	2.7	5.5	3.4	3.5	3.3	4.3	8.4	14.9
<b>06 Q1</b>	P		3.7	-0.1	3.7	1.4	5.8	4.0	4.1	3.6	4.8	10.5	2.7
<b>Q2</b>	P		3.8	2.3	1.4	2.7	5.3	4.1	4.1	4.5	4.3	5.6	1.3
<b>Q3</b>	P		3.9	-2.4	4.1	3.9	5.1	4.2	4.3	3.8	4.1	5.1	-0.4
<b>Q4</b>	P		4.0	10.1	-3.2	3.5	3.9	4.2	3.9	5.2	3.8	2.8	5.6
<b>07 Q1</b>	P		4.1	7.4	-3.5	5.4	4.6	4.2	4.2	4.2	3.9	-1.8	1.8
<b>Q2</b>	P		4.0	3.0	3.4	3.6	4.3	4.2	4.1	4.5	3.5	-2.4	3.0
<b>Q3</b>	P		3.8	3.1	-0.3	2.4	3.6	4.4	4.2	5.0	2.5	0.9	5.5

**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).

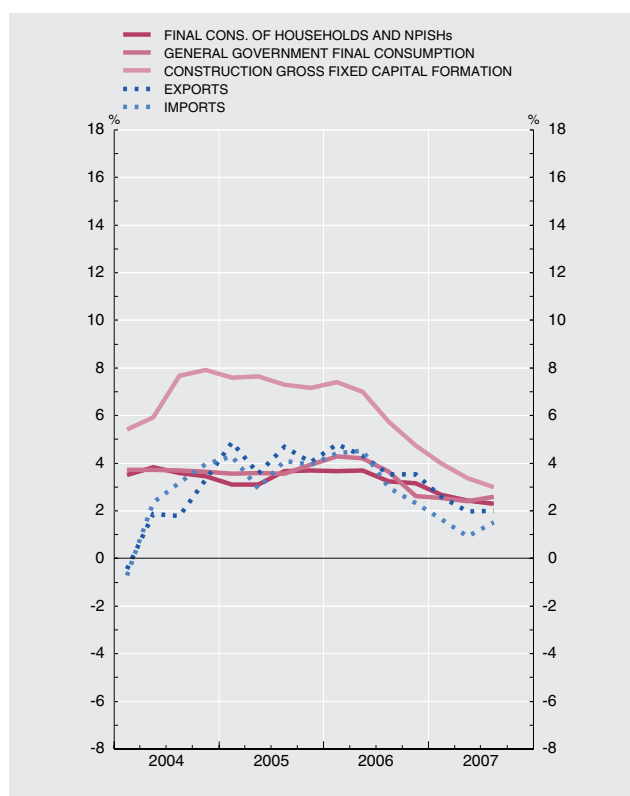
#### 1.4. GROSS DOMESTIC PRODUCT. IMPLICIT DEFLATORS. SPAIN (a)

■ Series depicted in chart.

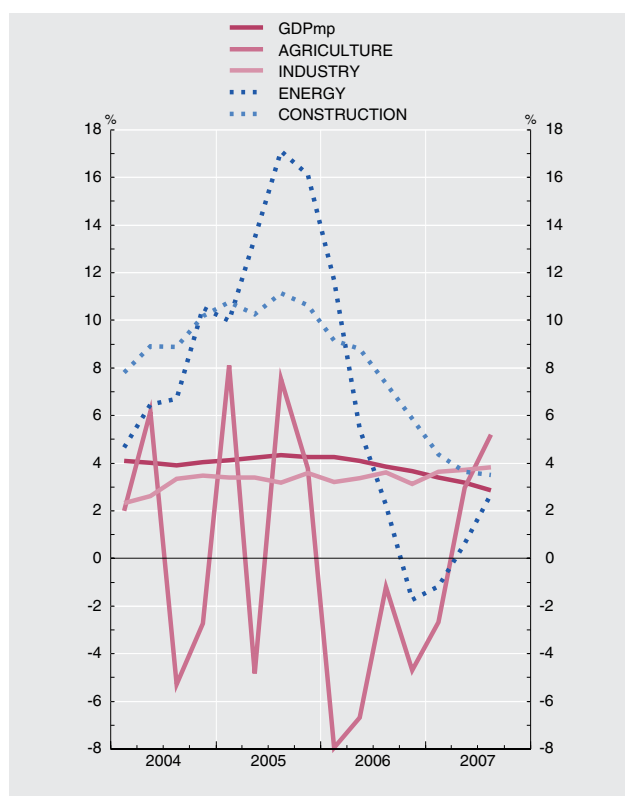
Annual percentage changes

		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	
04	P	3.6	3.7	2.2	6.8	6.0	1.6	2.2	4.0	0.0	7.1	2.9	9.0	3.3	3.1	
05	P	3.4	3.7	3.0	7.4	4.4	4.3	3.8	4.2	3.4	14.3	3.4	10.7	2.7	2.4	
06	P	3.4	3.7	2.0	6.2	3.7	4.0	3.5	4.0	-5.2	4.1	3.3	7.7	3.0	2.8	
04 Q4	P	3.5	3.6	2.2	7.9	6.2	3.3	4.0	4.1	-2.7	10.5	3.5	10.2	2.7	2.4	
05 Q1	P	3.1	3.6	2.5	7.6	5.4	4.9	4.3	4.1	8.1	10.0	3.4	10.8	2.2	2.1	
Q2	P	3.1	3.6	3.6	7.7	4.8	3.6	2.9	4.2	-4.8	13.4	3.4	10.3	2.4	2.3	
Q3	P	3.7	3.6	2.7	7.3	4.2	4.7	4.1	4.3	7.5	17.1	3.2	11.1	3.0	2.5	
Q4	P	3.7	3.9	3.1	7.2	3.5	4.0	3.9	4.3	3.8	16.1	3.6	10.6	3.2	2.9	
06 Q1	P	3.6	4.3	1.6	7.4	2.9	4.8	4.4	4.3	-8.0	11.7	3.2	9.2	2.8	2.5	
Q2	P	3.7	4.2	1.8	7.0	3.7	4.3	4.5	4.1	-6.7	5.4	3.4	8.8	3.0	2.8	
Q3	P	3.2	3.6	2.4	5.7	3.9	3.5	3.0	3.9	-1.2	2.2	3.6	7.3	3.3	3.3	
Q4	P	3.1	2.6	1.9	4.7	4.4	3.5	2.3	3.7	-4.7	-1.7	3.1	5.9	2.8	2.7	
07 Q1	P	2.7	2.5	3.2	4.0	6.1	2.6	1.7	3.4	-2.7	-1.2	3.6	4.4	3.3	3.3	
Q2	P	2.4	2.4	2.9	3.4	5.7	2.0	0.9	3.2	3.0	0.6	3.7	3.6	3.4	3.4	
Q3	P	2.3	2.6	2.6	3.0	5.5	2.0	1.5	2.9	5.2	2.7	3.8	3.5	3.4	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.

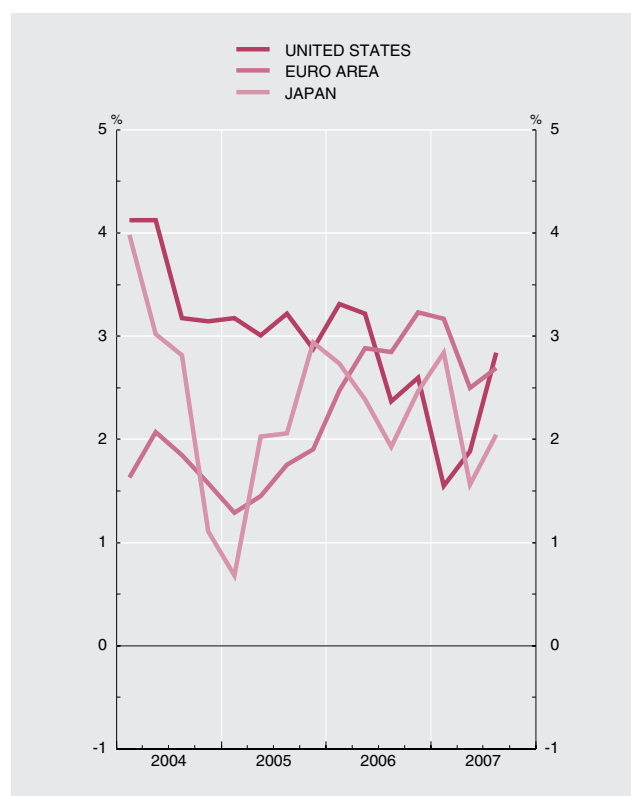
## 2.1. INTERNATIONAL COMPARISON. GROSS DOMESTIC PRODUCT AT CONSTANT PRICES

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

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.

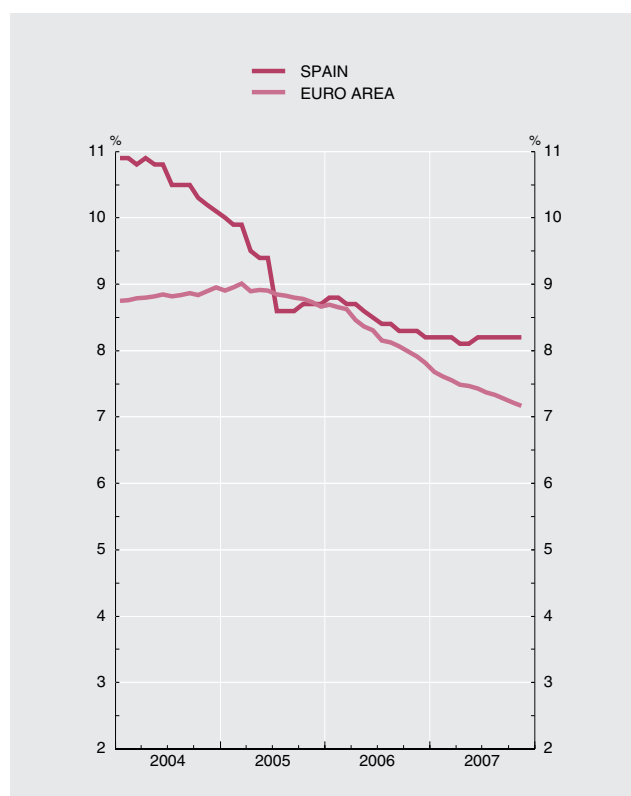
## 2.2. INTERNATIONAL COMPARISON. UNEMPLOYMENT RATES

■ Series depicted in chart.

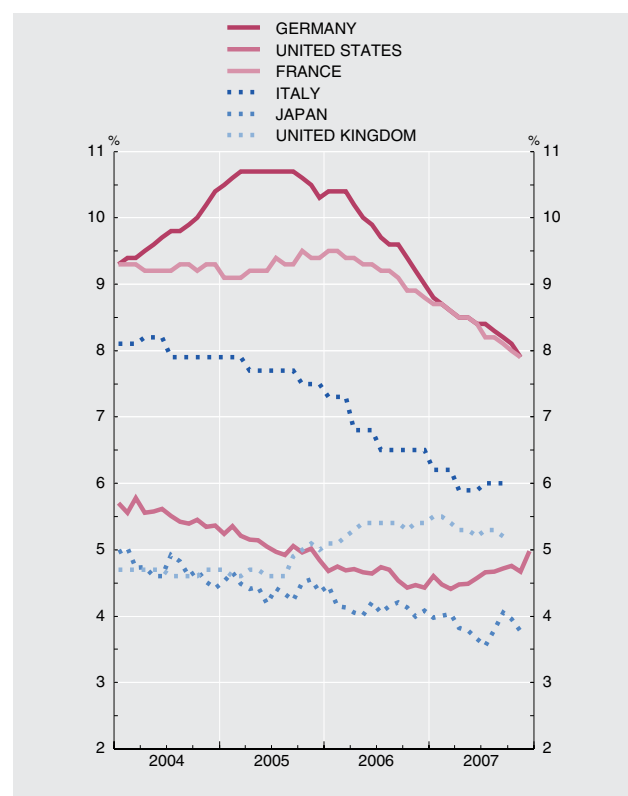
Percentages

	OECD	EU-15	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
	1	2	3	4	5	6	7	8	9	10
<b>04</b>	6.9	8.0	8.8	9.8	10.6	5.5	9.3	8.0	4.7	4.7
<b>05</b>	6.7	8.1	8.9	10.6	9.2	5.1	9.3	7.7	4.4	4.8
<b>06</b>	6.1	7.7	8.3	9.8	8.5	4.6	9.2	6.8	4.1	5.3
<b>06 Jun</b>	6.2	7.8	8.3	9.9	8.5	4.6	9.3	6.8	4.2	5.4
<b>Jul</b>	6.1	7.6	8.2	9.7	8.4	4.7	9.2	6.5	4.1	5.4
<b>Aug</b>	6.1	7.6	8.1	9.6	8.4	4.7	9.2	6.5	4.2	5.4
<b>Sep</b>	6.0	7.5	8.1	9.6	8.3	4.5	9.1	6.5	4.2	5.4
<b>Oct</b>	5.9	7.5	8.0	9.4	8.3	4.4	8.9	6.5	4.1	5.3
<b>Nov</b>	5.9	7.4	7.9	9.2	8.3	4.5	8.9	6.5	4.0	5.4
<b>Dec</b>	5.8	7.3	7.8	9.0	8.2	4.4	8.8	6.5	4.1	5.4
<b>07 Jan</b>	5.8	7.3	7.7	8.8	8.2	4.6	8.7	6.2	4.0	5.5
<b>Feb</b>	5.7	7.2	7.6	8.7	8.2	4.5	8.7	6.2	4.0	5.5
<b>Mar</b>	5.7	7.1	7.6	8.6	8.2	4.4	8.6	6.2	4.0	5.4
<b>Apr</b>	5.6	7.1	7.5	8.5	8.1	4.5	8.5	5.9	3.8	5.3
<b>May</b>	5.6	7.0	7.5	8.5	8.1	4.5	8.5	5.9	3.8	5.3
<b>Jun</b>	5.6	7.0	7.4	8.4	8.2	4.6	8.4	5.9	3.7	5.2
<b>Jul</b>	5.6	7.0	7.4	8.4	8.2	4.7	8.2	6.0	3.6	5.3
<b>Aug</b>	5.6	6.9	7.3	8.3	8.2	4.7	8.2	6.0	3.8	5.3
<b>Sep</b>	5.6	6.9	7.3	8.2	8.2	4.7	8.1	6.0	4.1	5.2
<b>Oct</b>	5.6	6.8	7.2	8.1	8.2	4.8	8.0	...	4.0	...
<b>Nov</b>	5.5	6.8	7.2	7.9	8.2	4.7	7.9	...	3.8	...

UNEMPLOYMENT RATES



UNEMPLOYMENT RATES



Sources: ECB and OECD.

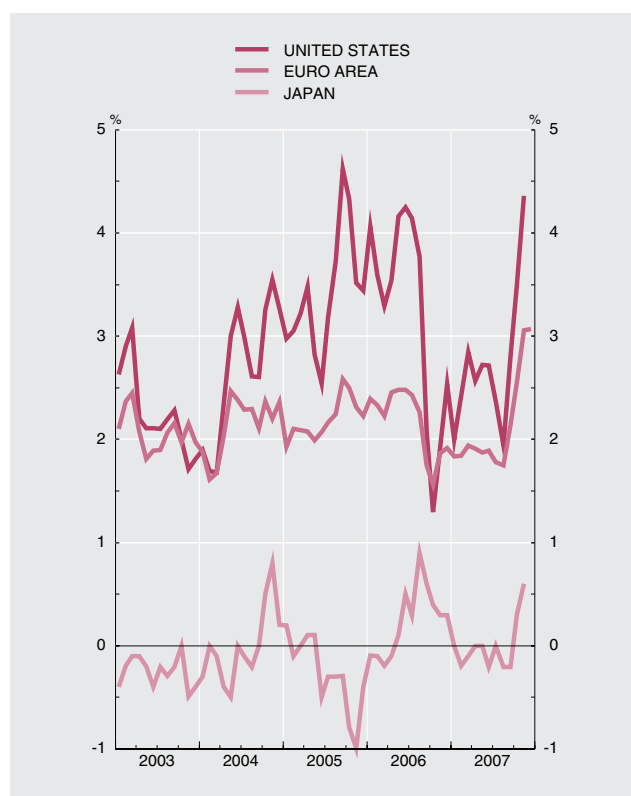
## 2.3. INTERNATIONAL COMPARISON. CONSUMER PRICES (a)

■ Series depicted in chart.

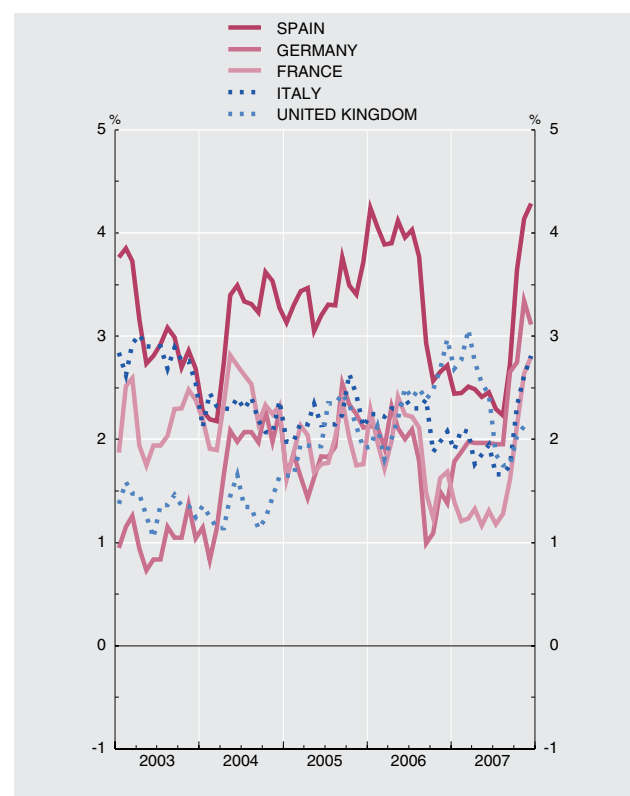
Annual percentage changes

	OECD	EU-15	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
	1	2	3	4	5	6	7	8	9	10
03	2.3	2.0	2.1	1.0	3.1	2.3	2.2	2.8	-0.2	1.4
04	2.3	2.0	2.1	1.8	3.1	2.7	2.3	2.3	-0.0	1.3
05	2.5	2.1	2.2	1.9	3.4	3.4	1.9	2.2	-0.3	2.1
06	2.6	2.2	2.2	1.8	3.6	3.2	1.9	2.2	0.2	2.3
06 Jul	3.1	2.4	2.4	2.1	4.0	4.1	2.2	2.3	0.3	2.4
Aug	3.0	2.3	2.3	1.8	3.8	3.8	2.1	2.3	0.9	2.5
Sep	2.1	1.8	1.7	1.0	2.9	2.1	1.5	2.4	0.6	2.4
Oct	1.7	1.7	1.6	1.1	2.6	1.3	1.2	1.9	0.4	2.5
Nov	2.0	2.0	1.9	1.5	2.7	1.9	1.6	2.0	0.3	2.7
Dec	2.3	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	2.3	...	1.9	2.0	2.5	2.6	1.3	1.8	-	2.8
May	2.2	...	1.9	2.0	2.4	2.7	1.2	1.9	-	2.5
Jun	2.2	...	1.9	2.0	2.5	2.7	1.3	1.9	-0.2	2.4
Jul	2.0	...	1.8	2.0	2.3	2.4	1.2	1.7	-	1.9
Aug	1.8	...	1.7	2.0	2.2	1.9	1.3	1.7	-0.2	1.7
Sep	2.2	...	2.1	2.7	2.7	2.8	1.6	1.7	-0.2	1.7
Oct	2.7	...	2.6	2.7	3.6	3.5	2.1	2.3	0.3	2.0
Nov	3.3	...	3.1	3.3	4.1	4.4	2.6	2.6	0.6	2.1
Dec	...	...	3.1	3.1	4.3	...	2.8	2.8	...	2.1

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.

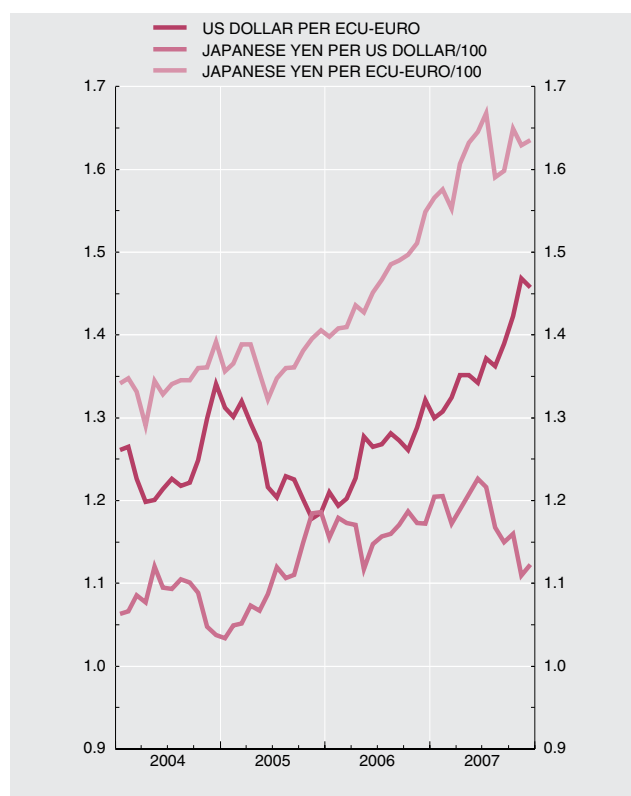
## 2.4. BILATERAL EXCHANGE RATES AND NOMINAL AND REAL EFFECTIVE EXCHANGE RATE INDICES FOR THE EURO, US DOLLAR AND JAPANESE YEN

■ Series depicted in chart.

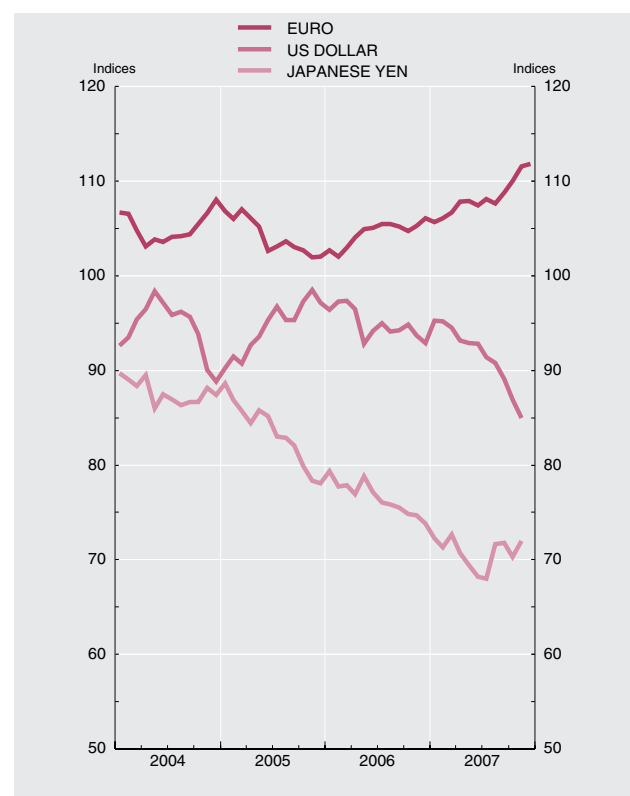
Average of daily data

	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
<b>04</b>	1.2433	134.41	108.18	104.3	89.5	101.8	105.1	94.5	87.7	104.2	95.2	87.2
<b>05</b>	1.2445	136.88	110.17	103.3	87.8	99.7	104.2	94.5	83.4	102.4	96.3	83.5
<b>06</b>	1.2561	146.09	116.32	103.6	86.9	93.7	104.5	94.9	76.5	102.9	96.2	78.0
<b>06 J-D</b>	1.2561	146.09	116.32	103.6	86.9	93.7	104.5	94.9	76.5	102.9	96.2	78.0
<b>07 J-D</b>	1.3710	161.26	117.74	107.7	82.4	88.8	108.3	91.5	70.8	105.4	92.8	73.1
<b>06 Oct</b>	1.2611	149.65	118.67	103.9	86.9	91.6	104.7	94.8	74.9	103.4	95.3	77.0
<b>Nov</b>	1.2881	151.11	117.31	104.5	86.0	91.8	105.2	93.7	74.7	103.9	94.6	76.9
<b>Dec</b>	1.3213	154.82	117.18	105.5	85.3	90.8	106.1	92.9	73.8	104.9	93.8	75.9
<b>07 Jan</b>	1.2999	156.56	120.45	104.9	87.0	89.0	105.6	95.2	72.3	104.4	95.2	74.3
<b>Feb</b>	1.3074	157.60	120.55	105.4	86.7	88.8	106.1	95.2	71.3	104.6	95.3	73.6
<b>Mar</b>	1.3242	155.24	117.23	106.1	85.7	90.9	106.7	94.5	72.7	104.7	95.0	74.8
<b>Apr</b>	1.3516	160.68	118.88	107.1	84.4	88.6	107.9	93.2	70.7	105.1	94.1	72.9
<b>May</b>	1.3511	163.22	120.80	107.3	83.9	87.1	107.9	92.9	69.4	104.7	94.2	71.6
<b>Jun</b>	1.3419	164.55	122.63	106.9	83.6	85.9	107.4	92.8	68.2	104.3	94.1	70.6
<b>Jul</b>	1.3716	166.76	121.59	107.6	82.2	85.6	108.1	91.4	68.0	104.8	93.2	70.5
<b>Aug</b>	1.3622	159.05	116.75	107.1	82.0	89.7	107.7	90.8	71.6	104.8	92.0	74.1
<b>Sep</b>	1.3896	159.82	115.01	108.2	80.3	90.2	108.8	89.1	71.8	105.6	90.8	74.2
<b>Oct</b>	1.4227	164.95	115.94	109.4	78.4	88.2	110.0	86.9	70.3	106.5	88.9	72.9
<b>Nov</b>	1.4684	162.89	110.95	111.0	76.3	91.0	111.6	85.0	72.0	107.3	88.0	74.2
<b>Dec</b>	1.4570	163.55	112.26	111.2	77.9	90.6	111.8	...	...	107.3	...	...

### 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.

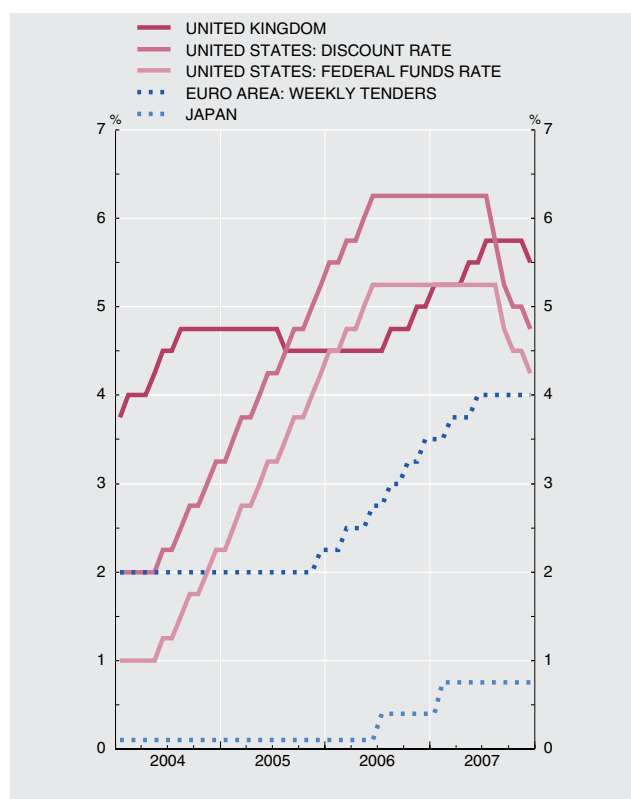
## 2.5. OFFICIAL INTERVENTION INTEREST RATES AND SHORT-TERM INTEREST RATES

■ Series depicted in chart.

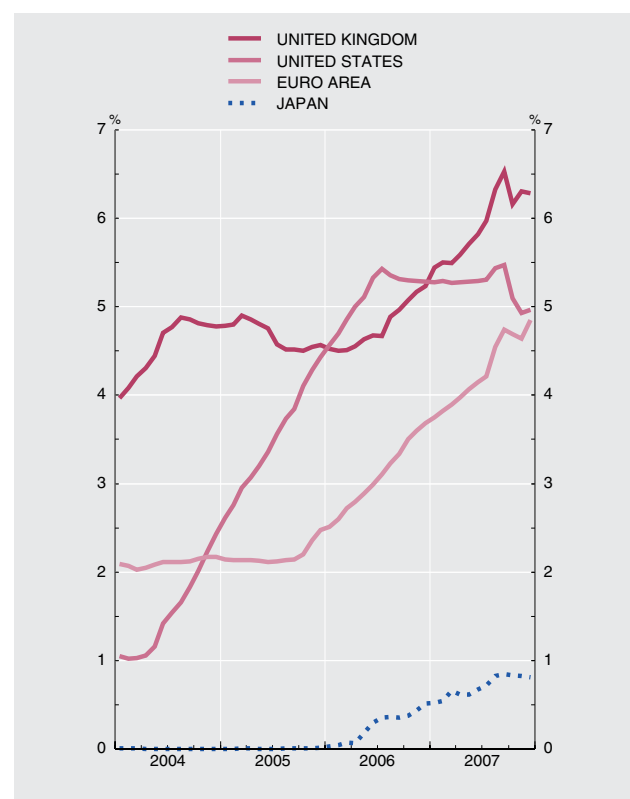
Percentages

	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												
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
04	2.00	3.25	1.40	0.10	4.75	1.75	2.48	2.11	-	-	1.54	-	-	0.00	4.55
05	2.25	5.25	3.25	0.10	4.50	2.57	2.55	2.18	-	-	3.50	-	-	0.01	4.68
06	3.50	6.25	5.02	0.40	5.00	3.61	3.32	3.08	-	-	5.13	-	-	0.26	4.78
06 Jul	2.75	6.25	5.25	0.40	4.50	3.75	3.32	3.10	-	-	5.43	-	-	0.36	4.67
Aug	3.00	6.25	5.25	0.40	4.75	3.78	3.46	3.23	-	-	5.36	-	-	0.36	4.89
Sep	3.00	6.25	5.25	0.40	4.75	3.81	3.57	3.34	-	-	5.31	-	-	0.36	4.97
Oct	3.25	6.25	5.25	0.40	4.75	3.87	3.72	3.50	-	-	5.30	-	-	0.37	5.08
Nov	3.25	6.25	5.25	0.40	5.00	3.91	3.82	3.60	-	-	5.29	-	-	0.44	5.16
Dec	3.50	6.25	5.25	0.40	5.00	3.95	3.90	3.68	-	-	5.28	-	-	0.51	5.23
07 Jan	3.50	6.25	5.25	0.40	5.25	3.99	4.00	3.75	-	-	5.28	-	-	0.52	5.44
Feb	3.50	6.25	5.25	0.75	5.25	4.03	4.06	3.82	-	-	5.29	-	-	0.54	5.50
Mar	3.75	6.25	5.25	0.75	5.25	4.06	4.12	3.89	-	-	5.27	-	-	0.66	5.49
Apr	3.75	6.25	5.25	0.75	5.25	4.09	4.21	3.98	-	-	5.28	-	-	0.62	5.59
May	3.75	6.25	5.25	0.75	5.50	4.13	4.30	4.07	-	-	5.28	-	-	0.62	5.71
Jun	4.00	6.25	5.25	0.75	5.50	4.18	4.39	4.15	-	-	5.29	-	-	0.67	5.82
Jul	4.00	6.25	5.25	0.75	5.75	4.24	4.47	4.22	-	-	5.31	-	-	0.72	5.97
Aug	4.00	5.75	5.25	0.75	5.75	4.45	4.79	4.54	-	-	5.44	-	-	0.82	6.33
Sep	4.00	5.25	4.75	0.75	5.75	4.55	4.99	4.74	-	-	5.47	-	-	0.85	6.53
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

### 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.

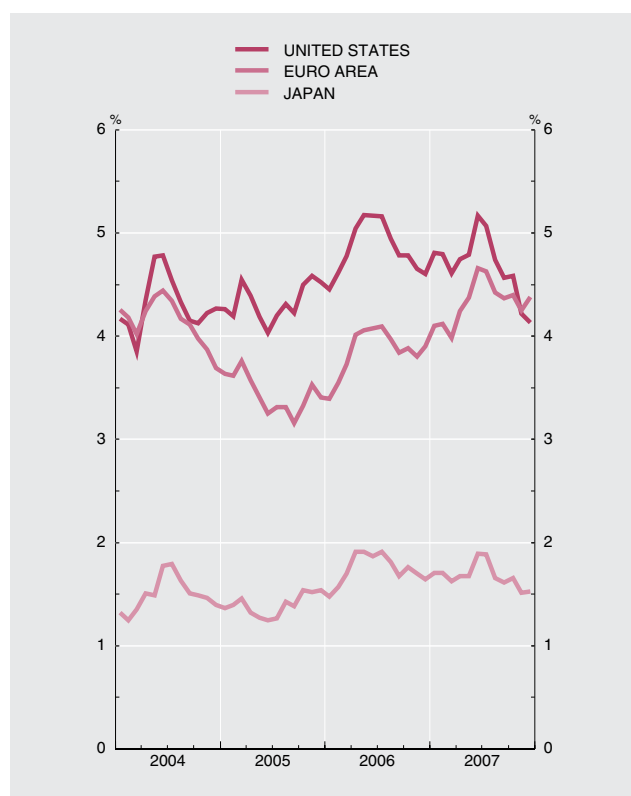
## 2.6. 10-YEAR GOVERNMENT BOND YIELDS ON DOMESTIC MARKETS

■ Series depicted in chart.

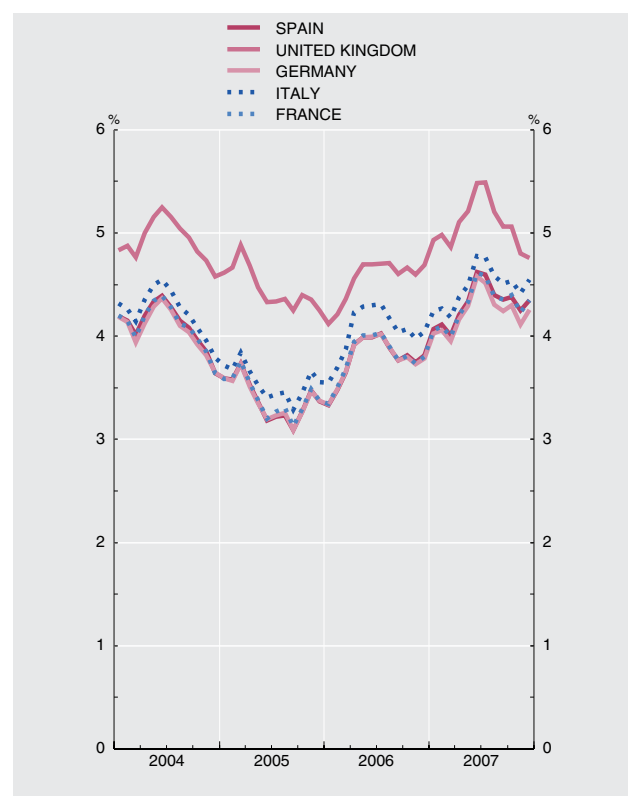
Percentages

	OECD	EU-15	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
	1	2	3	4	5	6	7	8	9	10
<b>04</b>	3.87	4.26	4.14	4.07	4.10	4.31	4.10	4.24	1.50	4.93
<b>05</b>	3.58	3.59	3.44	3.38	3.39	4.33	3.41	3.56	1.39	4.47
<b>06</b>	3.99	3.95	3.86	3.78	3.79	4.85	3.80	4.05	1.75	4.55
<b>06 Jul</b>	4.25	4.18	4.10	4.02	4.02	5.16	4.03	4.31	1.91	4.70
<b>Aug</b>	4.10	4.08	3.97	3.90	3.89	4.95	3.90	4.18	1.81	4.71
<b>Sep</b>	3.95	3.95	3.84	3.76	3.76	4.78	3.77	4.04	1.68	4.60
<b>Oct</b>	3.98	3.99	3.88	3.80	3.81	4.78	3.81	4.07	1.76	4.67
<b>Nov</b>	3.89	3.91	3.80	3.73	3.75	4.66	3.74	3.97	1.70	4.60
<b>Dec</b>	3.88	3.98	3.90	3.79	3.82	4.60	3.80	4.04	1.64	4.69
<b>07 Jan</b>	4.08	4.22	4.10	4.03	4.07	4.81	4.06	4.24	1.71	4.93
<b>Feb</b>	4.08	4.25	4.12	4.05	4.11	4.79	4.10	4.27	1.71	4.98
<b>Mar</b>	3.96	4.15	3.98	3.95	4.01	4.61	3.99	4.18	1.62	4.86
<b>Apr</b>	4.11	4.36	4.25	4.16	4.21	4.75	4.21	4.38	1.68	5.10
<b>May</b>	4.18	4.48	4.37	4.29	4.34	4.79	4.33	4.49	1.68	5.21
<b>Jun</b>	4.49	4.77	4.66	4.58	4.62	5.17	4.62	4.78	1.89	5.49
<b>Jul</b>	4.44	4.74	4.63	4.52	4.60	5.07	4.58	4.76	1.89	5.49
<b>Aug</b>	4.18	4.53	4.43	4.31	4.40	4.74	4.39	4.58	1.65	5.20
<b>Sep</b>	4.08	4.46	4.37	4.24	4.35	4.56	4.36	4.51	1.61	5.06
<b>Oct</b>	4.11	4.50	4.40	4.30	4.38	4.58	4.40	4.53	1.66	5.06
<b>Nov</b>	3.87	4.33	4.25	4.11	4.25	4.22	4.23	4.42	1.51	4.80
<b>Dec</b>	3.87	4.43	4.38	4.25	4.35	4.13	4.35	4.55	1.53	4.76

10-YEAR GOVERNMENT BOND YIELDS



10-YEAR GOVERNMENT BOND YIELDS



Sources: ECB, Reuters and BE.

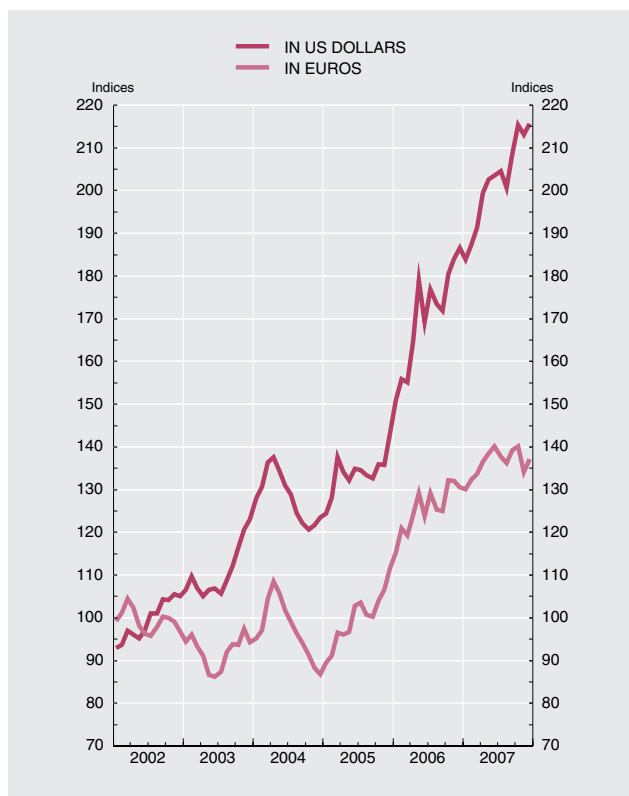
## 2.7 INTERNATIONAL MARKETS. NON-ENERGY COMMODITIES PRICE INDEX. CRUDE OIL AND GOLD PRICE.

■ Series depicted in chart.

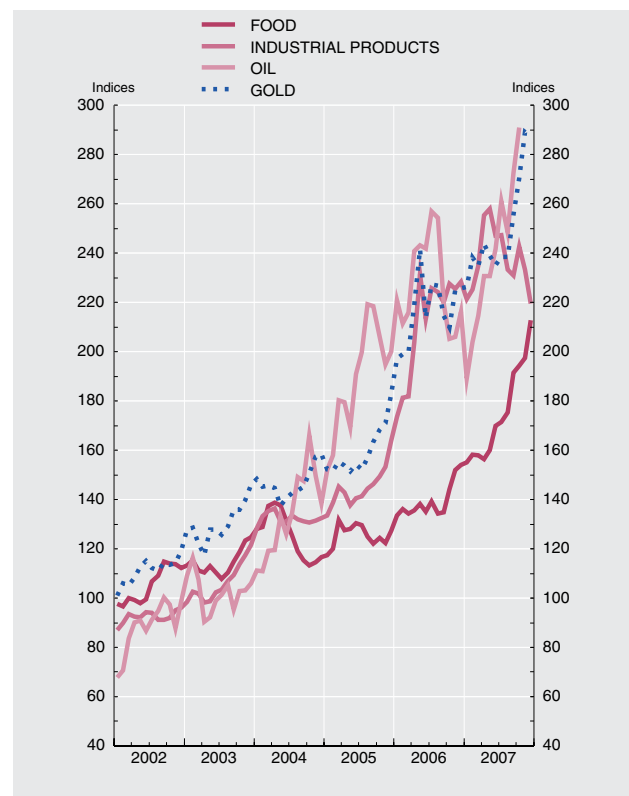
Base 2000 = 100

	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
02	99.3	99.5	105.2	92.4	101.0	84.7	88.5	25.0	111.1	310.0	10.55
03	92.2	110.7	114.4	106.2	118.7	95.5	102.3	28.9	130.3	363.6	10.33
04	97.4	128.3	125.5	132.2	131.5	130.7	133.8	38.3	146.7	409.2	10.58
05	100.0	134.0	125.5	144.8	131.2	152.1	189.2	54.2	159.5	445.1	11.53
06	125.6	170.8	139.3	211.6	147.3	246.4	227.8	64.9	216.7	604.6	15.45
06 J-D	125.6	170.8	139.3	211.6	147.3	246.4	227.8	64.9	216.7	604.6	15.45
07 J-D	136.4	202.3	175.1	237.4	162.4	278.4	...	73.0	249.7	696.6	16.32
06 Nov	132.0	184.1	152.0	225.6	135.0	274.9	205.9	58.5	225.1	627.8	15.66
Dec	130.6	186.6	154.1	228.2	139.9	276.9	216.1	62.8	225.8	629.9	15.32
07 Jan	130.2	183.9	155.2	221.2	150.9	259.7	189.1	53.6	226.2	631.2	15.62
Feb	132.3	187.3	158.2	225.1	156.2	262.6	203.9	57.6	238.3	664.7	16.34
Mar	133.7	191.5	158.0	234.7	154.3	278.6	214.6	62.3	234.8	654.9	15.90
Apr	136.6	199.5	156.4	255.3	158.6	308.0	230.6	67.8	243.5	679.4	16.15
May	138.5	202.7	159.9	258.0	160.0	311.4	230.6	67.4	239.0	666.9	15.87
Jun	140.1	203.5	169.8	247.0	163.7	292.4	241.5	71.8	235.0	655.5	15.70
Jul	137.8	204.6	171.5	247.4	161.9	294.0	260.9	77.9	238.4	665.0	15.59
Aug	136.3	200.6	175.4	233.2	160.4	273.0	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	...	93.0	289.1	806.6	17.65
Dec	137.1	215.7	212.8	219.5	176.1	243.2	...	91.2	287.2	801.3	17.77

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.

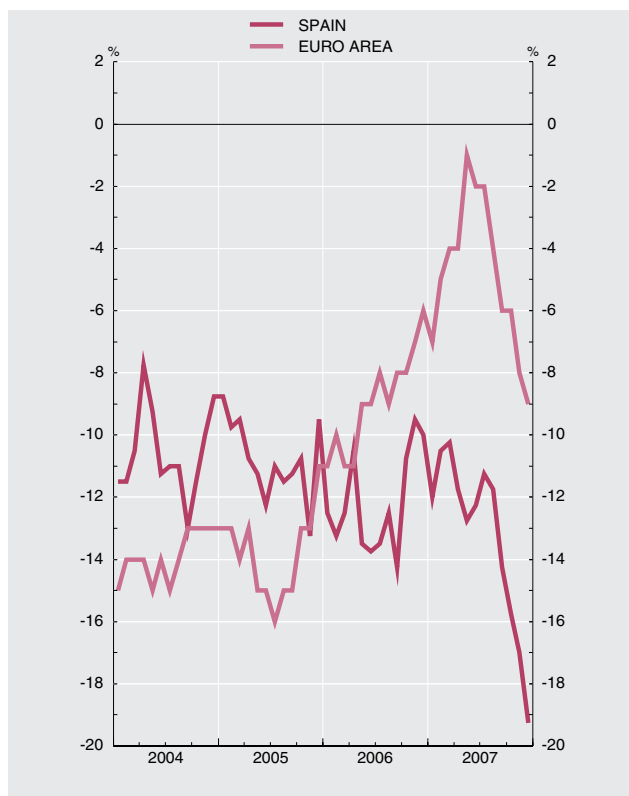
### 3.1 INDICATORS OF PRIVATE CONSUMPTION. SPAIN AND EURO AREA

■ Series depicted in chart.

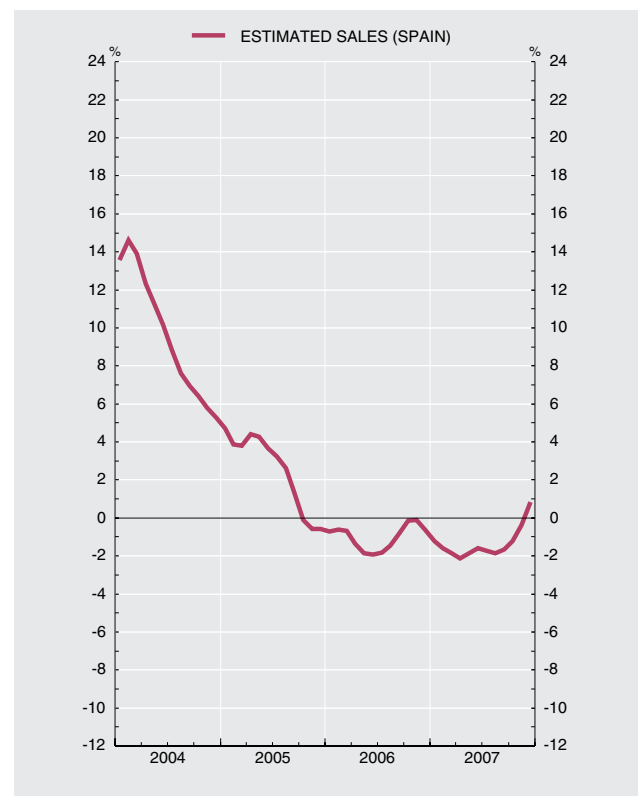
Annual percentage changes

	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	of which		Food (b)		Other (c)
													Deflated (a)	Large retail outlets (a)			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
04		-11	-4	-1	-6	-14	-8	10.8	12.2	10.3	0.9	5.5	2.8	4.4	0.4	4.5	1.5
05		-11	-7	-1	-5	-14	-8	1.4	1.9	2.1	1.7	4.4	1.3	3.2	0.1	2.1	1.3
06		-12	-12	-3	-9	-9	1	-1.0	-0.8	-0.9	3.6	5.0	1.6	2.6	0.7	2.2	2.1
06 J-D		-12	-12	-3	-9	-9	1	-1.0	-0.8	-0.9	3.6	5.0	1.6	2.6	0.7	2.2	2.1
07 J-D	A	-13	-12	-4	-13	-5	1	-1.6	-2.2	-1.2	-1.1	...	...	...	...	...	...
07 Jan	P	-12	-11	-2	-12	-7	-1	9.1	11.3	2.7	-2.9	6.2	4.6	1.7	3.2	5.5	0.9
Feb	P	-11	-10	-3	-10	-5	-1	-4.3	-4.7	-4.4	-3.7	5.3	3.6	2.9	1.8	4.8	1.2
Mar	P	-10	-8	-	-12	-4	-	-0.4	-6.6	-0.2	0.7	7.1	5.4	7.8	4.6	5.9	2.7
Apr	P	-12	-12	-3	-12	-4	-	-5.9	-2.2	-6.0	-5.8	3.1	1.5	-1.7	-0.4	2.8	1.6
May	P	-13	-10	-4	-9	-1	2	-0.3	-4.0	-0.2	-0.9	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	0.6	5.6	4.0	5.6	3.3	4.5	1.0
Jul	P	-11	-9	-2	-15	-2	3	-0.3	0.2	-0.0	0.9	4.8	3.5	1.3	0.5	5.4	1.3
Aug	P	-12	-10	-2	-8	-4	3	-4.2	-3.7	-2.7	0.6	5.4	4.2	2.3	1.7	5.9	0.5
Sep	P	-14	-14	-5	-18	-6	-3	-8.2	-7.3	-7.7	0.3	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	-0.4	6.6	3.1	2.9	3.0	3.2	0.2
Nov	P	-17	-16	-7	-16	-8	2	-7.2	-6.6	-5.9	-3.9	4.4	0.2	1.6	-0.3	0.5	-1.1
Dec	A	-19	-19	-10	-17	-9	1	1.0	1.9	6.3	0.9	...	...	...	...	...	...

#### 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.

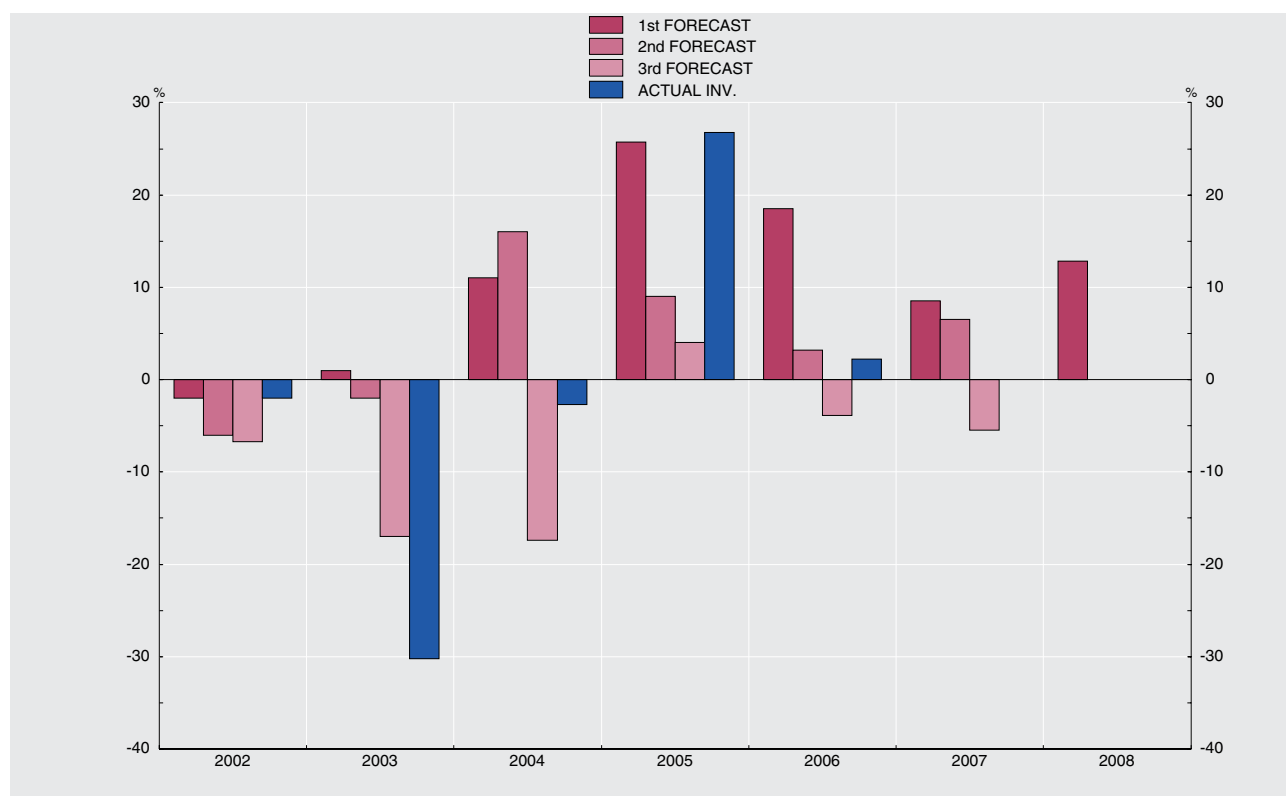
### 3.2. INVESTMENT IN INDUSTRY (EXCLUDING CONSTRUCTION): OPINION SURVEYS. SPAIN

■ 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  $t+1$ .

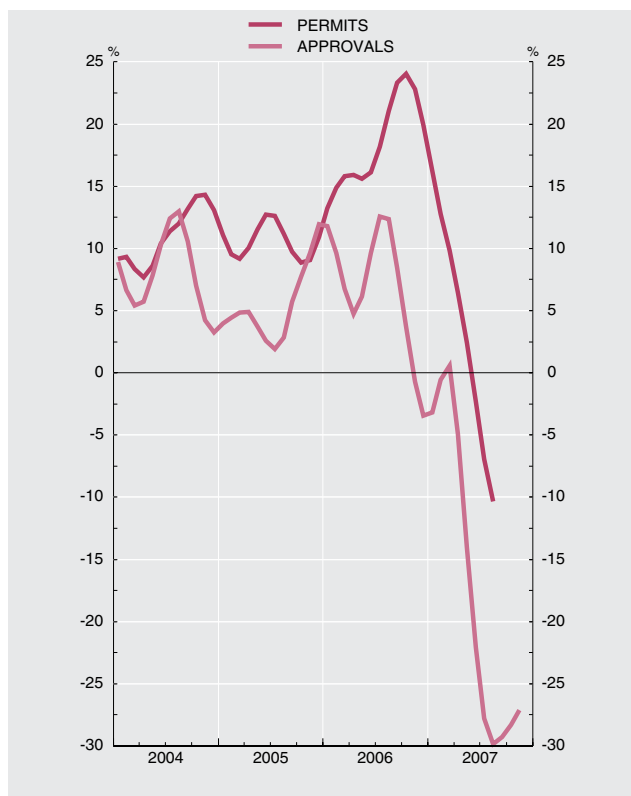
### 3.3. CONSTRUCTION. INDICATORS OF BUILDING STARTS AND CONSUMPTION OF CEMENT. SPAIN

■ Series depicted in chart.

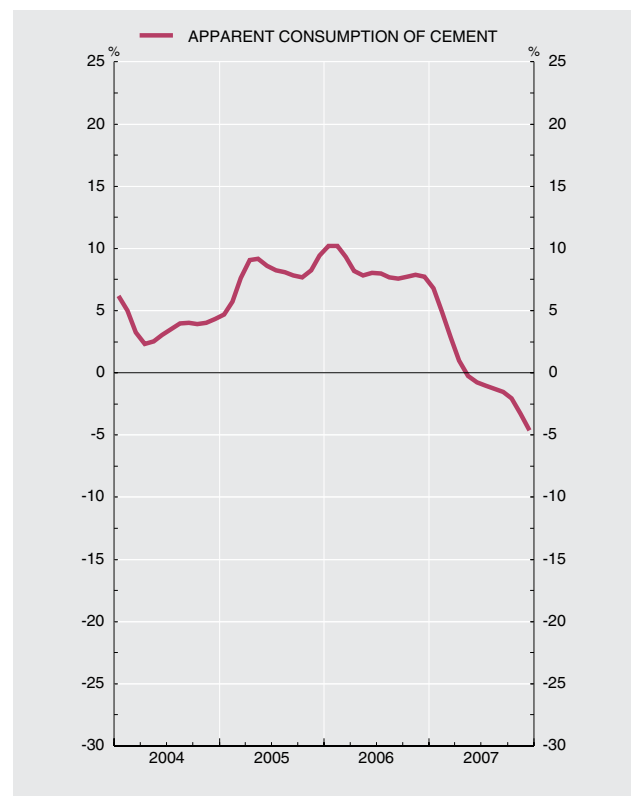
Annual percentage changes

	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		
04	12.8	13.7	14.5	8.4	6.3	9.9	18.3	18.3	3.2	30.9	-0.5	-5.2	24.9	3.9	
05	7.7	8.4	8.6	4.4	5.3	4.8	18.5	18.5	40.4	14.7	30.2	51.1	10.7	7.3	
06	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	
06 J-D	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 J-D	P	...	...	...	...	...	...	...	...	...	...	...	...	0.4	
06 Sep	28.7	30.4	31.0	19.5	83.9	93.7	25.3	23.1	70.1	184.8	179.7	41.0	10.9	1.7	
Oct	46.3	42.5	42.7	67.5	18.3	20.1	58.0	26.7	37.2	164.2	32.5	10.1	66.7	13.1	
Nov	36.1	31.4	32.0	63.0	-7.6	-8.5	44.9	28.3	-12.7	-19.5	-27.1	-10.9	100.1	7.1	
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	24.7	27.9	26.4	8.5	-1.4	-2.7	3.9	3.9	-16.9	-68.4	-16.2	33.2	14.1	15.1	
Feb	-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	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	6.4	14.2	14.3	-18.4	8.4	5.7	-12.1	6.4	-24.1	74.1	44.4	-37.3	-5.9	2.9	
May	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	-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	21.4	6.9	-24.6	-14.1	-52.4	-27.6	42.5	3.7	
Aug	P	-16.5	-16.2	-16.7	-17.9	-36.5	-40.3	-55.8	-3.9	-56.5	-76.8	-79.2	-48.3	-55.6	
Sep	P	...	...	...	...	-64.2	-66.4	-42.3	-7.3	-50.0	-68.3	-89.5	-40.5	-38.5	
Oct	P	...	...	...	...	-27.7	-31.4	-33.2	-10.7	-28.7	-49.4	-51.8	-18.1	-34.8	
Nov	P	...	...	...	...	-24.6	-25.8	-37.4	-13.4	-38.7	-40.8	-55.3	-38.2	-36.9	
Dec	P	...	...	...	...	...	...	...	...	...	...	...	...	-9.1	

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.

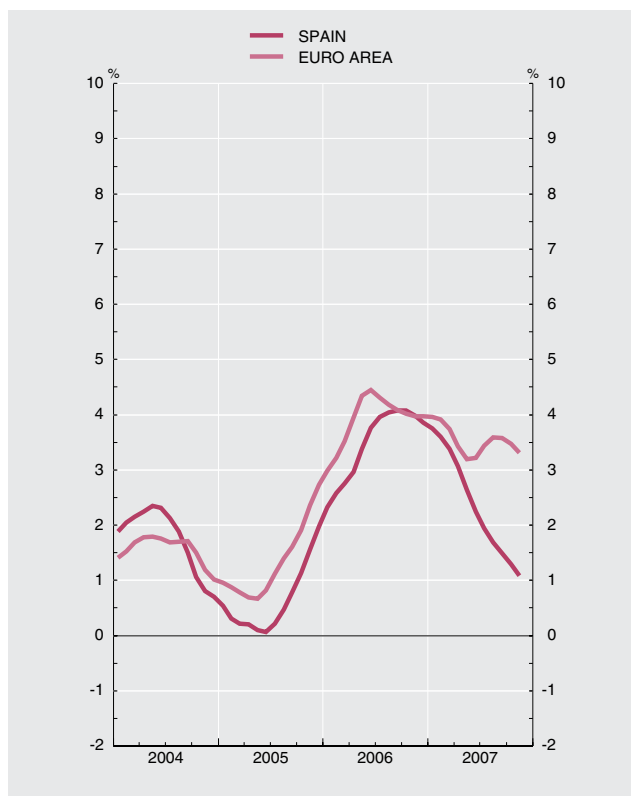
### 3.4. INDUSTRIAL PRODUCTION INDEX. SPAIN AND EURO AREA

■ Series depicted in chart.

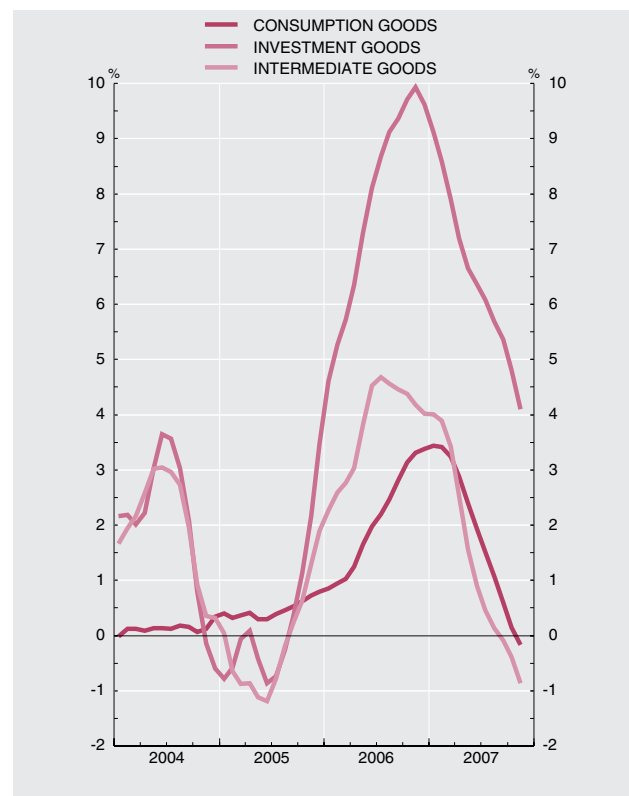
Annual percentage changes

		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
04	MP	102.3	1.8	0.0	1.9	1.9	4.9	-4.8	1.2	7.0	2.1	2.2	0.6	3.4	2.4
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	4.3	2.5	5.8	4.9
06 J-N	MP	107.0	4.0	2.3	8.4	4.1	1.3	2.3	4.3	1.6	3.9	4.2	2.3	5.7	4.6
07 J-N	MP	109.7	2.6	2.2	6.5	1.7	0.3	-0.3	2.8	1.0	3.5	4.1	2.8	5.8	3.9
06 Aug	P	79.8	5.0	2.0	14.0	5.2	3.3	-1.5	5.4	3.8	5.6	6.0	2.2	7.8	7.7
Sep	P	109.1	1.1	-0.5	3.4	1.5	0.1	-2.8	1.0	2.6	3.6	3.8	1.5	5.4	4.6
Oct	P	112.3	7.3	7.5	12.2	7.1	0.4	11.6	7.8	2.0	4.2	4.8	3.1	6.0	5.4
Nov	P	115.1	4.1	4.0	12.6	3.9	-6.8	1.0	5.5	-6.7	2.9	4.0	2.6	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	7.6	7.7
07 Jan	P	109.6	7.5	8.4	13.6	7.9	-2.4	0.6	8.8	-1.7	3.4	5.7	4.6	7.1	5.6
Feb	P	106.5	3.6	3.6	10.3	4.1	-6.6	-9.4	5.1	-5.9	4.2	6.1	2.9	7.5	7.4
Mar	P	119.0	2.1	2.9	4.1	3.0	-4.2	-8.4	2.9	-2.0	4.2	5.8	4.5	6.6	6.6
Apr	P	102.8	6.3	6.2	8.6	4.7	7.8	0.7	6.1	9.0	2.9	3.9	2.8	5.2	3.8
May	P	118.0	2.1	2.6	4.0	0.1	3.9	-0.4	2.0	3.1	2.7	2.9	2.2	3.9	2.6
Jun	P	115.2	-0.5	-1.7	3.8	-1.4	-2.6	-2.0	-0.3	-1.9	2.5	2.8	1.4	4.6	2.6
Jul	P	114.9	3.7	4.7	10.6	2.5	-3.7	15.1	4.7	-4.5	4.0	4.7	3.0	7.2	4.1
Aug	P	81.1	1.6	2.0	5.4	0.3	0.2	3.9	1.8	-0.6	4.5	4.8	5.0	7.2	3.4
Sep	P	107.7	-1.3	-3.1	3.2	-2.8	0.8	0.9	-1.5	-	3.4	3.1	1.7	5.1	2.7
Oct	P	117.6	4.7	2.6	10.9	3.5	4.1	2.3	4.5	6.6	4.1	3.7	1.9	6.5	3.0
Nov	P	114.4	-0.6	-2.4	-0.2	-2.5	8.6	-3.6	-2.0	12.1	2.8	2.0	1.0	3.7	1.9

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.

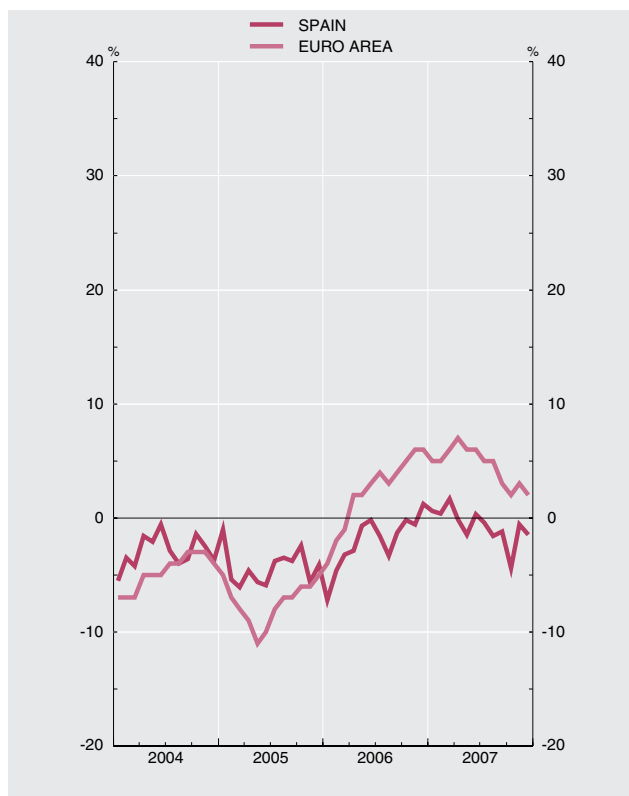
### 3.5. MONTHLY BUSINESS SURVEY: INDUSTRY AND CONSTRUCTION. SPAIN AND EURO AREA

■ Series depicted in chart.

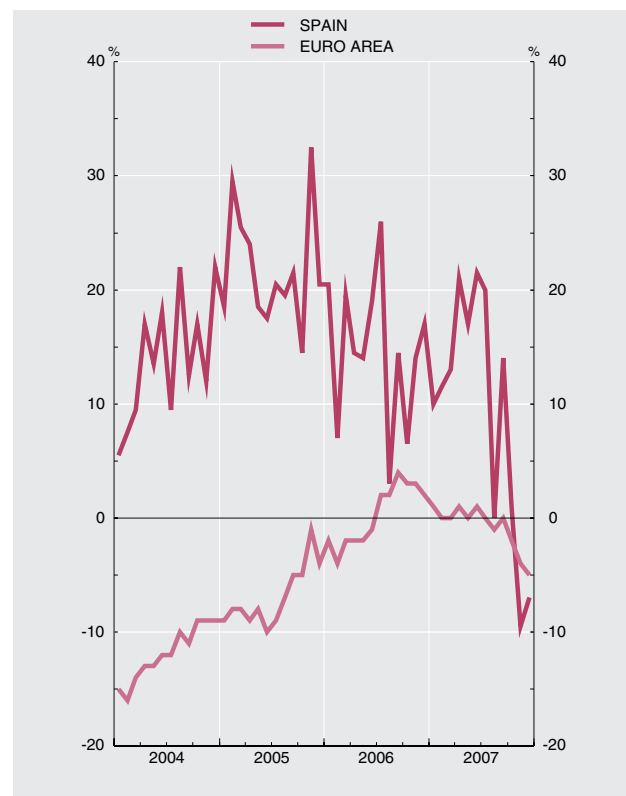
Percentage balances

		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
04	M	-3	4	10	-8	-17	11	-4	1	-5	-0	14	7	21	30	26	-5	-16	-12
05	M	-4	0	7	-9	-18	12	-1	-5	-6	1	22	31	35	30	22	-7	-17	-7
06	M	-2	7	6	-1	-11	12	-3	1	-3	-1	15	27	22	23	15	2	-	0
06 J-D	M	-2	7	6	-1	-11	12	-3	1	-3	-1	15	27	22	23	15	2	-	0
07 J-D	M	-1	7	6	2	-5	10	-2	6	-3	-3	9	21	12	18	21	5	5	-1
06 Sep		-1	9	10	-1	-11	13	-1	3	-4	1	15	51	21	21	5	4	4	4
Oct		-0	10	8	2	-9	10	-4	6	-0	-2	7	10	13	12	3	5	5	3
Nov		-1	10	8	3	-10	13	-0	1	-1	-1	14	13	18	2	30	6	6	3
Dec		1	12	7	7	-9	10	-1	6	1	-3	17	9	32	7	38	6	8	2
07 Jan		1	3	8	6	-10	12	2	2	0	-1	10	19	9	28	8	5	6	1
Feb		0	5	8	4	-7	11	-1	4	0	-2	12	15	14	18	24	5	7	-
Mar		2	7	8	6	-8	9	-3	7	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		-2	9	6	1	-7	11	-3	4	-3	-1	17	39	19	26	17	6	8	-
Jun		0	14	9	1	-3	9	-2	7	-2	1	22	34	28	48	16	6	7	1
Jul		-0	13	5	2	-1	8	-1	8	-4	-4	20	53	25	19	29	5	6	-
Aug		-2	7	7	2	-8	14	-2	1	-2	-6	-	34	-4	19	47	5	7	-1
Sep		-1	6	5	1	-4	9	-4	7	-3	-7	14	17	21	-4	21	3	3	-
Oct		-4	5	3	-5	-3	12	-5	7	-10	-7	1	-10	2	11	14	2	1	-2
Nov		-1	4	7	1	-2	10	-2	10	-5	-2	-10	3	-2	-15	-2	3	2	-4
Dec		-2	-1	8	-3	-5	9	-3	11	-6	-1	-7	10	-1	-10	13	2	1	-5

INDUSTRIAL BUSINESS CLIMATE  
Percentage balances



CONSTRUCTION BUSINESS CLIMATE  
Percentage balances



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

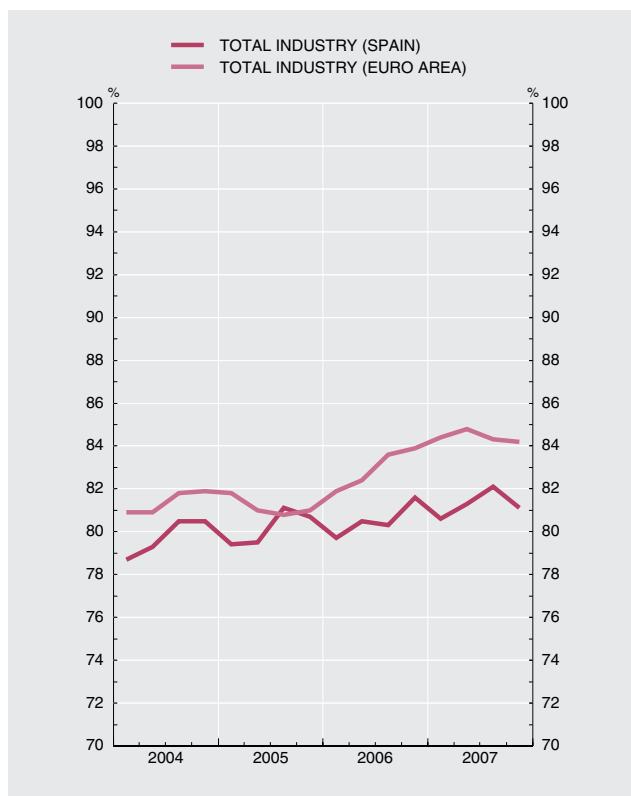
### 3.6. BUSINESS SURVEY: CAPACITY UTILISATION. SPAIN AND EURO AREA

■ Series depicted in chart.

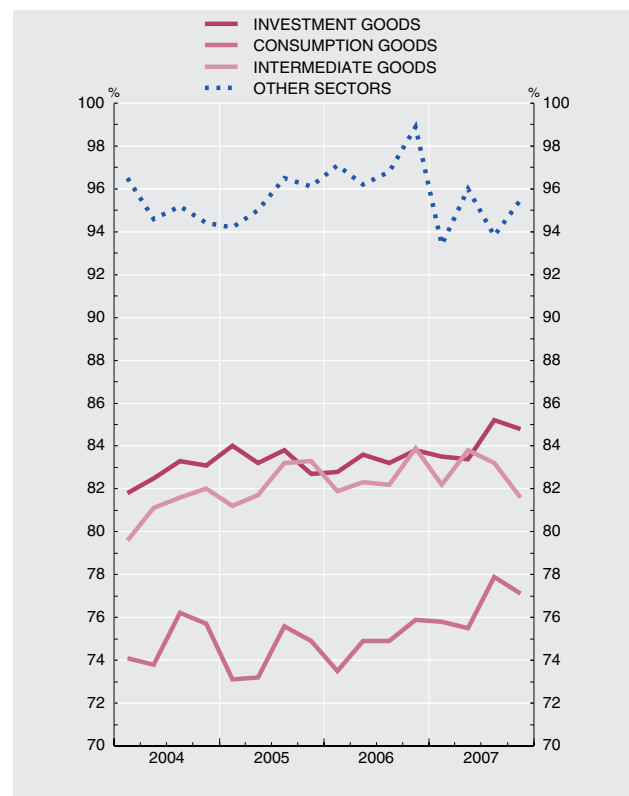
Percentages and percentage balances

	Total industry			Consumer goods			Investment goods			Intermediate goods			Other sectors			Memo- randum item: euro area capacity utilisation  (%)
	Capacity utilisation		Installed capacity  (Per- centage balan- ces)	Capacity utilisation		Installed capacity  (Per- centage balan- ces)	Capacity utilisation		Installed capacity  (Per- centage balan- ces)	Capacity utilisation		Installed capacity  (Per- centage balan- ces)	Capacity utilisation		Installed capacity  (Per- centage balan- ces)	
	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  (%)		
	(%)		(%)		(%)		(%)		(%)		(%)		(%)			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
04	79.8	81.0	6	75.0	76.6	7	82.7	83.5	6	81.1	82.3	5	95.2	95.2	2	81.4
05	80.2	81.5	5	74.2	76.3	6	83.4	84.3	5	82.4	83.3	4	95.5	95.1	0	81.2
06	80.5	81.6	4	74.8	76.5	4	83.4	83.8	7	82.6	83.5	4	97.3	97.5	-	83.0
06 Q1-Q4	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 Q1-Q4	81.3	82.6	3	76.6	78.2	5	84.2	85.0	-0	82.7	84.2	2	94.7	95.5	-	84.4
05 Q2	79.5	81.7	5	73.2	76.3	6	83.2	85.1	3	81.7	83.4	5	95.0	96.6	-	81.0
Q3	81.1	81.8	5	75.6	76.4	8	83.8	84.4	4	83.2	83.9	5	96.5	96.7	-	80.8
Q4	80.7	81.3	5	74.9	76.7	6	82.7	82.9	8	83.3	83.4	3	96.1	91.9	0	81.0
06 Q1	79.7	80.5	9	73.5	75.5	6	82.8	82.6	14	81.9	82.5	9	97.1	97.4	-	81.9
Q2	80.5	82.2	5	74.9	77.9	5	83.6	84.2	7	82.3	83.8	5	96.2	96.5	-	82.4
Q3	80.3	81.1	2	74.9	75.9	1	83.2	83.4	4	82.2	83.0	1	96.8	97.8	-	83.6
Q4	81.6	82.4	2	75.9	76.5	3	83.8	84.8	5	83.9	84.8	-0	98.9	98.4	-	83.9
07 Q1	80.6	81.7	2	75.8	77.2	4	83.5	83.8	1	82.2	83.4	1	93.4	95.9	-	84.4
Q2	81.3	82.8	3	75.5	78.1	6	83.4	84.0	2	83.8	85.2	2	96.0	95.3	-	84.8
Q3	82.1	83.3	1	77.9	79.4	5	85.2	86.5	-7	83.2	84.2	1	93.8	94.6	-	84.3
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	-	84.2

CAPACITY UTILISATION. TOTAL INDUSTRY  
Percentages



CAPACITY UTILISATION. BY TYPE OF GOOD  
Percentages



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

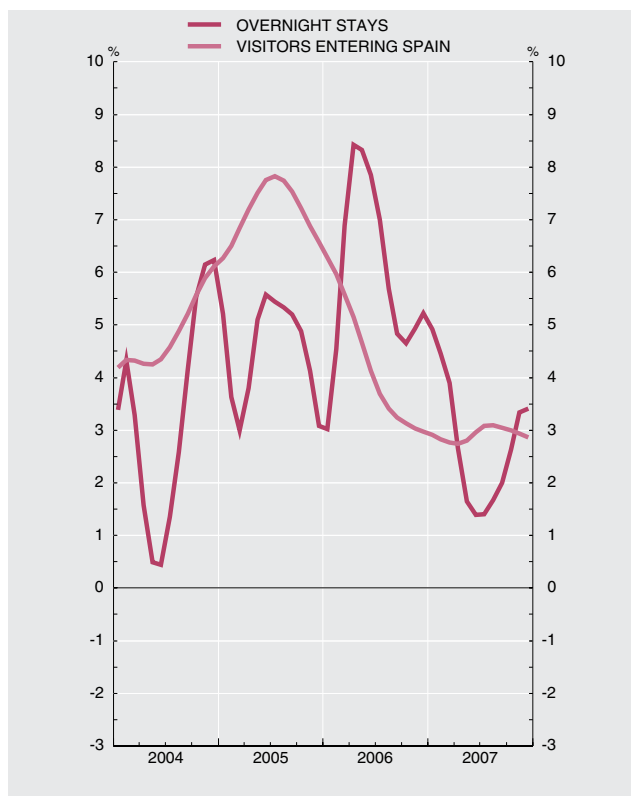
### 3.7. TOURISM AND TRANSPORT STATISTICS. SPAIN

■ Series depicted in chart.

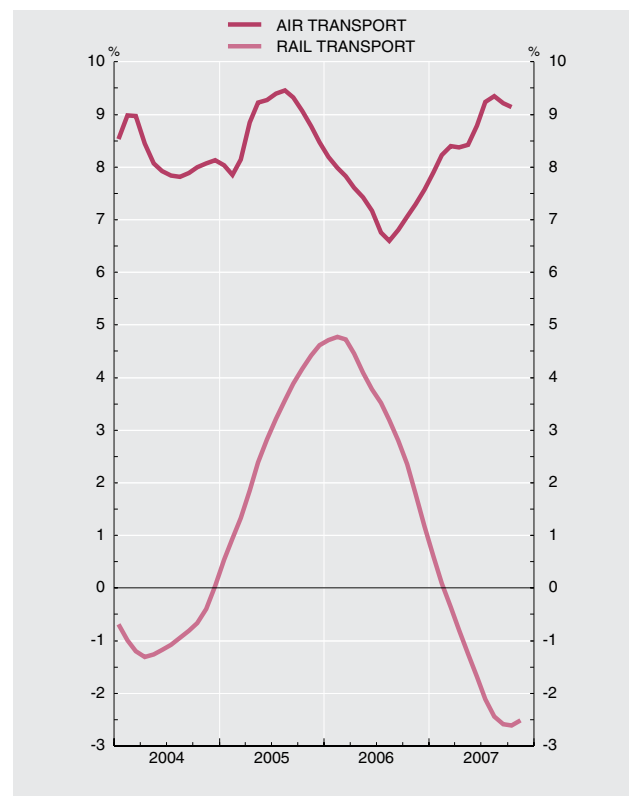
Annual percentage changes

		Hotel stays (a)		Overnight stays		Visitors entering Spain			Air transport				Maritime transport		Rail transport	
		Total	Foreigners	Total	Foreigners	Total	Tourists	Day-trippers	Passengers			Freight	Passengers	Freight	Passengers	Freight
									Total	Domestic flights	International flights					
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
04		6.9	1.4	2.9	-1.6	4.4	3.1	6.6	8.0	9.8	6.8	9.1	10.6	6.8	-1.5	-2.2
05		5.7	5.1	4.7	3.1	7.7	6.6	9.2	9.2	13.6	6.2	-3.0	-1.1	9.0	4.3	-2.5
06	P	5.8	6.1	6.2	6.5	3.6	4.1	3.0	6.7	6.7	6.8	-4.5	10.2	1.3	2.0	-3.1
06 J-D	P	5.8	6.1	6.2	6.5	3.6	4.1	3.0	6.7	6.7	6.8	-4.5	10.2	1.3	2.0	-3.1
07 J-D	P	3.5	4.4	2.1	2.5	3.3	1.7	5.6	...	...	...	...	...	...	...	...
06 Sep		3.2	2.2	2.6	2.1	2.9	4.5	0.0	6.0	4.3	7.2	-3.3	10.6	4.4	0.5	-12.3
Oct		4.4	2.6	4.1	1.8	2.8	3.1	2.2	6.4	8.7	4.8	-3.9	15.0	10.5	5.8	-13.6
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	-40.0	1.9	-7.4
Dec	P	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	P	5.1	8.3	3.4	4.9	3.9	4.0	3.8	6.7	6.2	7.2	5.6	5.3	0.3	-0.0	-2.0
Feb	P	3.8	7.4	3.2	5.4	1.3	4.4	-2.6	9.1	8.9	9.4	6.5	5.6	6.9	-2.0	-3.7
Mar	P	7.5	8.6	6.9	7.9	6.6	6.9	6.1	12.0	10.7	13.2	1.3	17.3	1.7	5.6	4.0
Apr	P	1.8	1.7	2.9	2.0	-0.8	-3.5	3.5	6.1	7.6	5.0	4.2	-0.8	4.3	0.8	8.5
May	P	0.7	-0.6	-0.7	-1.0	-3.0	-1.4	-6.0	6.8	8.4	5.6	9.1	18.9	7.7	-0.7	-4.3
Jun	P	5.4	3.5	2.2	0.5	7.9	4.8	14.3	8.8	9.6	8.3	7.6	13.9	3.0	-2.0	-5.1
Jul	P	1.7	1.7	1.1	1.0	5.1	1.8	11.4	11.6	14.3	10.0	3.4	1.4	3.6	-1.9	2.5
Aug	P	3.6	5.3	1.3	2.7	5.7	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	...	...	-3.3	2.6
Nov	P	8.3	9.2	7.7	6.7	5.1	5.0	5.1	...	...	...	...	...	...	-3.3	...
Dec	P	2.2	10.2	1.6	7.2	-0.4	0.7	-1.6	...	...	...	...	...	...	...	...

**TOURISM**  
Trend obtained with TRAMO-SEATS



**TRANSPORT**  
Trend obtained with TRAMO-SEATS



Sources: INE and Instituto de Estudios Turísticos, Estadística de Movimientos Turísticos en Frontera.

Note: The underlying series for this indicator are in Table 23.15 of the BE Boletín estadístico.

a. From January 2003, the information for Galicia is based on total figures for hotel stays and overnight stays for the month. The directory of hotels has been reviewed thoroughly. Since January 2006, the directories have been update and the information-collection period extended to every day of the month

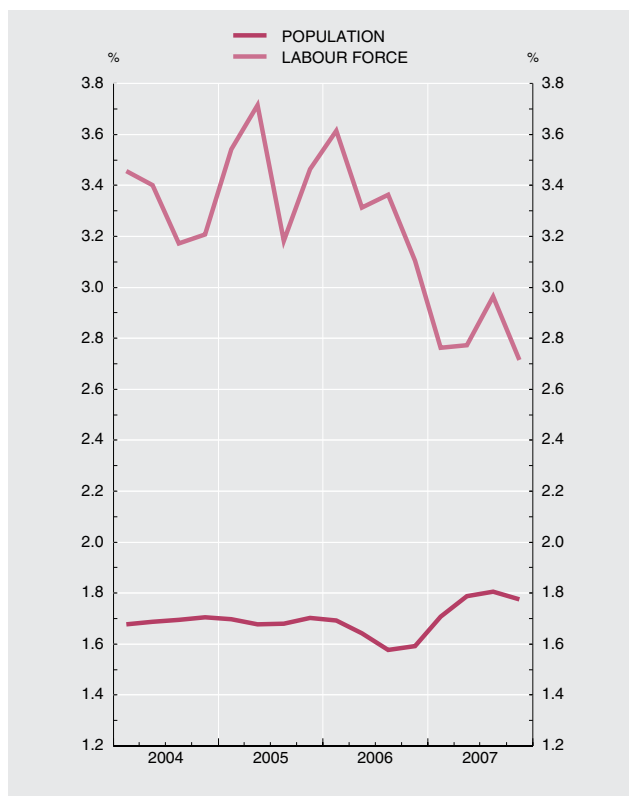
#### 4.1. LABOUR FORCE. SPAIN

■ Series depicted in chart.

Thousands and annual percentage changes

Population over 16 years of age					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-Q4M	37 008	592	1.6	58.33	21 585	2 796	1 381	1 415	3.3
07	Q1-Q4M	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](http://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](http://www.ine.es).

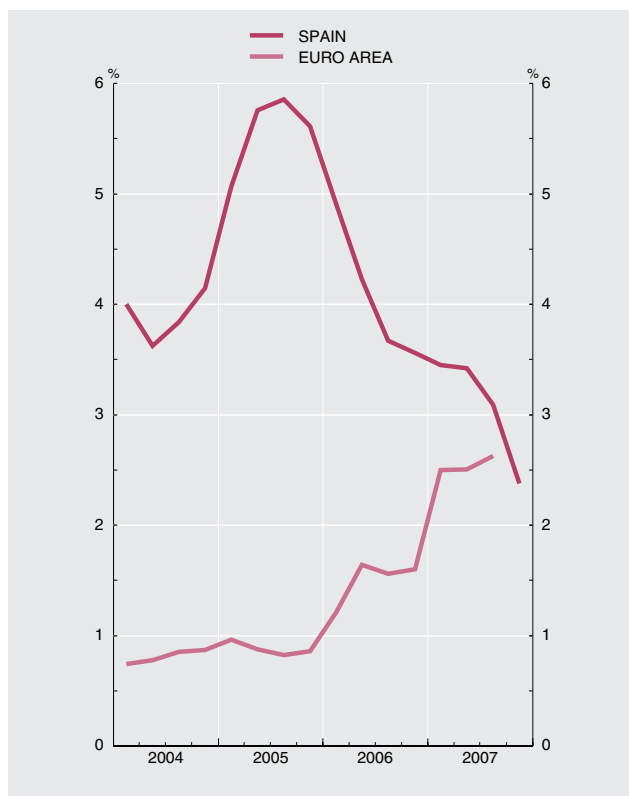
## 4.2. EMPLOYMENT AND WAGE-EARNERS. SPAIN AND EURO AREA

■ Series depicted in chart.

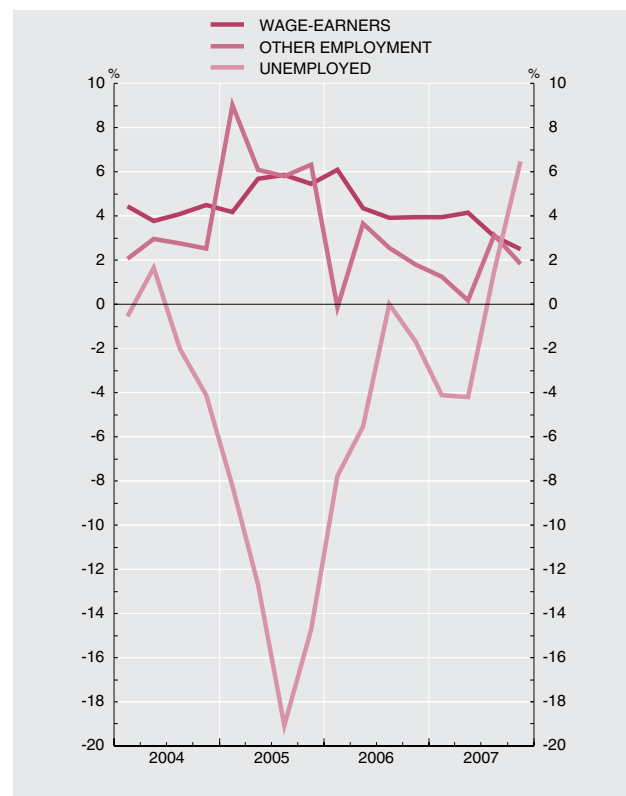
Thousands and annual percentage changes

		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	Unem- ployment rate	Employ- ment 4-quarter % change	Unem- ployment 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	0.8	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	1.5	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	1.5	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	...	...
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	8.90
	Q3	19 191	1 062	5.9	15 750	874	5.9	3 442	188	5.8	1 765	-416	-19.1	8.42	0.8	8.83
	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	8.72
06	Q1	19 400	907	4.9	15 889	912	6.1	3 511	-5	-0.1	1 936	-163	-7.8	9.07	1.2	8.66
	Q2	19 693	798	4.2	16 112	671	4.3	3 582	127	3.7	1 837	-108	-5.5	8.53	1.6	8.38
	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	2.5	7.62
	Q2	20 367	674	3.4	16 779	668	4.1	3 588	6	0.2	1 760	-77	-4.2	7.95	2.5	7.46
	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	7.33
	Q4	20 477	475	2.4	16 877	410	2.5	3 600	65	1.8	1 928	117	6.5	8.60	...	...

**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](http://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](http://www.ine.es).

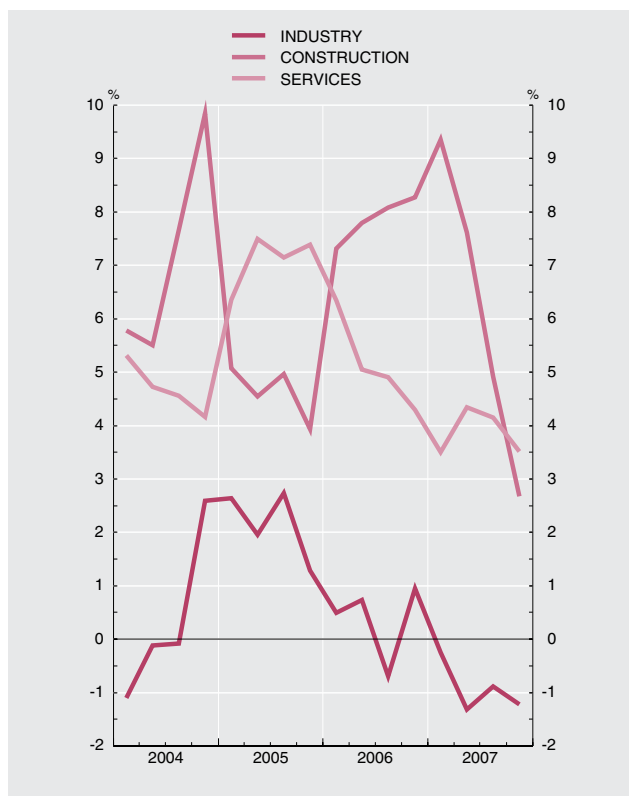
#### 4.3. EMPLOYMENT BY BRANCH OF ACTIVITY. SPAIN (a)

■ Series depicted in chart.

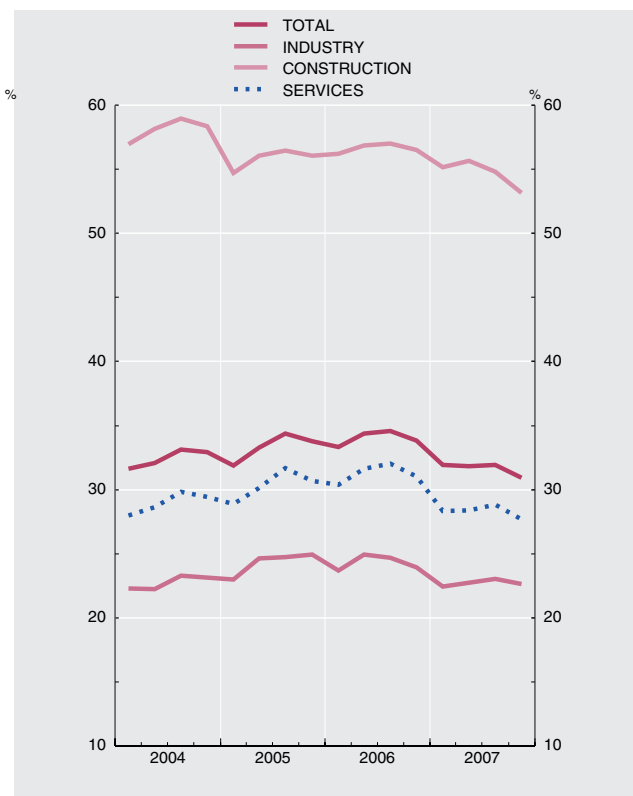
Annual percentage changes

		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](http://www.ine.es).

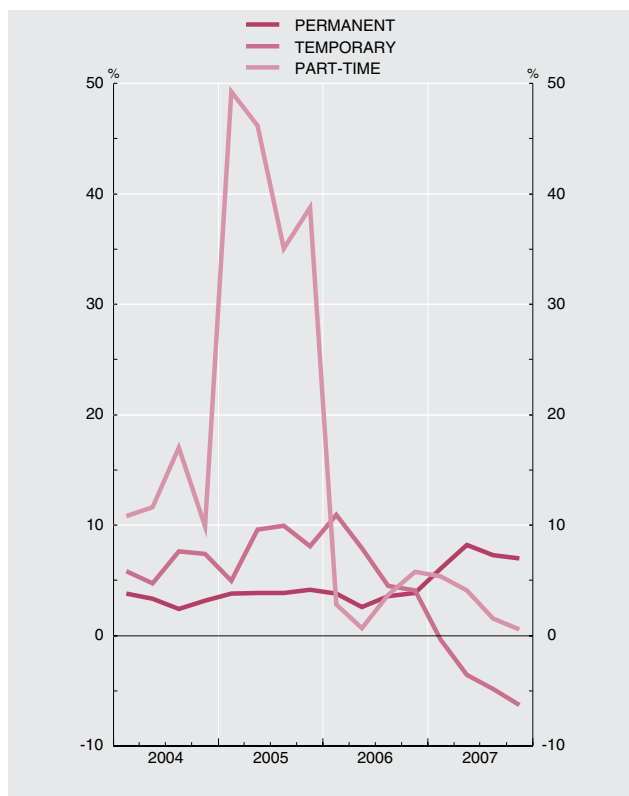
#### 4.4. WAGE-EARNERS BY TYPE OF CONTRACT AND UNEMPLOYMENT BY DURATION. SPAIN. (a)

■ Series depicted in chart.

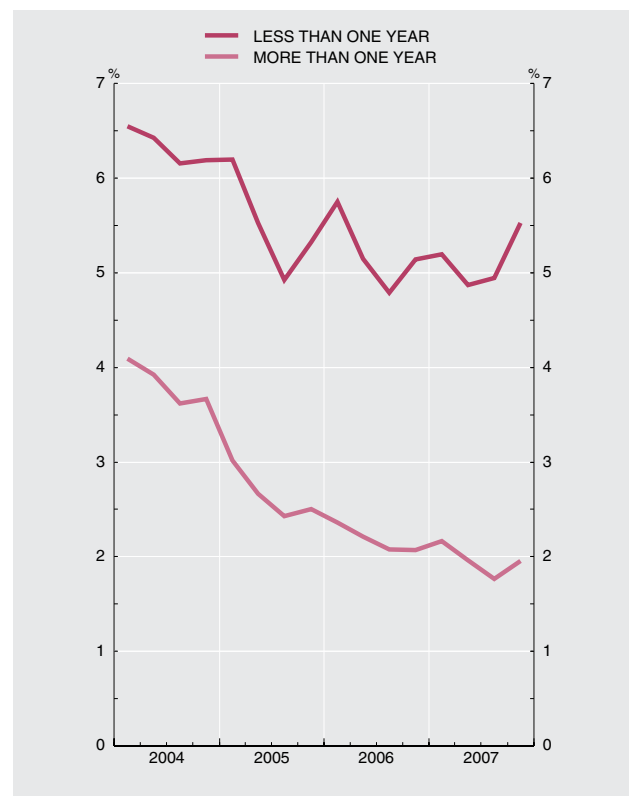
Thousands, annual percentage changes and %

		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-employment rate	4-quar-ter % change	Unem-employment 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](http://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](http://www.ine.es).

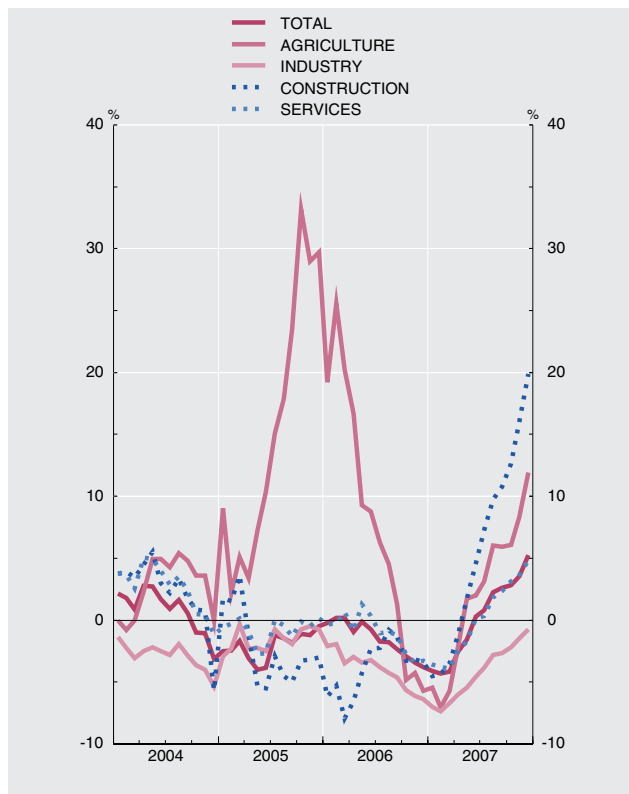
#### 4.5. REGISTERED UNEMPLOYMENT BY BRANCH OF ACTIVITY. CONTRACTS AND PLACEMENTS. SPAIN

■ Series depicted in chart.

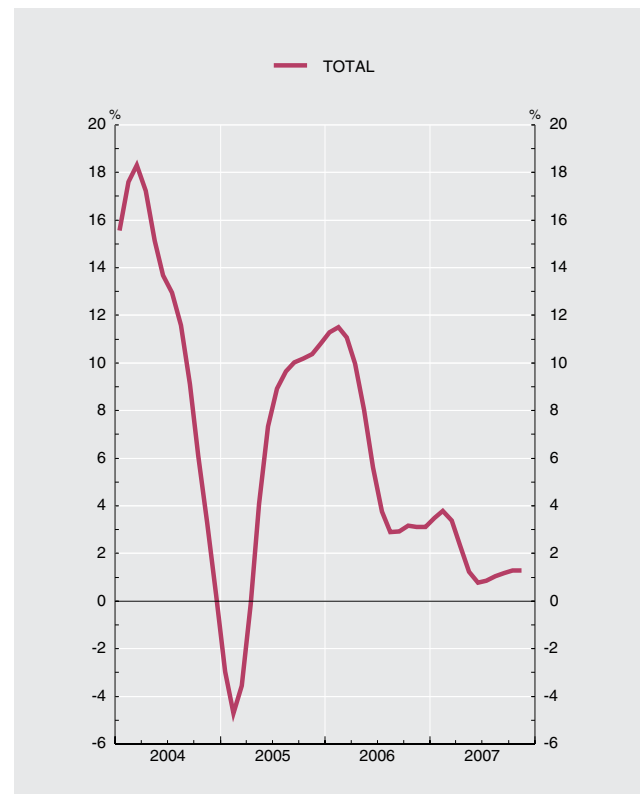
Thousands, annual percentage changes and %

		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	
04	M	2 114	17	0.8	-5.0	1.7	2.7	1.6	-2.9	2.2	2.7	1 363	11.5	8.67	22.71	91.33	1 336	12.0	
05	M	2 070	-44	-2.1	-12.5	-0.6	15.2	-1.1	-1.6	-2.2	-0.8	1 430	5.0	9.03	23.34	90.97	1 391	4.1	
06	M	2 039	-30	-1.5	-0.6	-1.6	7.4	-1.9	-4.0	-4.0	-1.0	1 544	7.9	11.77	23.39	88.23	1 475	6.0	
06	J-D	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	J-D	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
06	Nov		2 023	-72	-3.5	-0.1	-3.9	-4.3	-3.9	-6.1	-3.2	-3.5	1 660	5.8	13.97	24.83	86.03	1 559	3.7
	Dec		2 023	-80	-3.8	-3.3	-3.9	-5.7	-3.8	-6.4	-3.4	-3.3	1 386	4.3	16.96	23.90	83.04	1 244	-4.0
07	Jan		2 083	-89	-4.1	-2.4	-4.3	-5.4	-4.3	-7.0	-4.5	-3.6	1 653	12.3	15.45	20.97	84.55	1 540	8.6
	Feb		2 075	-94	-4.3	-2.6	-4.5	-7.1	-4.4	-7.4	-4.4	-3.8	1 408	3.0	12.49	22.28	87.51	1 365	4.0
	Mar		2 059	-89	-4.1	-2.4	-4.4	-5.7	-4.3	-6.7	-3.5	-3.9	1 564	0.6	12.35	22.91	87.65	1 519	1.6
	Apr		2 023	-53	-2.5	0.3	-2.9	-2.2	-2.9	-6.0	-1.2	-2.5	1 386	6.3	12.19	22.84	87.81	1 360	7.1
	May		1 973	-31	-1.6	0.3	-1.8	1.8	-1.9	-5.4	1.8	-1.7	1 625	-0.7	11.71	22.90	88.29	1 587	-0.5
	Jun		1 966	6	0.3	3.0	-0.0	2.0	-0.1	-4.6	4.6	0.1	1 582	-4.4	11.27	23.39	88.73	1 529	-3.9
	Jul		1 970	15	0.8	2.1	0.6	3.2	0.5	-3.9	7.3	0.3	1 755	5.0	10.30	24.89	89.70	1 694	6.2
	Aug		2 028	45	2.2	2.2	2.3	6.1	2.1	-2.8	9.8	1.8	1 287	-2.7	9.91	22.51	90.09	1 249	-0.3
	Sep		2 017	51	2.6	1.6	2.7	5.9	2.6	-2.7	10.8	2.4	1 596	-4.7	12.05	25.50	87.95	1 584	-2.7
	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

**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.

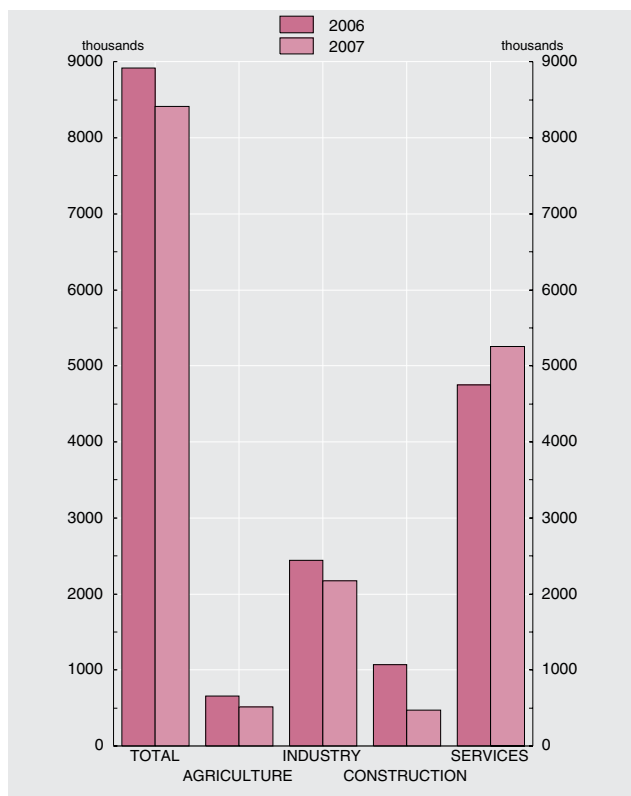
#### 4.6. COLLECTIVE BARGAINING AGREEMENTS

■ Series depicted in chart.

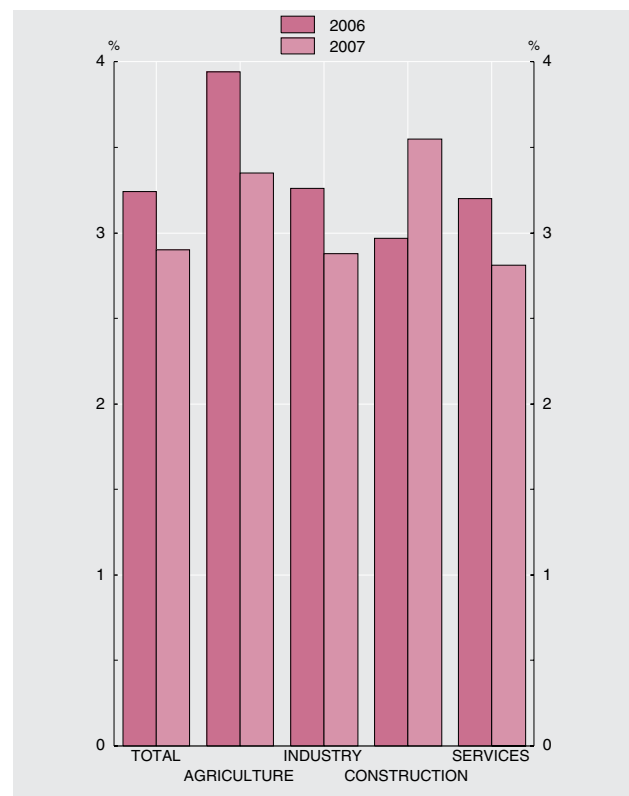
Thousands and %

	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
04	10 194	3.60	5 207	2 594	7 801	-347	629	2 351	1 046	3 774	2.93	3.04	2.96	3.53	2.96	3.43	2.75
05	10 756	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	10 845	3.57	6 765	2 156	8 921	540	656	2 445	1 072	4 748	3.21	3.35	3.24	3.94	3.26	2.97	3.20
06 Jul	10 612	3.56	6 305	1 019	7 325	1 406	408	1 942	969	4 006	3.16	3.24	3.18	3.68	3.23	2.98	3.14
Aug	10 612	3.56	6 309	1 058	7 367	1 033	411	1 952	969	4 035	3.16	3.27	3.18	3.69	3.24	2.98	3.15
Sep	10 727	3.57	6 424	1 342	7 766	1 060	432	2 113	1 011	4 210	3.16	3.38	3.19	3.66	3.31	2.97	3.14
Oct	10 841	3.57	6 594	1 477	8 071	752	469	2 150	1 072	4 380	3.16	3.42	3.21	3.73	3.31	2.97	3.16
Nov	10 842	3.57	6 651	1 797	8 448	525	579	2 187	1 072	4 611	3.18	3.43	3.23	3.80	3.32	2.97	3.18
Dec	10 845	3.57	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	8 011	2.90	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	8 015	2.90	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	8 054	2.90	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	8 337	2.90	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	8 342	2.90	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	8 351	2.90	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	8 358	2.90	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	8 358	2.90	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	8 401	2.90	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	8 411	2.90	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	8 411	2.90	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	8 412	2.90	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

**EMPLOYEES AFFECTED**  
January-December



**AVERAGE WAGE SETTLEMENT**  
January-December



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

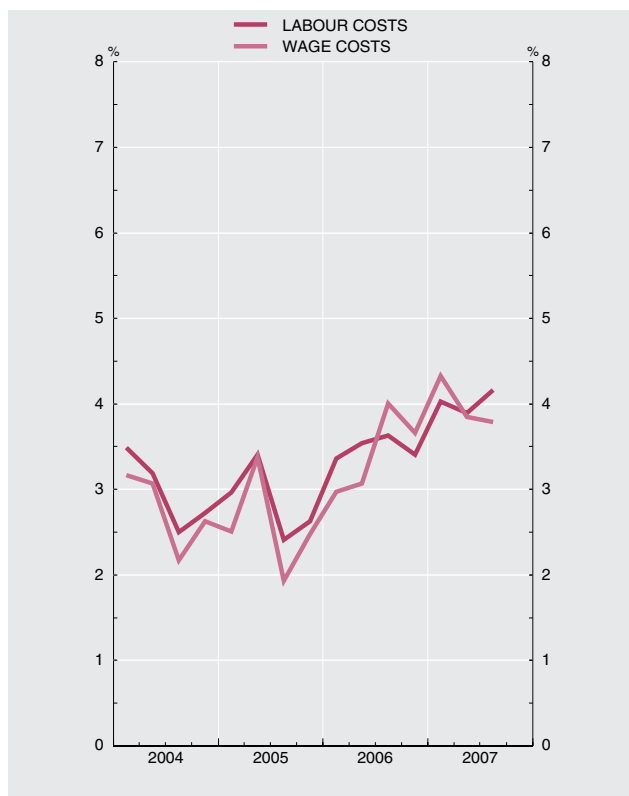
#### 4.7. QUARTERLY LABOUR COSTS SURVEY

■ Series depicted in chart.

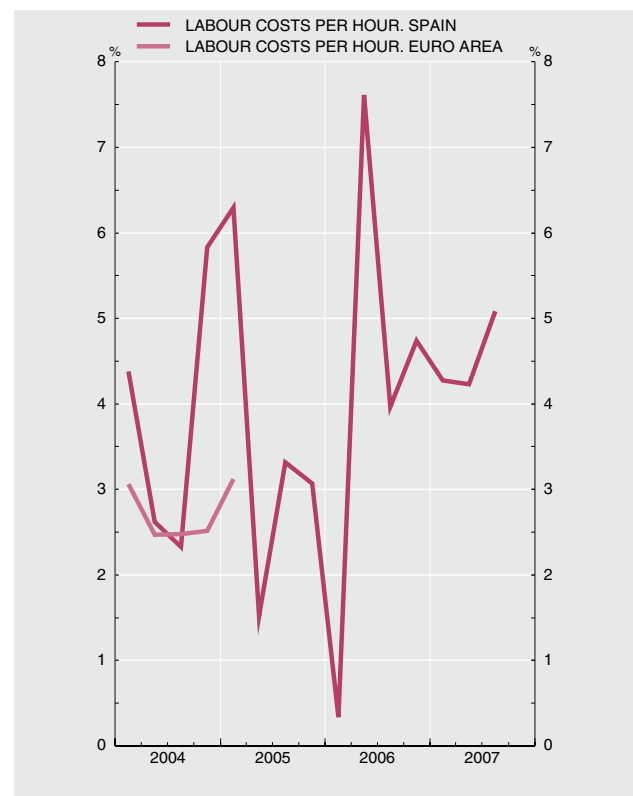
Annual percentage change

		Labour costs					Wage costs					Other costs per worker and month	memorandum item: euro area total hourly labour costs (a)
		Monthly earnings				Per hour worked	Monthly earnings				Per hour worked		
		Total	Industry	Construction	Services		Total	Industry	Construction	Services			
		1	2	3	4	5	6	7	8	9	10	11	12
04	M	3.0	3.4	5.2	2.6	3.8	2.8	3.3	4.2	2.5	3.6	3.6	2.6
05	M	2.9	3.1	2.8	3.1	3.5	2.6	2.7	2.3	2.9	3.2	3.6	...
06	M	3.5	3.7	4.0	3.6	4.2	3.4	3.6	3.7	3.7	4.2	3.6	...
06	Q1-Q3M	3.5	3.9	4.1	3.6	4.0	3.3	3.6	3.7	3.5	3.9	4.0	...
07	Q1-Q3M	4.0	3.3	4.9	4.3	4.5	4.0	3.0	4.7	4.3	4.5	4.1	...
05	Q1	3.0	3.6	3.2	2.9	6.3	2.5	3.2	2.4	2.5	5.8	4.2	3.1
	Q2	3.4	3.7	3.3	3.6	1.5	3.4	3.1	3.3	3.8	1.5	3.5	...
	Q3	2.4	2.1	2.2	2.9	3.3	1.9	1.5	1.3	2.6	2.8	3.7	...
	Q4	2.6	3.2	2.6	2.8	3.1	2.5	3.0	2.0	2.8	2.9	3.1	...
06	Q1	3.4	4.5	4.3	3.2	0.3	3.0	3.8	3.8	3.0	-	4.4	...
	Q2	3.5	3.5	3.9	3.8	7.6	3.1	3.1	3.1	3.4	7.1	4.9	...
	Q3	3.6	3.6	4.1	3.8	4.0	4.0	4.1	4.2	4.3	4.4	2.6	...
	Q4	3.4	3.4	3.7	3.7	4.7	3.7	3.6	3.9	4.0	5.0	2.6	...
07	Q1	4.0	4.2	5.0	4.0	4.3	4.3	3.7	5.5	4.5	4.6	3.2	...
	Q2	3.9	2.7	4.4	4.4	4.2	3.8	3.1	3.9	4.3	4.2	4.0	...
	Q3	4.2	3.0	5.4	4.5	5.1	3.8	2.3	4.8	4.2	4.6	5.2	...

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

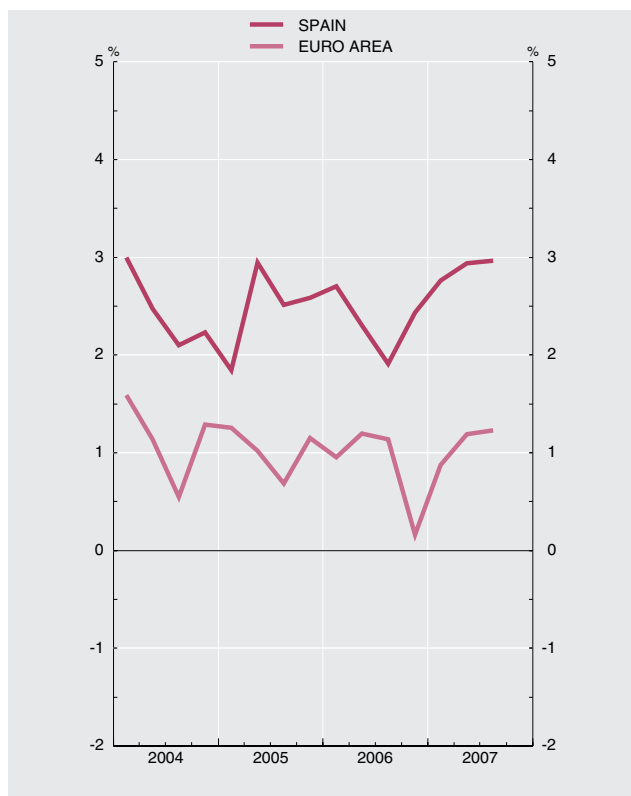
#### 4.8. UNIT LABOUR COSTS. SPAIN AND EURO AREA (a)

■ Series depicted in chart.

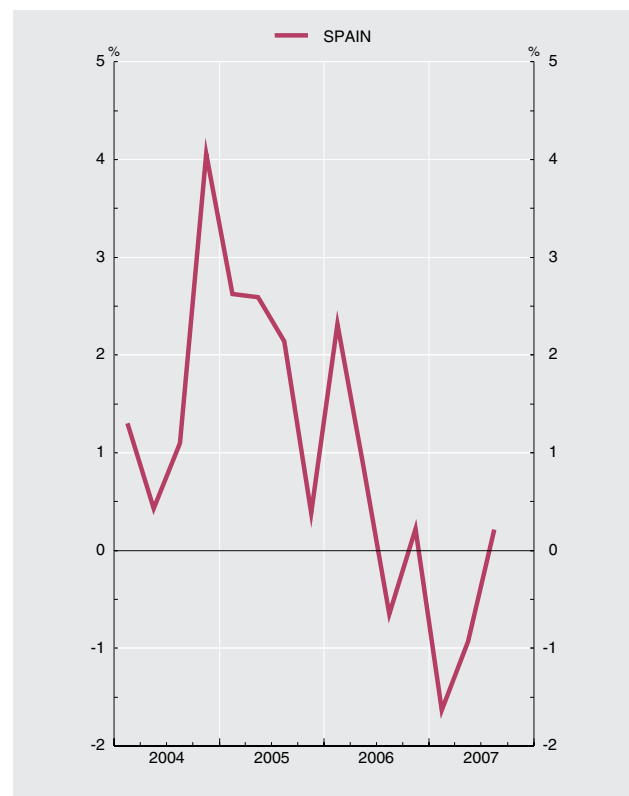
Annual percentage changes

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

UNIT LABOUR COSTS: TOTAL  
Annual percentage changes



UNIT LABOUR COSTS: MANUFACTURING  
Annual percentage changes



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

a. Spain: prepared in accordance with ESA95. SEASONALLY- AND WORKING-DAY-ADJUSTED SERIES (see economic bulletin April 2002).

b. Full-time equivalent employment.

c. Industry.

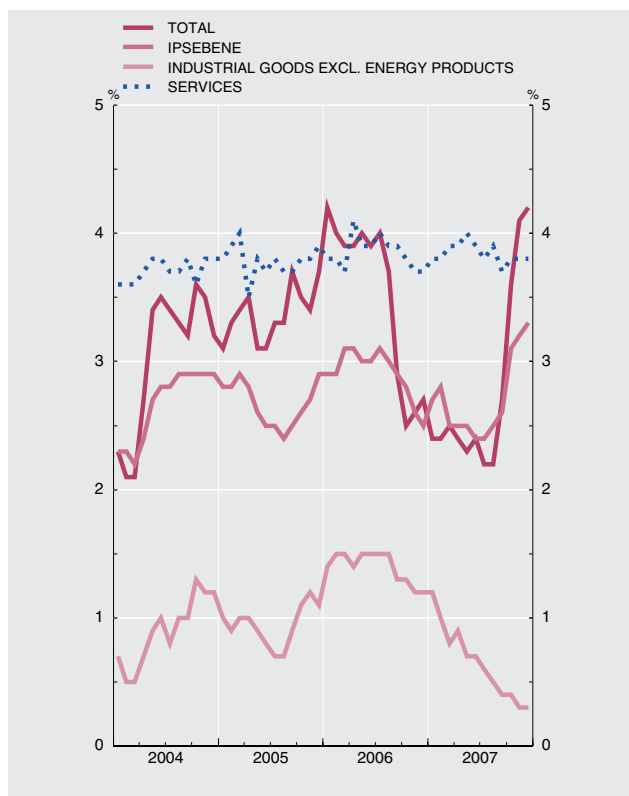
## 5.1. CONSUMER PRICE INDEX. SPAIN (2006=100)

■ Series depicted in chart.

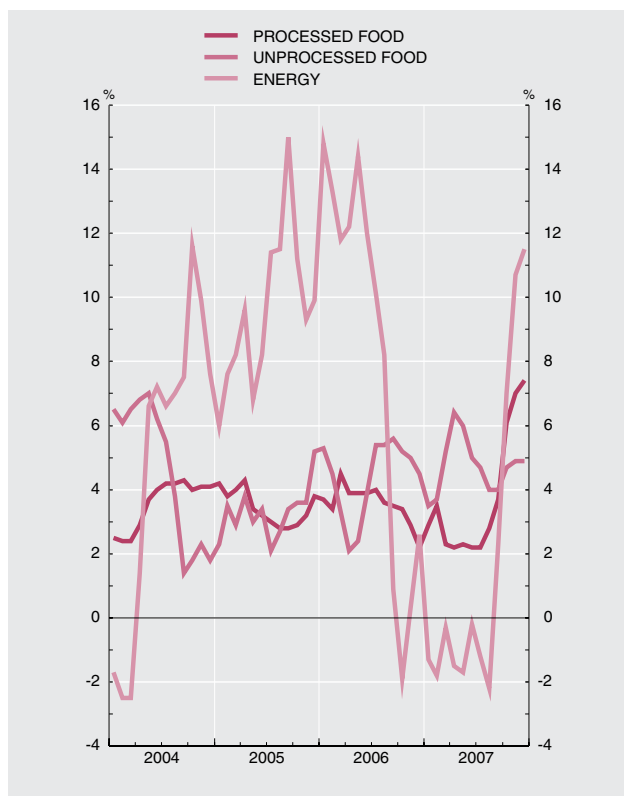
Indices and annual percentage changes

		Total (100%)				Annual percentage change (12-month % change)						Memorandum item: prices for agricultural products (2000=100)	
		Original series	Month-on-month % change	12-month % change (a)	Cumulative % change during year (b)	Unprocessed food	Processed food	Industrial goods excl. energy products	Energy	Services	IPSEBENE (c)	Original series	12-month % change
		1	2	3	4	5	6	7	8	9	10	11	12
04	M	93.5	—	3.0	3.2	4.6	3.6	0.9	4.9	3.7	2.7	106.8	0.9
05	M	96.6	—	3.4	3.7	3.3	3.5	0.9	9.6	3.8	2.7	109.9	2.9
06	M	100.0	—	3.5	2.7	4.4	3.6	1.4	8.2	3.9	2.9	108.9	-0.9
06 J-D	M	100.0	0.2	3.5	1.5	4.4	3.6	1.4	8.2	3.8	2.9	109.9	-1.0
07 J-D	M	102.8	0.3	2.8	1.6	4.8	3.7	0.6	1.8	3.8	2.7	...	...
06 Sep		100.2	-0.2	2.9	1.7	5.6	3.5	1.3	0.9	3.9	2.9	100.6	1.1
Oct		100.6	0.4	2.5	2.1	5.2	3.4	1.3	-1.9	3.8	2.8	101.9	2.3
Nov		100.9	0.2	2.6	2.4	5.0	2.9	1.2	0.3	3.7	2.6	107.7	0.7
Dec		101.1	0.3	2.7	2.7	4.5	2.2	1.2	2.6	3.7	2.5	107.0	-5.8
07 Jan		100.5	-0.7	2.4	-0.7	3.5	2.9	1.2	-1.3	3.8	2.7	111.8	-6.7
Feb		100.5	0.1	2.4	-0.6	3.7	3.5	1.0	-1.8	3.8	2.8	113.8	-6.3
Mar		101.3	0.8	2.5	0.1	5.2	2.3	0.8	-0.3	3.9	2.5	115.3	1.5
Apr		102.7	1.4	2.4	1.5	6.4	2.2	0.9	-1.5	3.9	2.5	120.3	6.7
May		103.0	0.3	2.3	1.8	6.0	2.3	0.7	-1.7	4.0	2.5	116.2	0.4
Jun		103.2	0.2	2.4	2.0	5.0	2.2	0.7	-0.2	3.9	2.4	116.3	2.6
Jul		102.4	-0.7	2.2	1.3	4.7	2.2	0.6	-1.2	3.8	2.4	106.1	2.5
Aug		102.5	0.1	2.2	1.4	4.0	2.8	0.5	-2.2	3.9	2.5	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	...	...
Dec		105.4	0.4	4.2	4.2	4.9	7.4	0.3	11.5	3.8	3.3	...	...

CONSUMER PRICE INDEX. TOTAL AND COMPONENTS  
Annual percentage changes



CONSUMER PRICE INDEX. COMPONENTS  
Annual percentage changes



Sources: INE, Ministerio de Agricultura, Pesca y Alimentación and BE.

Note: The underlying series for this indicator are in Tables 25.2 and 25.8 of the BE Boletín estadístico.

a. For annual periods: average growth for each year on the previous year.

b. For annual periods: December-on-December growth rate.

c. Index of non-energy processed goods and service prices.

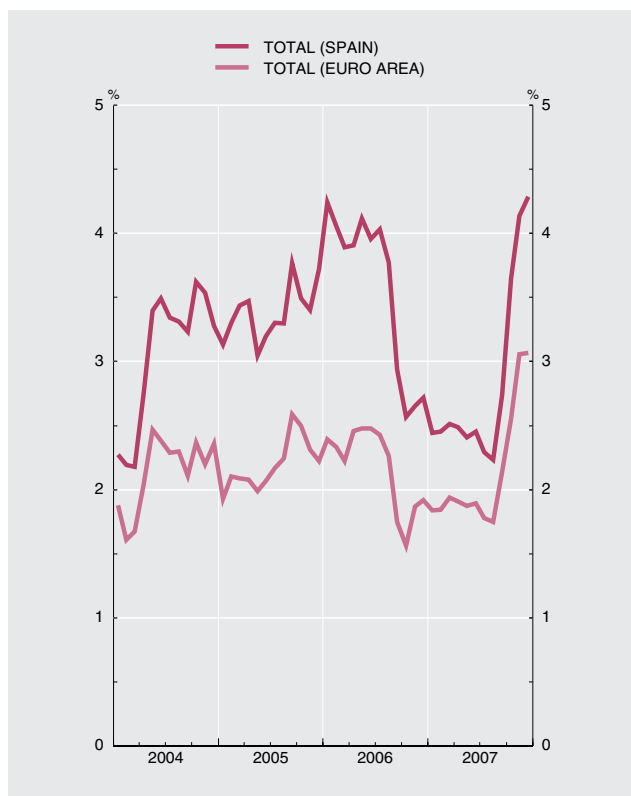
## 5.2. HARMONISED INDEX OF CONSUMER PRICES. SPAIN AND EURO AREA (2005=100) (a)

■ Series depicted in chart.

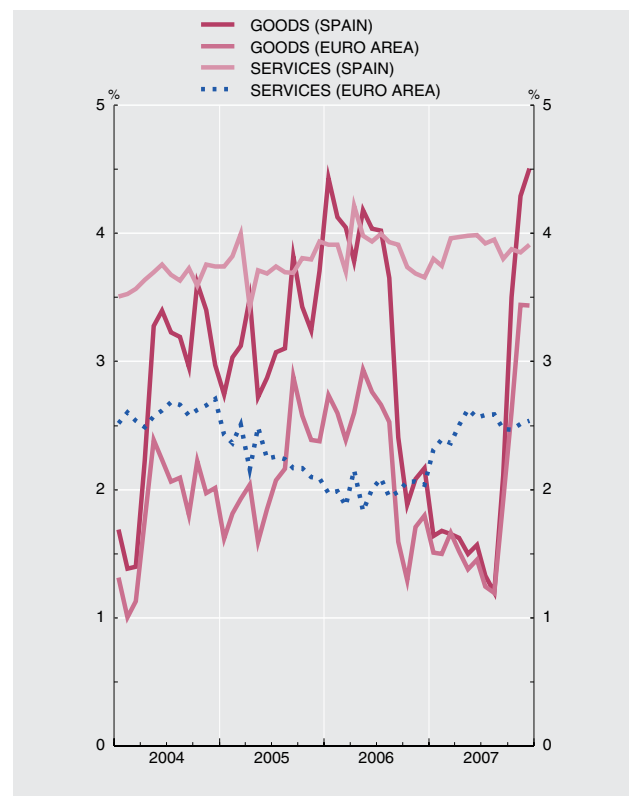
Annual percentage changes

		Total		Goods														Services			
		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	Spain	Euro area				
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18		
04	M	3.1	2.1	2.7	1.8	3.9	2.3	4.2	3.4	3.7	0.6	2.0	1.6	1.0	0.8	4.8	4.5	3.7	2.6		
05	M	3.4	2.2	3.2	2.1	3.4	1.6	3.5	2.0	3.3	0.8	3.1	2.4	1.0	0.3	9.7	10.1	3.8	2.3		
06	M	3.6	2.2	3.4	2.3	3.9	2.4	3.9	2.1	3.9	2.8	3.1	2.3	1.5	0.6	8.0	7.7	3.9	2.0		
06	J-D	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	J-D	MP	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	
06	Sep		2.9	1.7	2.4	1.6	4.2	2.9	3.8	1.8	4.7	4.6	1.2	1.0	1.5	0.8	0.9	1.5	3.9	2.0	
	Oct		2.6	1.6	1.9	1.3	4.0	3.0	3.6	2.3	4.4	4.2	0.5	0.5	1.4	0.8	-1.9	-0.5	3.7	2.1	
	Nov		2.7	1.9	2.1	1.7	3.6	3.0	2.9	2.2	4.4	4.4	1.1	1.1	1.4	0.8	0.3	2.1	3.7	2.1	
	Dec		2.7	1.9	2.2	1.8	3.0	2.7	2.1	2.1	3.9	3.7	1.7	1.4	1.4	0.9	2.6	2.9	3.7	2.0	
07	Jan		2.4	1.8	1.6	1.5	3.1	2.8	3.0	2.2	3.3	3.7	0.7	0.9	1.3	0.9	-1.2	0.9	3.8	2.3	
	Feb		2.5	1.8	1.7	1.5	3.6	2.4	3.7	2.1	3.6	2.8	0.4	1.1	1.1	1.1	-1.7	0.8	3.7	2.4	
	Mar		2.5	1.9	1.7	1.7	3.3	2.3	2.0	1.9	4.6	2.9	0.6	1.4	0.9	1.2	-0.3	1.8	4.0	2.4	
	Apr		2.5	1.9	1.6	1.5	3.6	2.7	1.9	1.9	5.4	3.9	0.4	1.0	0.9	1.1	-1.4	0.4	4.0	2.5	
	May		2.4	1.9	1.5	1.4	3.5	2.4	2.0	1.9	5.2	3.1	0.2	0.9	0.8	1.0	-1.6	0.3	4.0	2.6	
	Jun		2.5	1.9	1.6	1.5	3.2	2.4	2.0	2.0	4.4	3.0	0.5	1.0	0.7	1.0	-0.2	0.9	4.0	2.6	
	Jul		2.3	1.8	1.3	1.2	3.0	2.3	1.9	1.9	4.2	2.8	0.2	0.7	0.6	0.9	-1.2	-	3.9	2.6	
	Aug		2.2	1.7	1.2	1.2	3.2	2.5	2.8	2.5	3.7	2.4	-0.1	0.6	0.5	1.0	-2.1	-0.9	4.0	2.6	
	Sep		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	P	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	

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](http://www.europa.eu.int)).

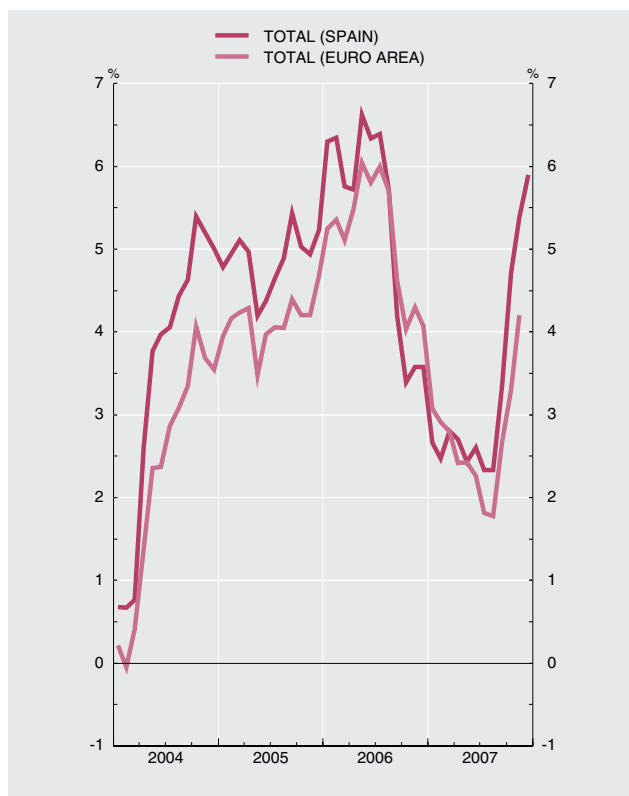
### 5.3. PRODUCER PRICE INDEX. SPAIN AND EURO AREA (a)

■ Series depicted in chart.

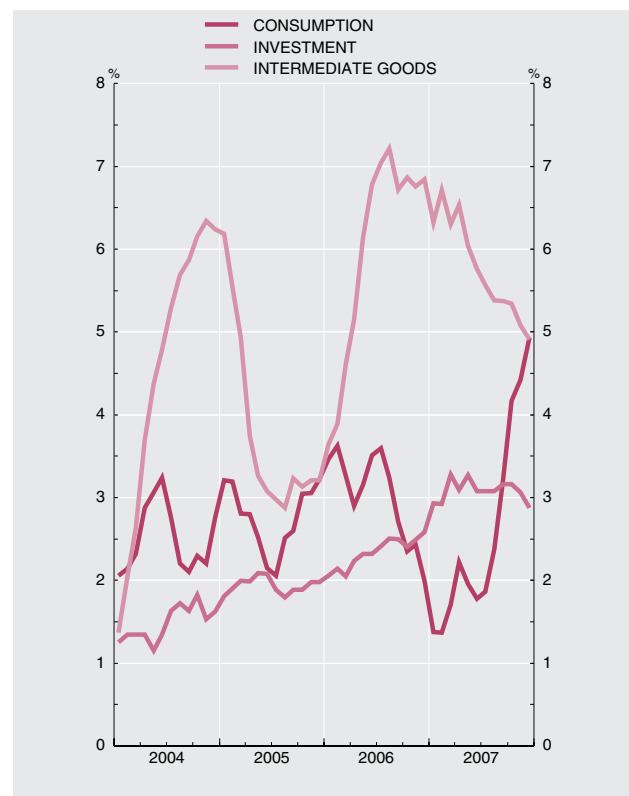
Annual percentage changes

		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
04	MP	107.4	—	3.4	—	2.5	—	1.5	—	4.5	—	5.3	2.3	1.3	0.7	3.5	4.0
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
06 J-D	MP	118.6	—	5.3	—	3.0	—	2.3	—	6.0	—	11.0	5.1	1.7	1.4	4.8	13.6
07 J-D	MP	122.6	—	3.3	—	2.6	—	3.1	—	5.8	—	0.8	...	...	...	...	...
06 Sep	P	119.3	-0.7	4.2	-0.3	2.7	0.1	2.5	0.3	6.7	-3.2	4.1	4.6	1.7	1.6	6.4	7.8
Oct	P	118.8	-0.4	3.4	-	2.3	0.1	2.4	0.5	6.9	-2.7	0.5	4.0	1.7	1.7	6.4	5.1
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	2.3	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	4.1	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	3.3	1.5	3.9	4.2
Nov	P	125.2	0.6	5.4	0.2	4.4	0.1	3.1	-	5.1	2.7	9.8	4.2	3.7	1.5	3.7	8.0
Dec	P	125.8	0.5	5.9	0.5	4.9	-	2.9	-0.1	4.9	1.7	11.6	...	...	...	...	...

PRODUCER PRICE INDEX. TOTAL  
Annual percentage changes



PRODUCER PRICE INDEX. COMPONENTS  
Annual percentage changes



Sources: INE and ECB.

Note: The underlying series for this indicator, for Spain, are in Table 25.3 of the BE Boletín estadístico.

a. Spain: 2000=100; euro area: 2000=100.

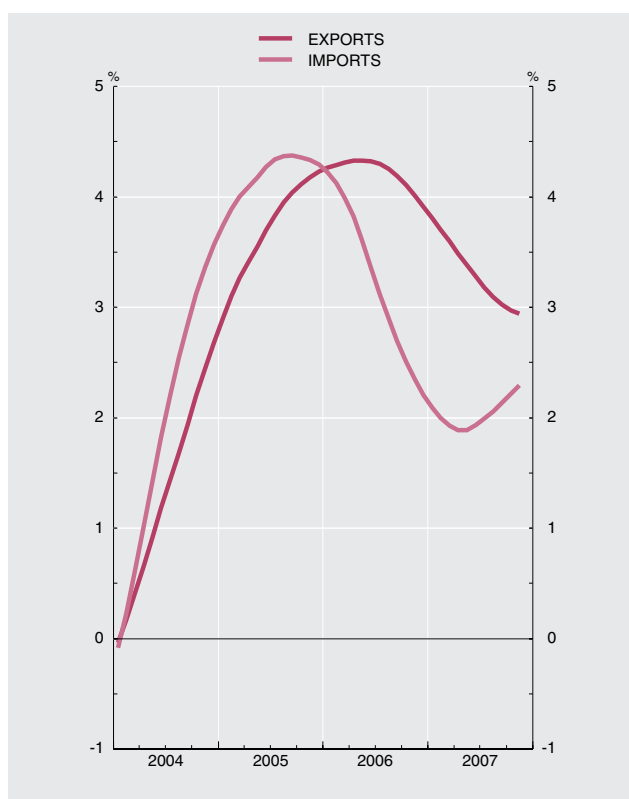
#### 5.4. UNIT VALUE INDICES FOR SPANISH FOREIGN TRADE

■ Series depicted in chart.

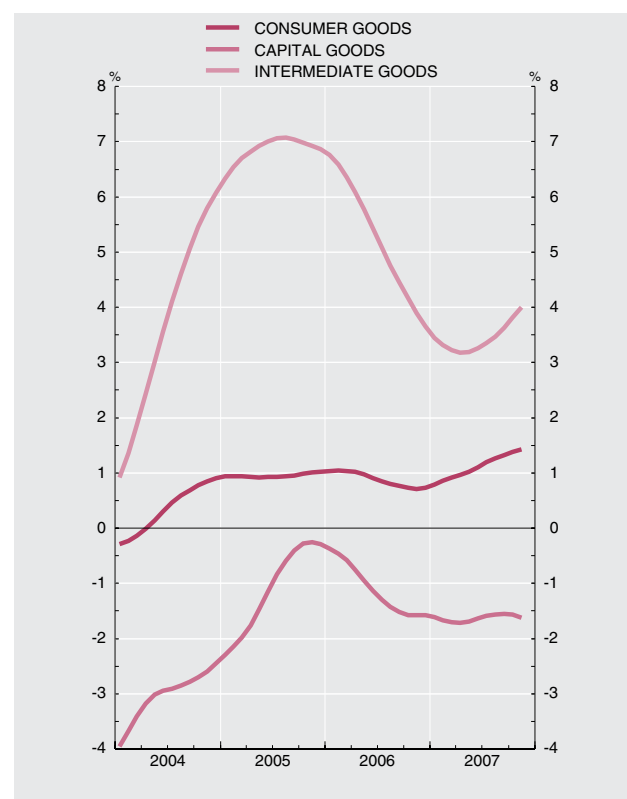
Annual percentage changes

	Exports/dispatches						Imports/arrivals						
	Total	Consumer goods	Capital goods	Intermediate goods			Total	Consumer goods	Capital goods	Intermediate goods			
				Total	Energy	Non-energy				Total	Energy	Non-energy	
	1	2	3	4	5	6	7	8	9	10	11	12	
04	1,0	-0,0	-0,6	2,1	12,3		1,6	2,4	0,5	-2,0	4,5	11,2	3,3
05	4,7	1,9	6,3	6,6	34,1		5,0	5,1	1,1	1,0	8,1	26,2	3,5
06	4,8	3,7	3,0	6,1	18,0		5,6	3,4	-0,1	-1,7	6,1	21,5	2,1
06 J-N	4,9	3,8	2,5	6,2	19,9		5,7	3,6	0,1	-2,2	6,5	22,8	2,2
07 J-N	2,7	2,2	-0,3	3,7	-0,3		3,8	1,3	2,3	-1,2	1,4	-2,3	3,2
06 Jun	5,3	3,3	10,3	5,6	15,3		5,5	1,7	-1,5	-3,2	4,2	24,7	-0,3
Jul	6,1	8,2	-0,3	6,2	22,4		5,5	1,1	0,5	-7,3	3,1	16,3	-0,5
Aug	5,7	4,2	8,6	6,5	17,7		6,1	2,3	-0,6	-0,5	4,0	18,1	-0,3
Sep	5,4	5,6	-4,6	7,1	14,9		7,0	0,8	2,4	-5,0	1,0	8,0	0,4
Oct	5,7	5,9	-4,0	7,2	14,6		7,5	1,7	0,1	-8,2	4,5	8,9	3,2
Nov	3,4	3,2	-4,7	5,3	6,0		6,3	0,2	-5,4	-0,7	2,8	1,6	4,0
Dec	3,9	2,1	8,3	4,7	-2,8		4,7	1,2	-2,2	4,1	2,1	7,7	0,5
07 Jan	3,3	1,4	3,2	4,6	-4,8		5,6	0,8	8,6	0,8	-3,2	-5,9	-1,2
Feb	4,5	4,9	-2,3	5,5	-13,7		7,0	0,5	1,9	-4,0	1,0	-10,2	5,1
Mar	3,9	3,6	4,2	4,0	-12,3		5,5	1,9	1,8	-4,1	3,2	-6,6	7,1
Apr	2,5	4,4	-5,4	2,9	-12,4		4,3	-2,0	1,1	-5,9	-2,6	-7,6	0,0
May	3,4	2,3	-2,9	5,4	-6,9		6,4	-2,5	-2,5	-4,1	-2,2	-13,1	1,7
Jun	4,0	5,1	1,9	3,6	-2,7		4,2	3,1	1,6	-2,5	4,9	-1,8	7,0
Jul	1,9	0,5	0,3	3,2	-8,9		4,0	1,8	0,3	2,7	2,3	-3,8	4,9
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

EXPORT AND IMPORT UNIT VALUE INDICES (a)



IMPORT UNIT VALUE INDICES BY PRODUCT GROUP (a)



Sources: ME and BE.

Note: The underlying series for this indicator are in the Tables 17.6 and 17.7 of the Boletín Estadístico.

a. Annual percentage changes (trend obtained with TRAMO-SEATS).

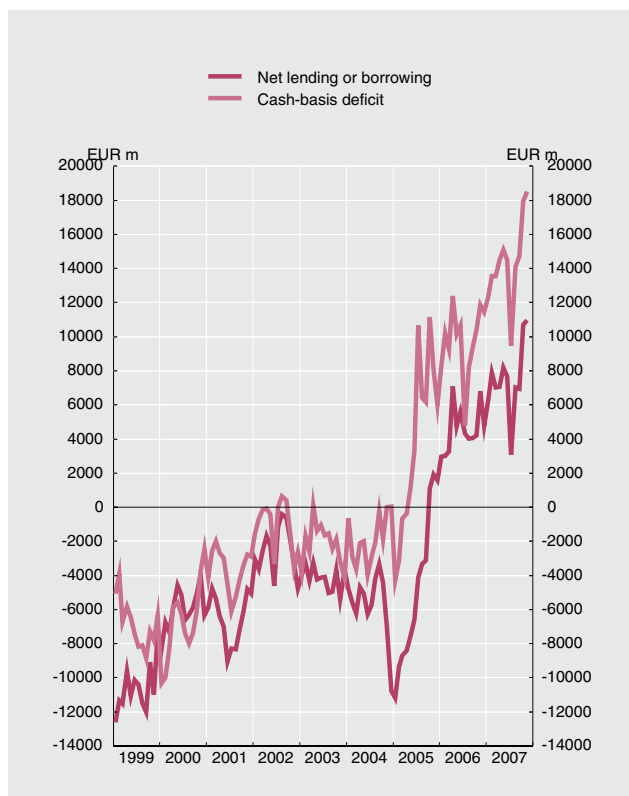
## 6.1. STATE RESOURCES AND USES ACCORDING TO THE NATIONAL ACCOUNTS (A). SPAIN

■ Series depicted in chart.

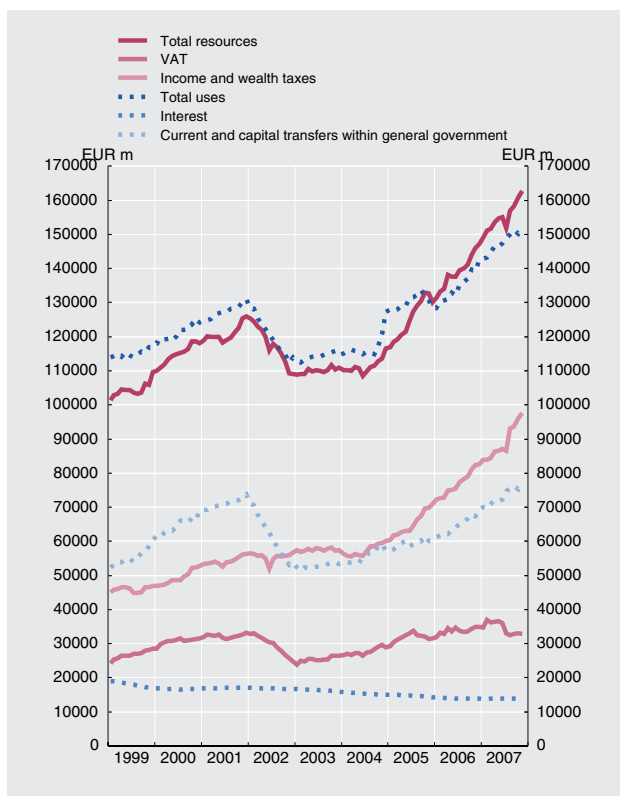
EUR millions

		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	Inter- est and other income on pro- perty	Income and wealth taxes	Other	Total	Compen- sation of employees	Interest	Current and ca- pital trans- fers within general government	Invest- ment grants and other capital trans- fers	Other	Cash- basis deficit	Revenue	Expendi- ture
		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	P	1 590	130 171	31 542	11 068	4 401	70 986	12 174	128 581	15 665	14 343	60 311	5 122	33 140	6 022	128 777	122 755
06	P	4 766	147 201	34 929	11 331	5 261	82 541	13 139	142 435	16 883	13 820	69 299	5 442	36 991	11 471	141 847	130 375
06 J-N	P	19 660	136 331	34 659	10 351	4 372	76 672	10 277	116 671	14 602	12 664	60 323	3 456	25 626	17 070	132 362	115 292
07 J-N	A	25 860	151 812	32 653	11 888	5 585	91 737	9 949	125 952	15 560	12 801	68 106	2 748	26 737	24 104	148 407	124 304
07 Feb	A	9 918	20 572	15 637	945	244	3 444	302	10 654	1 332	1 059	4 827	113	3 323	9 973	19 855	9 882
Mar	A	-5 731	6 119	249	876	1 015	2 673	1 306	11 850	1 342	1 190	6 668	173	2 477	-3 915	5 738	9 653
Apr	A	13 165	24 444	7 923	1 102	347	14 360	712	11 279	1 334	1 141	5 848	864	2 092	14 190	24 317	10 127
May	A	-6 481	3 919	161	995	539	851	1 373	10 400	1 328	1 184	5 495	186	2 207	-5 286	3 423	8 709
Jun	A	-8 039	4 162	21	1 115	311	1 077	1 638	12 201	2 301	1 159	5 684	86	2 971	-7 051	3 604	10 655
Jul	A	2 301	16 300	1 521	1 245	723	11 950	861	13 999	1 337	1 216	8 822	285	2 339	-852	16 648	17 500
Aug	A	4 330	15 012	-3 761	1 114	275	17 060	324	10 682	1 318	1 182	5 957	200	2 025	3 911	13 879	9 968
Sep	A	518	12 339	3 423	1 214	354	5 986	1 362	11 821	1 364	1 150	6 108	244	2 955	2 942	11 870	8 929
Oct	A	15 365	26 994	6 751	1 000	242	18 407	594	11 629	1 345	1 210	6 229	355	2 490	14 910	26 804	11 894
Nov	A	-2 380	10 835	1 205	1 185	1 222	6 126	1 097	13 215	1 333	1 131	7 448	242	3 061	-975	10 080	11 055

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.

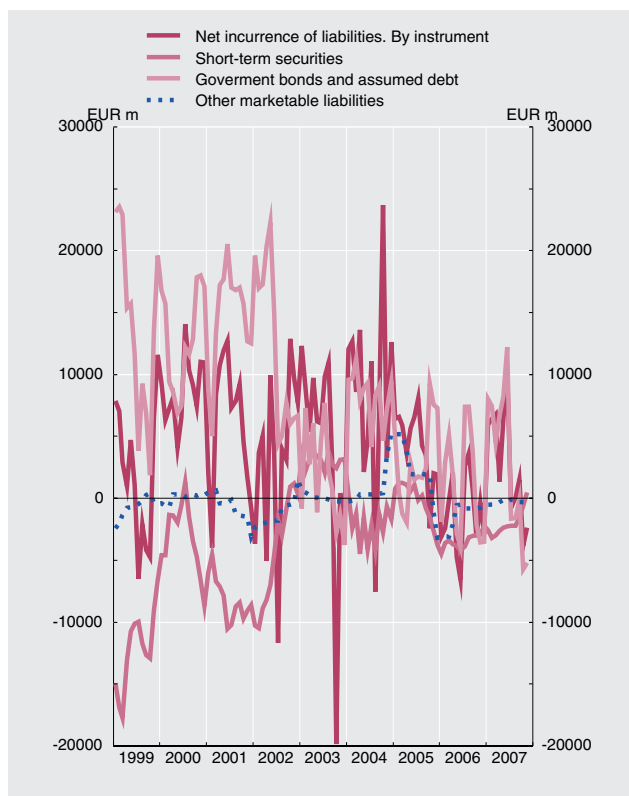
## 6.2. STATE FINANCIAL TRANSACTIONS (A). SPAIN

■ Series depicted in chart.

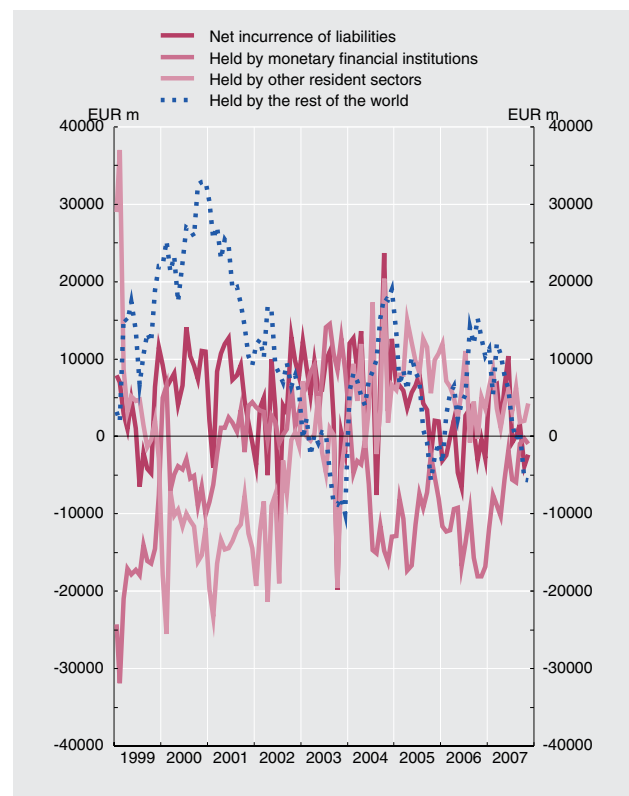
EUR millions

	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	Monetary financial institutions						Other resident sectors				
		1	2	3	4	5	6	7	8	9	10	11	12	13	
99	-7 303	4 264	4 574	11 567	209	-6 629	19 592	-499	-446	-451	-10 458	-7 605	-2 853	22 026	12 018
00	-6 330	4 625	5 690	10 955	1 162	-8 683	17 127	-499	283	2 727	-21 968	-10 117	-11 851	32 924	8 228
01	-5 076	-5 852	-20 141	-776	803	-8 616	12 521	-499	-3 101	-1 081	-9 982	4 424	-14 406	9 206	305
02	-4 780	2 942	-95	7 722	-888	346	6 655	-486	1 488	-280	1 932	3 148	-1 215	5 790	8 002
03	-3 692	-5 749	0	-2 057	-135	3 146	-3 761	-486	-281	-675	7 918	8 524	-606	-9 975	-1 381
04	-10 762	1 872	-0	12 634	-1 600	-1 688	9 416	-486	5 204	188	-6 341	-12 978	6 637	18 975	12 446
05	P 1 590	3 505	0	1 915	-1 910	-3 771	7 276	-486	-3 180	2 076	2 673	-8 026	10 699	-758	-161
06	P 4 766	1 870	-200	-2 896	175	-2 198	-3 488	-486	-533	3 809	-13 253	-16 865	3 613	10 357	-6 704
06 J-N	P 19 660	13 297	-200	-6 363	167	-393	-5 774	-	-547	351	-17 368	-16 470	-898	11 005	-6 713
07 J-N	A 25 860	20 033	-13	-5 827	-128	2 268	-7 497	-519	-290	211	-801	-535	-266	-5 026	-6 039
07 Feb	A 9 918	8 308	0	-1 610	8	-3 064	3 163	-	-1	-1 707	1 444	2 372	-927	-3 054	98
Mar	A -5 731	-269	20	5 462	4	2 220	703	-	7	2 532	-3 512	116	-3 628	8 974	2 930
Apr	A 13 165	7 525	6 773	-5 640	-11	-2 623	986	-519	21	-3 505	-5 230	-4 296	-934	-410	-2 135
May	A -6 481	-3 444	107	3 037	9	2 148	1 003	-	24	-138	6 836	4 683	2 153	-3 799	3 175
Jun	A -8 039	-3 539	-4 491	4 500	8	-2 681	6 529	-	-136	788	4 214	1 880	2 333	286	3 712
Jul	A 2 301	-6 897	-2 109	-9 198	-56	2 031	-15 117	-	-78	3 966	-3 832	-4 218	386	-5 366	-13 165
Aug	A 4 330	-495	-301	-4 825	8	-1 606	1 051	-	27	-4 298	-2 492	207	-2 700	-2 333	-528
Sep	A 518	6 967	97	6 449	3	2 598	4 001	-	-195	44	3 038	4 334	-1 296	3 411	6 404
Oct	A 15 365	2 347	1 800	-13 018	4	-1 216	-12 685	-	18	865	-7 859	-2 777	-5 082	-5 159	-13 883
Nov	A -2 380	3 731	-1 908	6 111	-115	2 834	2 746	-	15	516	5 790	-148	5 938	321	5 595

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.

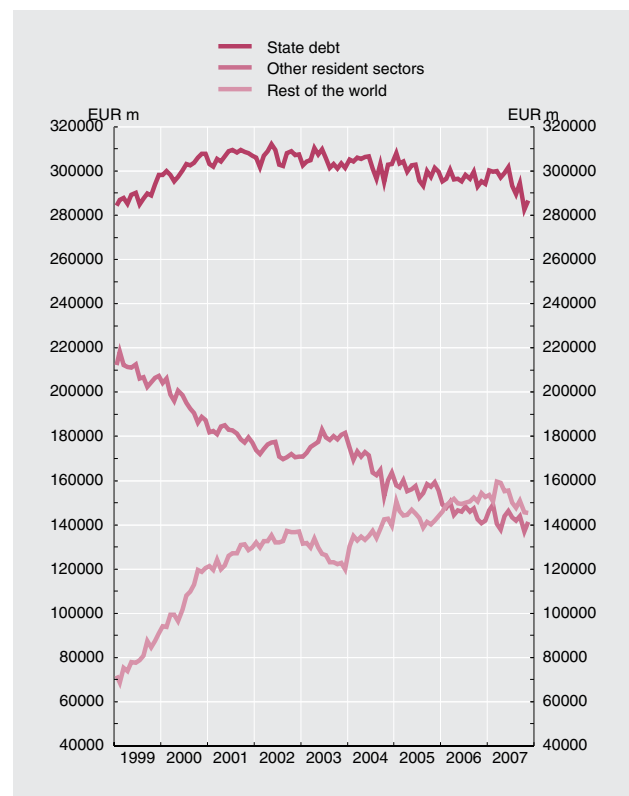
EUR millions

	Liabilities outstanding (excluding other accounts payable)										Memorandum item:		
	State debt according to the methodology of the excessive deficit procedure	of which	By instrument				By counterpart sector				Deposits at the Banco de España	Guarantees given (contingent liabilities). Outstanding level	
		In currencies other than the peseta/euro	Short-term securities	Government bonds and assumed debt	Banco de España loans	Other marketable liabilities (a)	Held by resident sectors			Rest of the world			
							Total	General government	Other resident sectors				
	1	2	3	4	5	6	7	8	9	10	11	12	
95		232 754	19 362	71 070	132 463	11 050	18 171	180 408	385	180 023	52 731	9 379	6 059
96		263 972	20 434	81 084	152 302	10 814	19 772	210 497	529	209 969	54 003	15 195	8 185
97		274 176	23 270	71 730	180 566	10 578	11 303	211 538	445	211 093	63 083	9 829	7 251
98		284 161	30 048	59 939	205 189	10 341	8 691	215 207	305	214 902	69 258	10 273	6 412
99		298 384	7 189	53 142	227 157	9 843	8 243	207 465	150	207 315	91 070	14 846	5 310
00		307 726	8 197	44 575	245 255	9 344	8 552	188 488	1 187	187 301	120 424	20 536	5 430
01		306 895	7 611	35 413	257 192	8 845	5 445	179 123	2 018	177 105	129 791	395	5 460
02		307 610	5 823	35 459	258 877	8 359	4 914	177 561	6 831	170 730	136 880	300	6 819
03		301 476	5 105	38 702	250 337	7 873	4 564	192 399	10 952	181 447	120 029	300	6 821
04	P	303 254	3 267	35 996	250 125	7 388	9 746	182 967	19 412	163 554	139 700	300	7 186
05	P	299 578	2 154	31 647	254 442	6 902	6 588	178 398	22 810	155 588	143 990	300	6 020
06	P	294 332	515	31 087	250 784	6 416	6 046	163 603	21 788	141 815	152 517	100	5 794
07 Jan	A	300 173	519	32 703	255 001	6 416	6 054	168 342	21 788	146 553	153 620	100	5 772
Feb	A	299 752	386	29 614	257 670	6 416	6 052	170 980	21 788	149 192	150 560	100	5 777
Mar	A	299 862	382	31 834	255 553	6 416	6 060	164 146	23 783	140 363	159 500	120	5 681
Apr	A	297 000	381	29 191	255 895	5 832	6 081	161 359	23 439	137 921	159 079	6 893	5 718
May	A	299 174	382	31 340	255 896	5 832	6 105	167 331	23 439	143 892	155 282	7 000	5 716
Jun	A	301 746	386	28 640	261 304	5 832	5 969	169 825	23 535	146 290	155 456	2 508	6 166
Jul	A	293 196	386	30 511	250 962	5 832	5 891	166 645	23 384	143 261	149 935	399	6 106
Aug	A	289 434	384	28 765	248 919	5 832	5 917	167 392	25 580	141 812	147 622	98	6 106
Sep	A	294 586	373	31 360	251 671	5 832	5 723	169 508	25 710	143 799	150 788	195	6 193
Oct	A	282 674	373	30 148	240 953	5 832	5 740	161 472	24 427	137 045	145 629	1 995	6 277
Nov	A	286 574	364	32 981	242 645	5 832	5 116	165 680	24 427	141 253	145 320	87	6 207

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

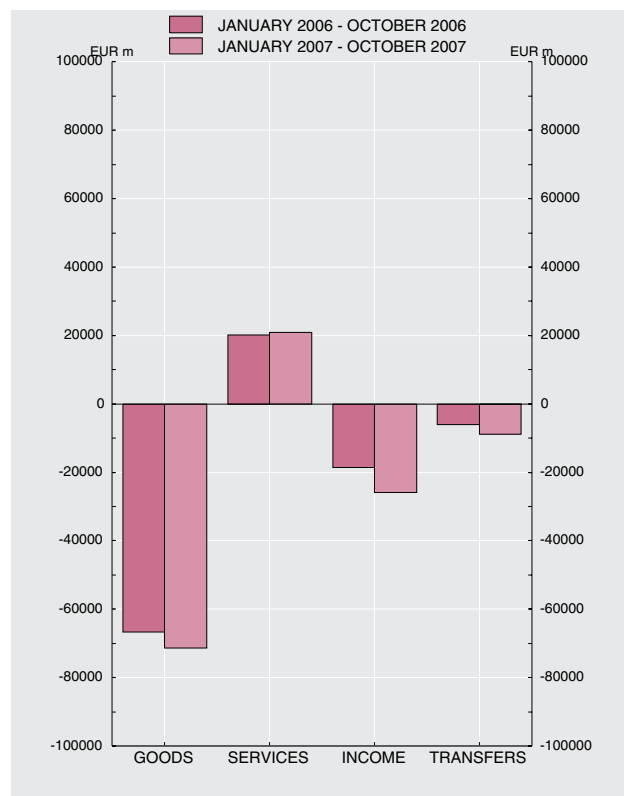
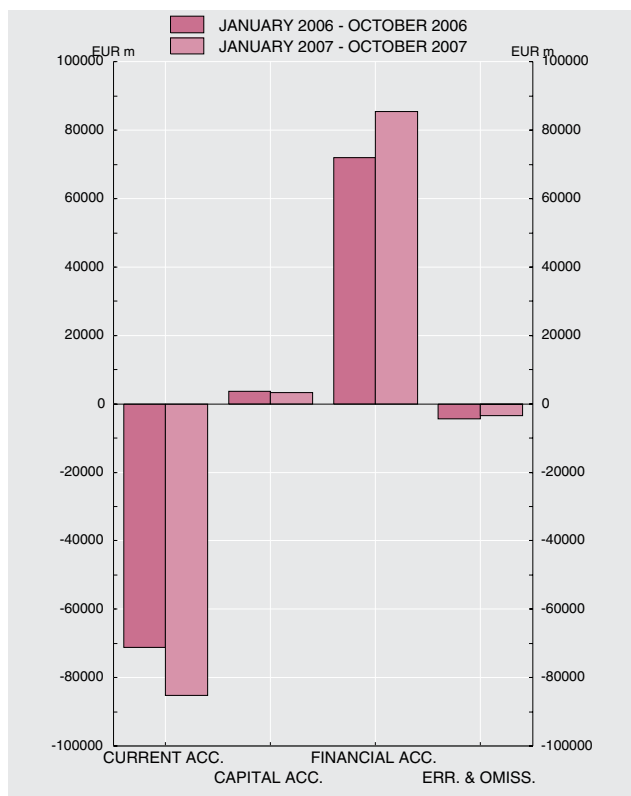
■ Series depicted in chart.

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)	
04	-44 164	-53 660	148 967	202 627	21 753	69 355	36 376	47 602	9 772	-12 139	27 299	39 439	-117	8 428	-35 736	34 851	885
05	-66 860	-68 603	157 978	226 581	22 240	76 247	38 558	54 008	12 125	-17 103	31 870	48 974	-3 393	8 180	-58 679	60 818	-2 139
06	P -84 736	-80 142	172 421	252 563	22 143	84 461	40 710	62 319	13 266	-20 983	39 031	60 014	-5 754	6 175	-78 562	81 471	-2 909
06 J-O	P -71 142	-66 603	142 368	208 971	20 165	71 471	35 811	51 306	11 096	-18 590	29 100	47 690	-6 114	3 603	-67 539	71 924	-4 385
07 J-O	P -85 259	-71 346	153 080	224 426	20 839	79 232	37 006	58 393	11 980	-25 935	37 018	62 952	-8 818	3 348	-81 911	85 388	-3 477
06 Jul	P -8 445	-6 453	13 789	20 242	3 116	8 658	4 936	5 542	1 334	-4 200	2 957	7 156	-908	572	-7 873	8 039	-167
Aug	P -6 438	-7 441	11 419	18 860	3 386	8 748	5 149	5 362	1 588	-1 666	2 395	4 060	-718	731	-5 708	7 049	-1 341
Sep	P -7 452	-6 790	14 319	21 109	2 493	7 725	4 447	5 232	1 289	-2 310	2 687	4 998	-844	3	-7 449	7 125	324
Oct	P -7 540	-7 560	15 491	23 052	2 559	7 955	3 924	5 397	1 192	-2 248	2 671	4 920	-290	363	-7 178	7 293	-115
Nov	P -10 269	-7 910	15 329	23 239	1 120	6 452	2 630	5 332	1 168	-2 288	2 772	5 060	-1 191	583	-9 686	7 849	1 837
Dec	P -3 326	-5 629	14 725	20 354	857	6 539	2 269	5 681	1 002	-105	7 159	7 264	1 551	1 989	-1 337	1 699	-362
07 Jan	P -8 622	-6 452	14 205	20 657	952	6 434	2 673	5 483	1 114	-1 949	3 808	5 757	-1 172	1 301	-7 320	7 650	-329
Feb	P -8 981	-6 021	15 130	21 151	819	5 849	2 290	5 030	910	-1 939	2 790	4 729	-1 839	131	-8 850	9 376	-526
Mar	P -7 885	-6 774	16 599	23 373	1 130	6 856	2 814	5 726	1 076	-2 226	3 823	6 049	-14	102	-7 783	7 292	491
Apr	P -8 851	-6 944	14 539	21 483	1 140	6 542	2 717	5 402	996	-2 120	3 834	5 954	-927	276	-8 575	6 468	2 107
May	P -8 181	-7 045	16 279	23 324	2 151	7 415	3 358	5 264	779	-2 693	3 271	5 964	-594	244	-7 937	8 400	-464
Jun	P -7 683	-7 451	16 363	23 814	2 429	8 442	4 124	6 013	1 252	-2 483	5 870	8 353	-178	102	-7 581	9 042	-1 461
Jul	P -9 880	-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	1 664	-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	1 358	-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

### 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).

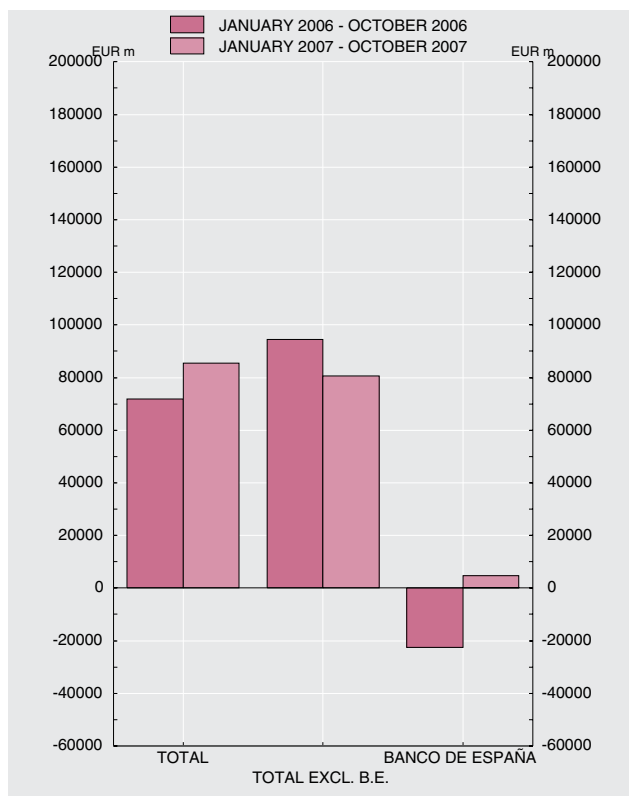
## 7.2. THE SPANISH BALANCE OF PAYMENTS VIS-À-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD. FINANCIAL ACCOUNT (a)

■ Series depicted in chart.

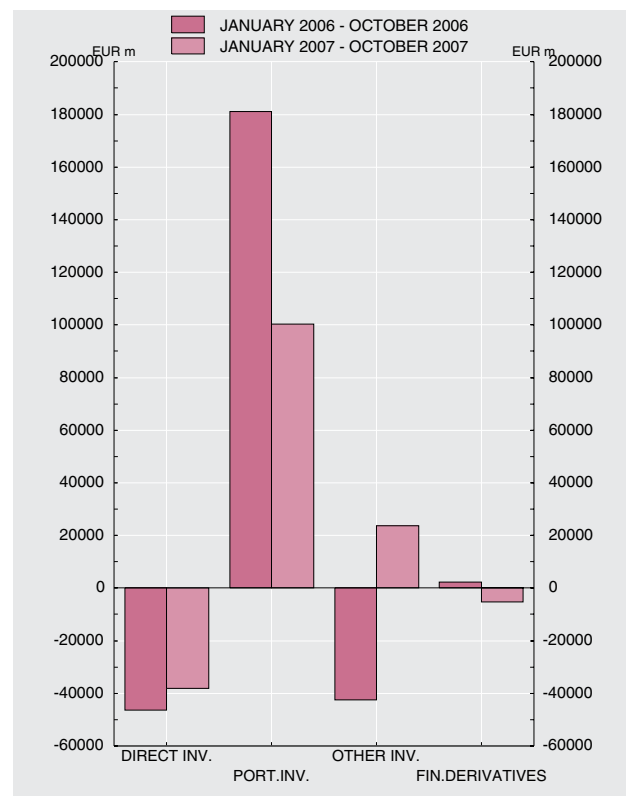
EUR millions

		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)	Claims with the Euro-system (e)	Other net assets (NCL-NCA)	
	(NCL-NCA)		Balance (NCL-NCA)	Spanish investment abroad (NCA)	Foreign investment in Spain (NCL) (b)	Balance (NCL-NCA)	Spanish investment abroad (NCA)	Foreign investment in Spain (NCL) (c)	Balance (NCL-NCA)	Spanish investment abroad (NCA)	Foreign investment in Spain (NCL)						
	1= 2+13		2=3+6+9+12	3=5-4	4	5	6=8-7	7	8	9=11-10	10						11
04		34 851	48 861	-28 809	48 750	19 941	85 808	26 946	112 754	-8 212	28 419	20 207	74	-14 010	5 147	-13 760	-5 397
05		60 818	62 932	-13 517	33 636	20 119	58 734	79 741	138 475	17 349	47 253	64 601	366	-2 114	1 439	14 855	-18 409
06	P	81 471	107 271	-55 531	71 486	15 955	198 314	-5 103	193 210	-37 556	70 361	32 806	2 044	-25 800	-480	-12 327	-12 993
06 J-O	P	71 924	94 437	-46 268	62 076	15 808	181 000	-10 908	170 091	-42 603	69 314	26 711	2 308	-22 513	-387	-14 172	-7 954
07 J-O	P	85 388	80 724	-38 134	76 148	38 015	100 399	-693	99 706	23 745	58 521	82 267	-5 286	4 663	-128	18 304	-13 513
06 Jul	P	8 039	10 470	-1 349	6 753	5 405	21 176	-1 722	19 454	-9 432	5 854	-3 578	74	-2 430	113	-1 897	-646
Aug	P	7 049	-1 972	-2 874	2 770	-104	2 192	2 103	4 295	-1 453	1 954	500	163	9 021	-150	10 682	-1 511
Sep	P	7 125	10 138	-3 248	4 679	1 431	15 316	-7 069	8 247	-1 759	11 038	9 279	-171	-3 013	-482	-1 975	-557
Oct	P	7 293	17 408	1 358	1 316	2 674	15 675	-3 055	12 621	-1 119	11 615	10 497	1 493	-10 114	4	-5 821	-4 297
Nov	P	7 849	7 235	-4 313	4 412	98	14 458	4 662	19 120	-2 231	5 081	2 849	-679	614	-20	3 750	-3 116
Dec	P	1 699	5 600	-4 950	4 999	49	2 856	1 143	3 999	7 279	-4 033	3 246	415	-3 901	-73	-1 905	-1 923
07 Jan	P	7 650	6 609	-2 105	4 550	2 445	16 709	-346	16 363	-8 633	6 318	-2 315	638	1 041	45	963	33
Feb	P	9 376	16 999	1 403	474	1 877	17 715	5 409	23 124	-2 190	10 289	8 098	71	-7 623	32	-6 077	-1 578
Mar	P	7 292	6 518	-4 662	2 483	-2 179	18 410	5 597	24 007	-7 622	19 297	11 675	392	774	-33	2 645	-1 838
Apr	P	6 468	20 239	-6 340	12 778	6 438	18 014	932	18 946	7 472	-13 089	-5 617	1 093	-13 771	-17	-12 813	-941
May	P	8 400	6 564	-9 661	11 760	2 099	9 722	5 364	15 086	7 987	4 585	12 572	-1 484	1 836	-29	3 622	-1 756
Jun	P	9 042	10 692	-885	1 627	743	12 394	1 260	13 654	-801	8 449	7 648	-16	-1 650	-308	321	-1 663
Jul	P	8 610	10 720	-4 183	7 820	3 637	14 679	-2 306	12 373	1 260	10 677	11 937	-1 036	-2 109	-35	949	-3 023
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

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

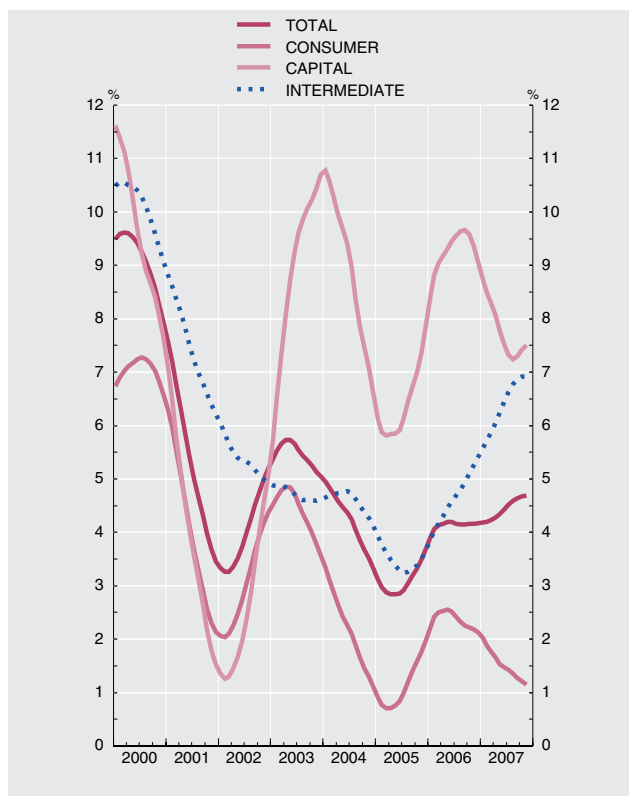
■ Series depicted in chart.

Eur millions and annual percentage changes

	Total			By product (deflated data) (a)					By geographical area (nominal data)							
	EUR millions	Nom- inal	De- flated (a)	Con- sumer	Capital	Intermediate			EU 25			OECD		OPEC	Other American coun- tries	Newly indus- trialised coun- tries
						Total	Energy	Non- energy	Total	of which:		of which:				
										EU 15	Euro area	Total	United States			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
01	129 771	4.5	4.2	3.7	-1.4	5.7	-22.8	7.5	6.3	6.0	5.1	4.5	-6.6	8.3	-6.1	-6.6
02	133 268	2.7	3.7	3.9	-3.5	4.8	4.7	4.7	2.6	2.1	1.2	3.3	2.4	10.1	-19.8	5.7
03	138 119	3.6	5.2	4.2	11.9	4.8	24.7	3.9	4.4	4.5	5.2	3.8	-1.7	-5.4	2.2	-23.4
04	146 925	6.4	5.3	2.2	13.1	6.6	10.2	6.4	4.9	5.1	5.2	5.9	2.0	12.2	3.3	4.7
05	155 005	5.5	0.8	-0.9	5.3	1.4	-8.9	2.0	2.5	2.3	2.1	4.2	10.2	10.4	11.8	14.5
06 Oct	15 264	15.5	9.3	5.0	27.0	9.9	-21.1	11.6	17.6	17.3	18.2	14.5	-4.1	-1.5	57.0	31.3
Nov	15 097	3.5	0.1	-0.5	-8.6	2.8	-39.6	5.0	7.5	6.9	8.3	5.9	3.5	-16.8	-28.7	-15.3
Dec	14 538	9.4	5.2	8.5	-7.0	5.8	31.8	4.4	1.6	0.9	2.8	4.9	40.5	14.2	23.6	9.9
07 Jan	13 969	9.5	6.0	9.7	-18.6	8.5	-15.1	9.7	11.4	10.5	13.6	9.0	4.7	31.0	-16.4	76.6
Feb	14 860	6.2	1.7	-2.4	7.4	3.8	-3.4	4.1	3.0	2.5	4.4	4.5	20.8	-16.6	58.2	-23.2
Mar	16 302	5.5	1.6	0.3	-6.4	4.0	-19.7	5.2	8.4	7.4	9.2	5.9	-2.8	15.7	-24.0	-8.1
Apr	14 399	9.4	6.7	6.7	18.6	4.5	-6.7	5.0	9.0	8.1	10.1	4.8	-12.0	45.0	42.2	-4.6
May	16 019	3.5	0.2	-5.9	1.6	4.6	-6.2	5.1	4.4	3.4	5.6	2.5	-22.1	-11.0	-14.4	-10.9
Jun	16 110	6.0	2.0	-2.2	0.5	5.3	-3.3	5.6	3.4	2.3	3.0	4.2	24.3	14.2	22.0	14.4
Jul	15 322	12.7	10.6	13.2	-5.8	12.2	15.5	12.0	12.7	12.1	13.7	11.7	9.4	27.7	-20.9	8.0
Aug	12 126	7.6	6.0	-3.8	-8.3	14.8	30.5	13.9	4.7	3.4	7.0	3.9	2.9	24.0	-38.6	9.0
Sep	14 903	5.8	3.4	-0.8	-1.2	7.1	8.6	7.1	-0.1	-1.3	-0.7	0.9	13.7	31.2	-17.4	-0.7
Oct	16 707	9.5	8.2	2.9	12.7	11.2	31.9	10.4	1.5	0.3	2.5	3.7	26.2	44.2	16.6	-1.5
Nov	16 568	9.7	8.2	-1.8	13.0	15.0	85.3	12.9	4.0	2.9	1.9	3.9	-2.4	95.7	7.1	-8.0

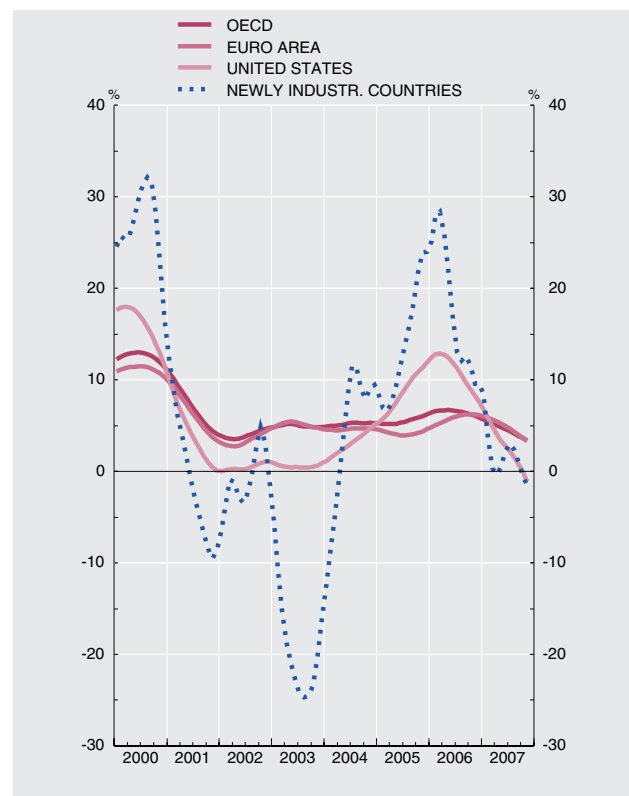
#### BY PRODUCT

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



#### BY GEOGRAPHICAL AREA

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



Sources: ME y BE.

Note: The underlying series for this indicator are in Tables 17.4 and 17.5 of the Boletín estadístico.

The monthly series are provisional data, while the annual series are the final foreign trade data.

a. Series deflated by unit value indices.

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

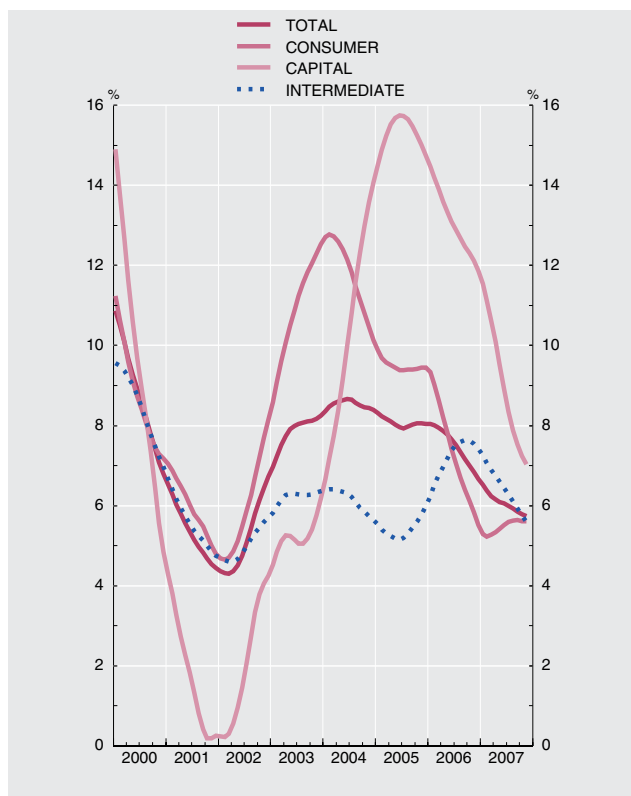
■ Series depicted in chart.

Eur millions and annual percentage changes

	Total			By product (deflated data) (a)					By geographical area (nominal data)							
	EUR millions	Nom- inal	De- flated (a)	Con- sumer	Capital	Intermediate			EU 25			OECD		OPEC	Other Amer- ican coun- tries	Newly indus- trialised coun- tries
						Total	Energy	Non- energy	Total	of which:		of which:				
										EU 15	Euro area	Total	United States			
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
01	173 210	2.2	3.4	6.4	-2.0	3.2	-1.0	4.3	3.5	3.0	3.8	2.6	-10.1	-8.1	3.7	-2.2
02	175 268	1.2	4.3	5.0	-5.4	5.9	5.6	5.9	1.6	1.3	1.9	0.9	-8.5	-11.0	5.7	2.4
03	185 114	5.6	7.1	9.6	12.9	4.8	1.0	5.7	5.9	5.4	5.3	5.8	-4.8	1.9	12.9	1.1
04	208 411	12.6	9.9	13.5	14.4	7.3	10.6	6.5	9.8	9.5	10.1	11.3	9.3	12.8	7.9	14.6
05	232 954	11.8	6.4	8.4	17.6	3.4	10.9	1.5	5.5	5.2	5.3	6.1	-0.1	36.9	29.3	11.2
06 Oct	23 665	19.2	17.2	13.6	31.5	16.5	15.1	16.9	13.3	13.5	14.8	13.9	18.1	38.1	51.8	41.5
Nov	23 871	9.1	8.8	8.9	-4.6	12.5	1.3	15.2	8.2	6.9	8.9	8.5	19.4	-2.0	-16.0	9.8
Dec	20 934	2.3	1.1	0.3	-8.1	3.8	2.6	4.1	-4.7	-5.4	-3.5	-3.3	36.8	12.2	29.1	24.3
07 Jan	21 592	11.7	10.8	-7.9	32.2	17.9	4.0	21.6	10.1	6.4	5.8	7.7	15.4	1.6	17.2	0.3
Feb	21 749	6.1	5.5	1.8	14.7	5.5	3.2	6.1	4.8	5.6	6.2	5.1	7.5	-8.9	41.2	-1.8
Mar	24 106	2.7	0.8	3.1	14.8	-2.7	-12.0	-0.5	4.9	5.2	5.7	2.7	-3.6	-19.6	-1.7	0.6
Apr	22 059	10.0	12.3	10.6	9.3	13.5	1.9	16.4	12.1	12.3	13.3	11.8	11.6	-11.3	5.5	-1.9
May	23 943	4.1	6.8	-0.1	17.6	8.0	6.4	8.4	5.6	5.3	7.5	6.5	18.0	-10.0	-26.2	-10.6
Jun	24 426	6.8	3.6	7.2	6.2	1.4	1.0	1.5	6.7	6.2	6.2	6.3	18.1	-2.4	3.3	13.7
Jul	23 983	15.4	13.4	15.0	0.6	14.8	10.6	15.8	14.4	13.4	14.9	15.1	4.1	-1.1	22.2	2.5
Aug	19 946	3.1	3.7	5.7	-6.2	4.3	-0.3	5.7	4.9	3.7	4.2	5.3	38.5	-14.2	1.6	-9.6
Sep	23 313	7.2	4.3	4.6	3.0	4.2	1.9	4.7	6.4	5.6	6.5	7.0	47.8	-2.1	19.3	7.4
Oct	26 017	9.9	7.7	9.2	6.8	7.2	2.6	8.3	9.7	9.3	10.2	9.6	61.0	3.2	1.4	-16.9
Nov	25 267	5.8	-0.6	-1.3	-1.8	-0.0	-4.4	0.9	7.2	7.0	7.0	5.3	12.2	-2.8	-5.4	-15.9

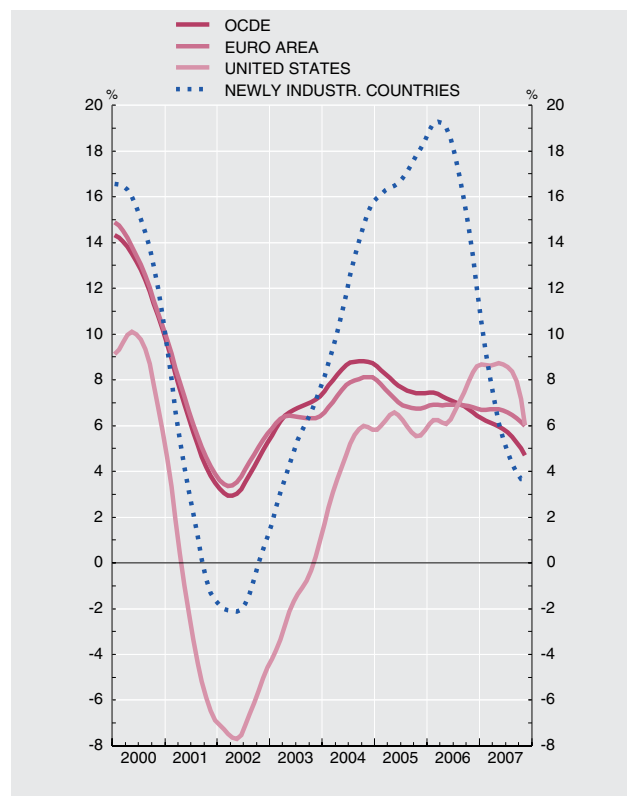
### BY PRODUCTS

Annual percentage changes (trend obtained with TRAMO SEATS method)



### BY GEOGRAPHICAL AREA

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



Sources: ME y BE.

Note: The underlying series for this indicator are in Tables 17.2 and 17.3 of the Boletín estadístico.

The monthly series are provisional data, while the annual series are the final foreign trade data.

a. Series deflated by unit value indices.

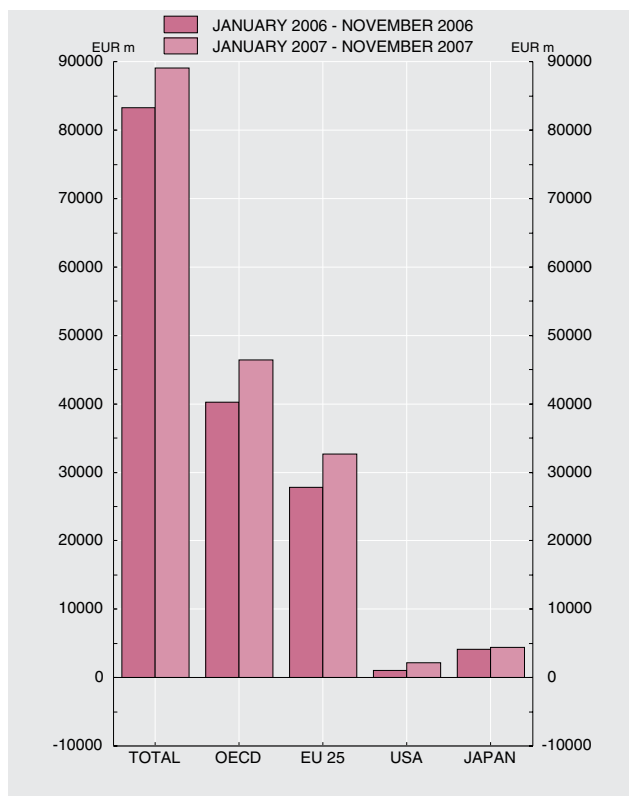
## 7.5. SPANISH FOREIGN TRADE WITH OTHER EURO AREA COUNTRIES AND WITH THE REST OF THE WORLD. TRADE BALANCE. GEOGRAPHICAL DISTRIBUTION

■ Series depicted in chart.

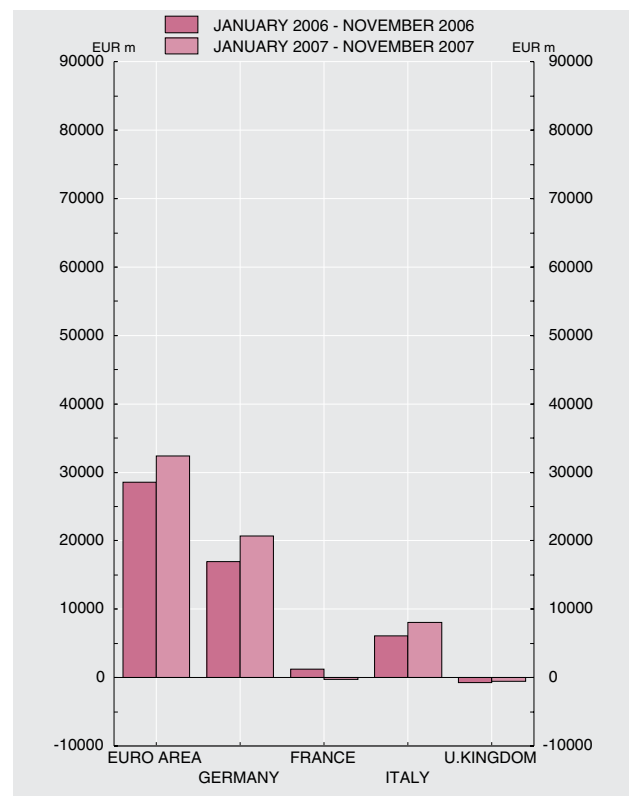
EUR millions

	European Union (EU 25)									OECD				OPEC	Other American countries	Newly industrialised countries
	World total	Total	European Union (EU 15)							of which:						
			Total	Euro area				United Kingdom	Other EU 15 members	Total	United States of America	Japan				
				of which:												
				Total	Germany	France	Italy									
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
02	-42 000	-16 612	-17 543	-18 385	-12 970	-3 436	-3 312	1 430	-587	-24 004	-1 416	-3 224	-7 771	-897	-2 176	
03	-46 995	-19 048	-19 322	-19 450	-13 731	-3 239	-3 517	1 035	-907	-27 616	-1 170	-3 855	-8 187	-1 467	-2 600	
04	-61 486	-25 907	-25 478	-25 473	-16 282	-3 353	-5 671	472	-476	-36 990	-1 692	-4 583	-9 253	-1 784	-3 104	
05	-77 950	-30 553	-29 889	-29 596	-16 749	-3 112	-6 938	-210	-82	-41 592	-1 092	-4 769	-13 683	-3 089	-3 411	
06	-92 249	-33 476	-31 940	-32 084	-18 689	-1 625	-7 184	294	-150	-45 357	-1 062	-4 652	-18 384	-3 316	-4 564	
06 J-N	-83 291	-29 225	-27 763	-28 506	-16 959	-1 200	-6 116	739	5	-40 226	-1 015	-4 133	-16 435	-3 176	-4 180	
07 J-N	-89 117	-34 095	-32 689	-32 403	-20 737	279	-8 041	522	-808	-46 409	-2 168	-4 391	-14 147	-3 690	-3 963	
06 Oct	-8 402	-2 612	-2 481	-2 582	-1 597	93	-672	97	4	-3 939	-95	-455	-1 601	-582	-439	
Nov	-8 775	-3 075	-2 890	-2 844	-1 642	65	-898	87	-134	-4 392	-202	-375	-1 336	-531	-476	
Dec	-6 396	-2 961	-2 807	-2 709	-1 483	-209	-606	-78	-20	-3 565	37	-361	-1 422	84	-405	
07 Jan	-7 624	-2 214	-1 825	-1 918	-1 456	112	-438	150	-57	-3 089	-138	-375	-1 330	-383	-354	
Feb	-6 889	-2 374	-2 316	-2 375	-1 756	167	-605	145	-86	-3 338	-80	-401	-1 206	-180	-341	
Mar	-7 804	-2 837	-2 799	-2 826	-1 840	170	-642	183	-156	-3 907	-136	-475	-1 183	-425	-355	
Apr	-7 660	-3 344	-3 257	-3 061	-1 908	-68	-749	-113	-83	-4 559	-337	-389	-1 153	-3	-285	
May	-7 924	-2 863	-2 679	-2 718	-1 974	153	-714	81	-42	-4 191	-269	-407	-1 268	-192	-394	
Jun	-8 316	-3 617	-3 508	-3 606	-2 199	-24	-897	188	-90	-4 529	73	-410	-1 463	-111	-540	
Jul	-8 661	-3 225	-3 148	-3 217	-2 052	102	-881	132	-63	-4 458	-184	-368	-1 437	-390	-361	
Aug	-7 820	-3 012	-2 896	-2 660	-1 355	-203	-731	-142	-93	-4 070	-196	-352	-1 330	-382	-250	
Sep	-8 410	-3 181	-3 062	-2 996	-1 934	-45	-728	5	-71	-4 396	-242	-341	-1 343	-674	-357	
Oct	-9 310	-3 787	-3 675	-3 536	-2 132	17	-849	-94	-45	-5 072	-346	-476	-1 513	-510	-340	
Nov	-8 699	-3 641	-3 524	-3 490	-2 130	-102	-807	-11	-23	-4 801	-313	-396	-921	-441	-386	

### CUMULATIVE TRADE DEFICIT



### CUMULATIVE TRADE DEFICIT



Source: ME.

Note: The underlying series for this indicator are in Tables 17.3 and 17.5 of the Boletín Estadístico.

The monthly series are provisional data, while the annual series are the final foreign trade data.

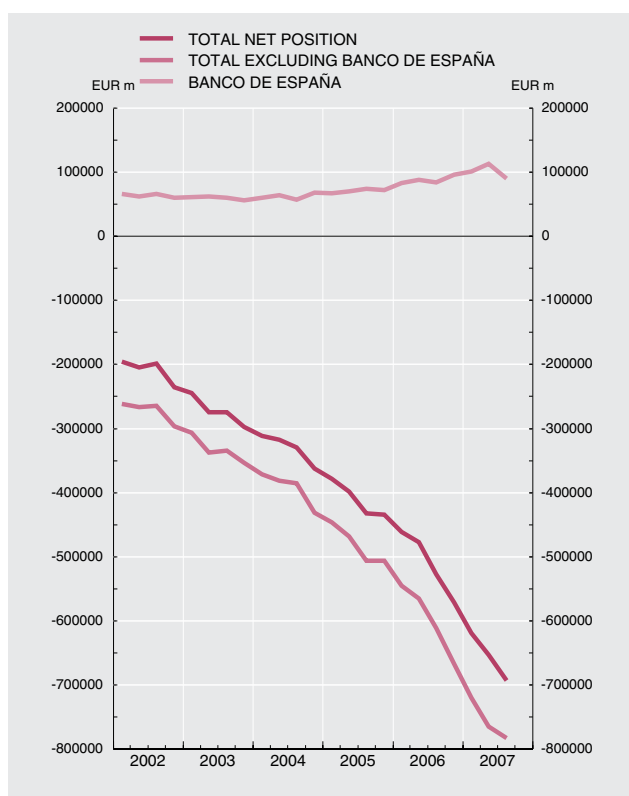
## 7.6. SPANISH INTERNATIONAL INVESTMENT POSITION VIS-À-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD SUMMARY

■ Series depicted in chart.

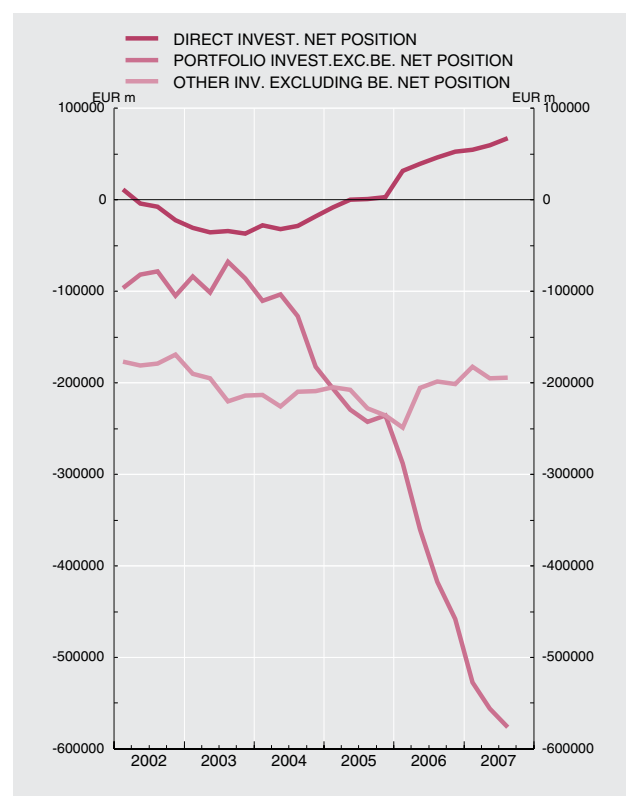
End-of-period stocks in EUR billions

	Net international investment position (assets-liabil.)	Total excluding Banco de España											Banco de España				
		Net position excluding Banco de España (assets - liabil.)	Direct investment			Portfolio investment			Other investment			Financial derivatives Net position (assets-liabil.)	Banco de España Net position (assets-liabil.)	Reserves	Assets vis-à-vis the Euro-system	Other net assets (assets-liabil.)	
			Net position (assets-liabil.)	Spanish 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		-165.2	-239.0	-7.3	117.5	124.8	-141.0	127.4	268.4	-90.7	152.8	243.5	...	73.7	37.3	36.0	0.4
00		-160.1	-244.1	12.2	180.2	168.0	-117.0	193.7	310.7	-139.3	166.4	305.8	...	84.0	38.2	45.3	0.4
01		-188.0	-256.4	16.3	217.5	201.1	-100.4	232.6	333.1	-172.3	172.5	344.8	...	68.5	38.9	29.2	0.4
02	R	-236.0	-296.6	-22.1	223.1	245.2	-105.7	256.8	362.5	-168.9	197.4	366.3	-	60.6	38.4	22.7	-0.4
03		-297.7	-353.8	-37.4	231.6	268.9	-102.3	319.8	422.0	-214.2	204.0	418.1	-	56.1	21.2	18.3	16.6
04	Q3	-329.0	-385.8	-28.6	254.2	282.9	-147.2	344.4	491.5	-210.0	229.7	439.7	-	56.8	15.9	20.5	20.4
	Q4	-362.9	-431.0	-18.4	272.3	290.7	-203.2	359.3	562.5	-209.4	222.2	431.6	-	68.1	14.5	31.9	21.7
05	Q1	-378.7	-446.0	-8.3	287.3	295.6	-232.7	366.5	599.2	-205.0	240.3	445.2	-	67.3	13.3	25.2	28.8
	Q2	-398.3	-468.6	0.3	298.8	298.5	-261.4	390.8	652.2	-207.5	255.7	463.2	-	70.4	13.7	22.0	34.7
	Q3	-432.3	-506.3	0.4	302.8	302.4	-278.9	417.7	696.6	-227.8	255.5	483.3	-	74.0	14.0	21.2	38.7
	Q4	-434.3	-506.5	2.6	317.0	314.4	-273.6	454.7	728.4	-235.4	269.1	504.5	-	72.2	14.6	17.1	40.5
06	Q1	-461.8	-544.8	31.4	348.4	317.0	-327.1	476.7	803.8	-249.2	286.6	535.8	-	83.0	15.4	26.8	40.8
	Q2	-477.5	-565.3	39.3	360.7	321.4	-399.2	444.3	843.5	-205.5	301.7	507.1	-	87.8	14.6	32.2	41.0
	Q3	-527.7	-611.5	46.1	375.7	329.7	-459.1	447.7	906.8	-198.4	316.6	515.1	-	83.8	15.0	25.4	43.4
	Q4	-571.2	-667.2	52.4	387.2	334.8	-508.9	455.7	964.6	-201.2	328.8	529.9	-9.6	96.0	14.7	29.4	52.0
07	Q1	-619.2	-720.0	54.2	392.8	338.6	-580.7	460.7	1 041.3	-182.3	362.7	545.0	-11.3	100.8	14.0	31.9	54.9
	Q2	-652.7	-765.3	59.3	418.8	359.5	-613.6	470.9	1 084.5	-195.1	366.5	561.6	-15.9	112.6	12.9	40.7	59.0
	Q3	-692.8	-782.7	67.5	432.6	365.1	-638.0	455.8	1 093.9	-194.3	388.2	582.5	-17.9	90.0	12.5	14.8	62.7

### 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.

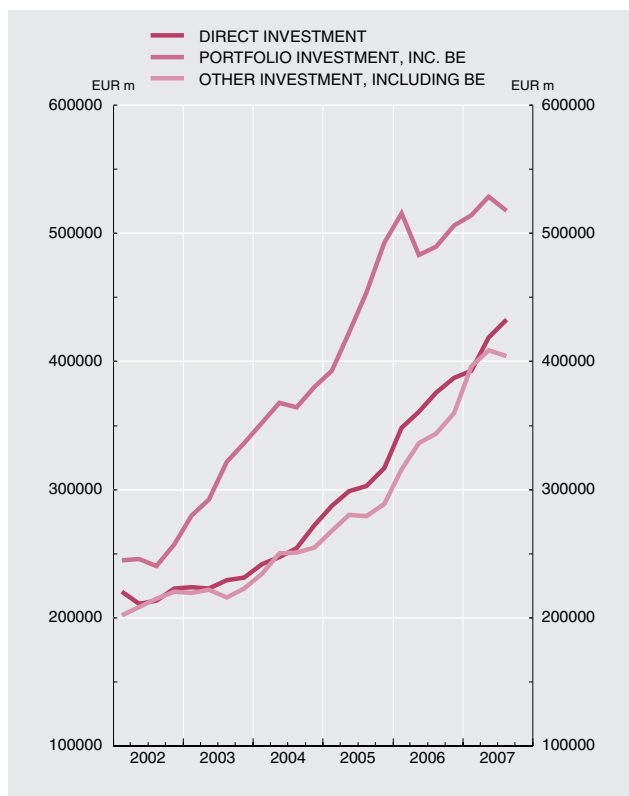
## 7.7. SPANISH INTERNATIONAL INVESTMENT POSITION VIS-À-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD BREAKDOWN BY INVESTMENT

■ Series depicted in chart.

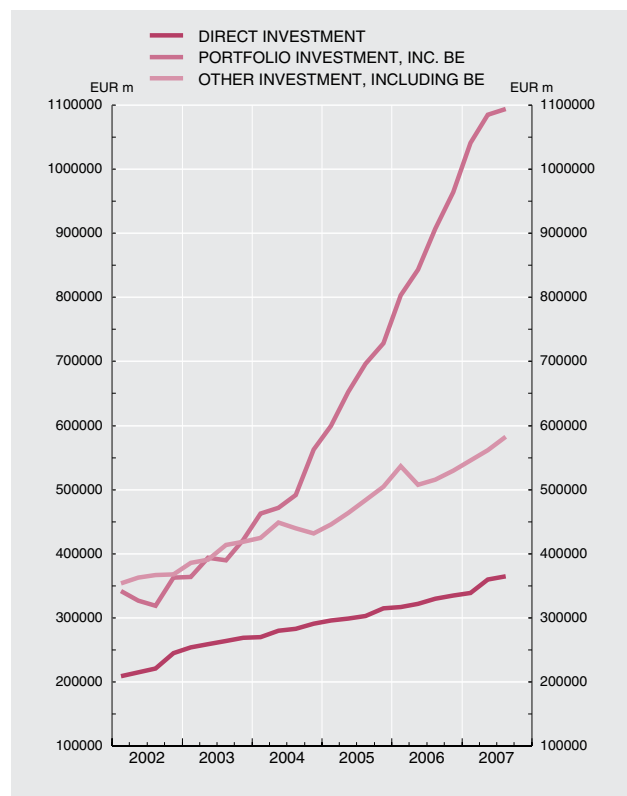
End-of-period stocks in EUR millions

	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				
<b>99</b>	110 031	7 469	106 535	18 251	42 282	85 105	145 948	122 443	189 266	243 489	...	...
<b>00</b>	167 151	13 095	142 844	25 182	83 918	109 764	147 521	163 138	212 159	305 778	...	...
<b>01</b>	197 233	20 231	164 360	36 768	74 596	158 052	144 151	188 925	202 099	344 845	...	...
<b>02</b>	206 268	16 815	194 711	50 456	50 712	206 581	116 967	245 492	220 483	367 646	-	-
<b>03</b>	217 086	14 477	207 096	61 828	62 677	273 344	147 878	274 166	222 670	418 202	-	-
<b>04 Q3</b>	234 813	19 406	218 183	64 681	71 014	293 161	150 702	340 847	250 801	439 721	-	-
<b>Q4</b>	254 696	17 627	223 215	67 501	78 053	302 067	183 211	379 279	254 992	431 651	-	-
<b>05 Q1</b>	267 443	19 861	225 155	70 423	79 829	313 130	184 793	414 446	267 804	445 247	-	-
<b>Q2</b>	278 521	20 234	229 158	69 333	83 676	339 219	178 505	473 699	280 368	463 249	-	-
<b>Q3</b>	281 577	21 228	229 623	72 789	93 654	360 155	204 334	492 267	279 437	483 386	-	-
<b>Q4</b>	295 784	21 209	239 162	75 276	104 157	388 472	197 347	531 035	288 964	504 641	-	-
<b>06 Q1</b>	328 716	19 725	239 451	77 558	119 452	395 944	214 645	589 149	315 994	536 215	-	-
<b>Q2</b>	339 547	21 190	245 011	76 435	122 047	361 127	206 547	636 951	336 316	507 406	-	-
<b>Q3</b>	355 852	19 895	247 935	81 755	126 170	363 383	232 494	674 271	343 704	515 248	-	-
<b>Q4</b>	365 553	21 685	253 227	81 584	133 193	373 001	245 683	718 897	359 747	530 064	32 973	42 569
<b>07 Q1</b>	372 310	20 503	254 778	83 791	140 408	373 512	256 533	784 777	396 300	545 113	33 197	44 487
<b>Q2</b>	403 457	15 347	269 583	89 871	153 759	374 803	270 191	814 353	408 736	561 729	39 921	55 856
<b>Q3</b>	412 220	20 351	273 132	91 962	143 611	373 744	274 128	819 742	404 271	582 628	44 181	62 069

### SPANISH INVESTMENT ABROAD



### FOREIGN INVESTMENT IN SPAIN



Source: BE.

Note: See footnote to Indicator 7.6

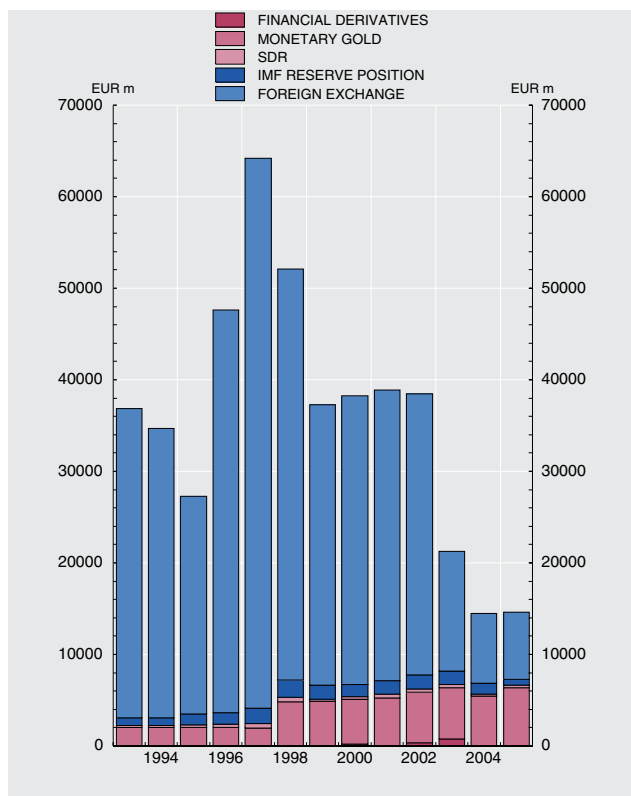
## 7.8. SPANISH RESERVE ASSETS

■ Series depicted in chart.

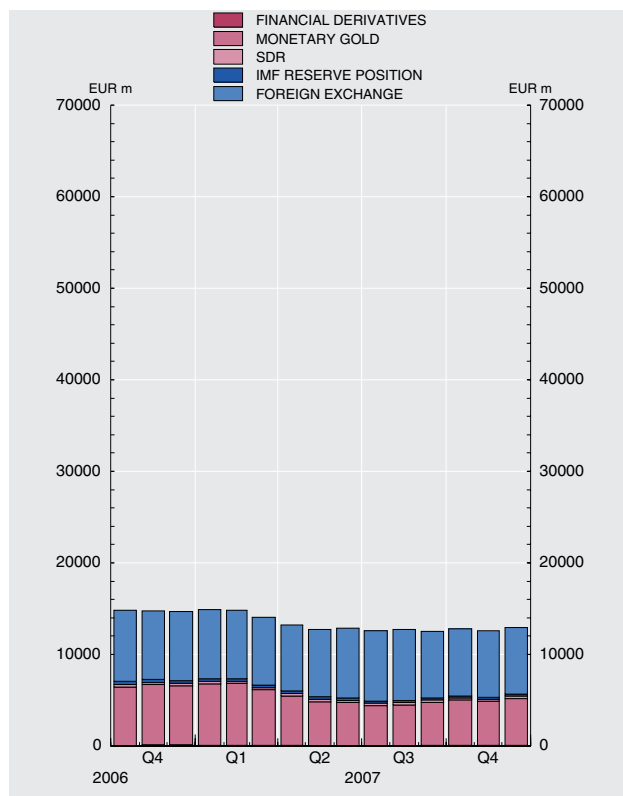
End-of-period stocks in EUR millions

	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
<b>01</b>	38 865	31 727	1 503	398	5 301	-63	16.8
<b>02</b>	38 431	30 695	1 518	337	5 500	382	16.8
<b>03</b>	21 229	13 073	1 476	328	5 559	793	16.8
<b>04</b>	14 505	7 680	1 156	244	5 411	15	16.8
<b>05</b>	14 601	7 306	636	281	6 400	-21	14.7
<b>06 Jul</b>	14 918	6 896	469	255	7 295	3	14.7
<i>Aug</i>	14 915	7 018	468	256	7 155	18	14.7
<i>Sep</i>	14 972	7 746	410	258	6 586	-27	13.9
<i>Oct</i>	14 809	7 723	361	258	6 470	-3	13.7
<i>Nov</i>	14 750	7 489	322	254	6 544	141	13.4
<i>Dec</i>	14 685	7 533	303	254	6 467	127	13.4
<b>07 Jan</b>	14 893	7 557	307	261	6 716	52	13.4
<i>Feb</i>	14 800	7 459	261	251	6 735	94	13.4
<i>Mar</i>	14 045	7 410	255	251	6 037	91	12.1
<i>Apr</i>	13 232	7 252	252	249	5 379	100	10.8
<i>May</i>	12 696	7 332	281	243	4 829	11	9.9
<i>Jun</i>	12 873	7 616	281	244	4 732	0	9.9
<i>Jul</i>	12 572	7 647	261	246	4 397	20	9.1
<i>Aug</i>	12 734	7 764	249	245	4 460	16	9.1
<i>Sep</i>	12 493	7 227	245	241	4 711	69	9.1
<i>Oct</i>	12 791	7 314	230	240	4 948	60	9.1
<i>Nov</i>	12 559	7 221	225	236	4 809	68	9.1
<i>Dec</i>	12 946	7 285	218	252	5 145	46	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

	General government							Other monetary financial institutions				
	Total	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
<b>03 Q4</b>	775 767	174 827	4 312	335	157 552	12 628	-	379 423	326	187 752	61 652	129 693
<b>04 Q1</b>	818 597	189 370	3 592	489	172 254	13 035	-	398 303	361	186 529	77 928	133 485
<b>Q2</b>	859 825	186 801	3 200	428	170 051	13 121	-	430 763	353	207 118	84 615	138 676
<b>Q3</b>	870 725	192 431	2 873	1 755	174 457	13 346	-	427 166	362	198 299	92 532	135 974
<b>Q4</b>	906 924	202 222	2 776	705	181 878	16 864	-	431 337	301	194 245	104 720	132 071
<b>05 Q1</b>	958 093	204 821	2 513	1 024	183 038	18 246	-	460 500	467	202 197	125 535	132 301
<b>Q2</b>	1 038 112	213 926	2 110	437	194 059	17 320	-	490 258	587	232 191	139 670	117 810
<b>Q3</b>	1 080 406	213 357	3 088	1 424	191 719	17 126	-	517 879	400	264 976	150 727	101 776
<b>Q4</b>	1 144 519	213 399	2 465	65	192 798	18 072	-	548 891	981	276 566	164 457	106 887
<b>06 Q1</b>	1 238 230	214 061	4 628	11	191 300	18 121	-	589 522	1 003	295 771	193 633	99 115
<b>Q2</b>	1 258 285	213 327	3 620	345	191 381	17 981	-	580 901	2 186	268 475	208 797	101 443
<b>Q3</b>	1 307 418	214 162	6 070	1 469	188 569	18 054	-	602 346	5 274	267 202	225 647	104 224
<b>Q4</b>	1 370 042	215 553	4 836	662	191 871	18 183	-	622 807	6 252	277 169	236 038	103 347
<b>07 Q1</b>	1 458 094	219 218	4 901	37	195 616	18 664	-	657 875	11 371	295 511	251 968	99 026
<b>Q2</b>	1 516 205	213 522	5 446	440	188 891	18 744	-	683 730	10 672	294 344	269 402	109 312
<b>Q3</b>	1 539 186	203 156	4 820	1 326	178 468	18 543	-	705 947	14 900	308 459	273 031	109 557

## 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					Vis-à-vis	
		Deposits		Money market instruments	Loans	Other liabilities	Bonds and notes	Loans	Trade credits	Other liabilities	Total	Direct investors	Subsidiaries
	13	14	15	16	17	18	19	20	21	22	23	24	25
<b>03 Q4</b>	92	92	138 025	2 297	19 198	-	48 027	67 707	404	393	83 400	39 453	43 947
<b>04 Q1</b>	62	62	146 248	2 321	20 013	359	53 044	69 437	405	669	84 614	36 527	48 088
<b>Q2</b>	1	1	152 757	2 561	18 246	229	61 378	69 314	403	625	89 504	37 429	52 075
<b>Q3</b>	0	0	160 970	3 312	18 630	634	67 310	70 153	393	537	90 157	37 826	52 331
<b>Q4</b>	16	16	177 355	4 043	19 005	1 175	85 561	66 675	414	482	95 994	38 687	57 307
<b>05 Q1</b>	0	0	194 372	4 274	20 554	787	98 620	68 943	405	788	98 399	39 311	59 088
<b>Q2</b>	71	71	232 694	3 839	19 887	1 569	133 435	72 779	397	788	101 164	41 303	59 861
<b>Q3</b>	42	42	244 375	3 401	19 249	1 636	142 932	76 146	365	646	104 752	42 350	62 402
<b>Q4</b>	126	126	273 260	3 380	17 906	996	166 955	83 133	363	527	108 842	43 381	65 462
<b>06 Q1</b>	462	462	321 318	2 905	18 990	408	195 679	102 468	359	510	112 866	46 915	65 950
<b>Q2</b>	291	291	349 838	4 283	17 828	330	226 684	99 856	352	506	113 928	48 180	65 748
<b>Q3</b>	158	158	372 852	4 641	21 379	830	244 071	101 084	349	499	117 899	51 431	66 468
<b>Q4</b>	154	154	410 448	4 786	22 267	694	275 114	106 759	340	489	121 080	51 701	69 379
<b>07 Q1</b>	154	154	452 643	5 303	21 084	541	315 618	109 298	331	467	128 204	51 980	76 225
<b>Q2</b>	96	96	478 734	5 418	26 760	1 054	334 524	110 194	327	457	140 124	52 528	87 596
<b>Q3</b>	106	106	493 161	2 153	21 323	837	346 371	121 686	334	457	136 816	53 830	82 986

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 Jul	449 416	329 739	120 000	-405	-1	359	276	280 132	585 320	34 646	327 983	-11 851	1 783	167 501	-			
Aug	436 866	317 587	120 002	-783	4	108	53	267 906	589 612	23 289	327 310	-17 684	3 046	165 915	-			
Sep	427 171	307 761	120 002	-548	-2	120	162	254 585	587 088	17 667	326 287	-23 883	4 915	167 670	-			
Oct	433 484	313 068	120 001	432	-9	84	92	261 353	591 533	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	-			

# 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 Jul	22 582	19 066	3 622	-67	-2	2	37	38 610	82 952	9 370	19 420	-34 292	-33 138	-29 195	-3 943	17 110	-
Aug	21 380	17 921	3 501	-45	3	-	-	35 048	82 545	7 925	18 369	-37 053	-31 044	-28 013	-3 032	17 376	-
Sep	21 261	17 621	3 677	-38	1	-	-	30 389	81 441	6 162	17 189	-40 025	-27 023	-24 750	-2 273	17 895	-
Oct	21 333	17 413	3 908	23	-9	-	0	30 132	81 689	8 621	16 037	-44 142	-26 775	-25 416	-1 359	17 977	-
Nov	21 334	17 392	3 939	-	2	0	0	29 670	81 557	11 191	15 636	-47 443	-26 688	-25 443	-1 245	18 352	-
Dec	21 181	17 497	3 671	10	-2	5	0	26 202	84 859	7 042	15 432	-50 267	-24 501	-23 640	-861	19 480	-
07 Jan	21 704	18 536	3 170	-	-1	-	0	25 995	84 423	8 554	15 350	-51 631	-22 709	-22 011	-698	18 418	-
Feb	22 588	19 883	2 692	12	1	-	0	25 658	83 187	10 180	15 269	-52 440	-22 025	-21 757	-268	18 954	-
Mar	20 302	16 637	3 939	-	-0	-	274	22 613	83 729	8 474	15 065	-54 525	-21 554	-21 032	-521	19 243	-
Apr	19 143	15 571	3 876	-232	-0	-	72	25 505	85 050	10 537	14 604	-55 479	-26 784	-26 289	-495	20 423	-
May	20 278	16 315	3 997	-	-2	0	32	34 020	84 242	20 763	14 040	-56 944	-33 112	-32 805	-307	19 370	-
Jun	18 243	15 824	2 419	-	-0	-	0	33 209	84 836	21 333	13 529	-59 432	-35 156	-34 802	-354	20 191	-
Jul	18 355	15 804	2 520	2	31	-	2	24 807	85 999	14 606	12 826	-62 972	-27 547	-27 106	-441	21 095	-
Aug	18 179	15 657	2 341	183	-1	-	1	21 241	85 141	12 237	12 661	-63 477	-24 307	-24 045	-262	21 245	-
Sep	20 937	12 319	8 673	-49	-5	-	1	18 791	83 558	11 531	12 559	-63 738	-17 965	-17 669	-296	20 111	-
Oct	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	-
Nov	40 368	19 314	21 172	-90	-7	-	21	20 305	81 859	17 425	12 812	-66 167	-150	291	-442	20 214	-
Dec	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	-

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

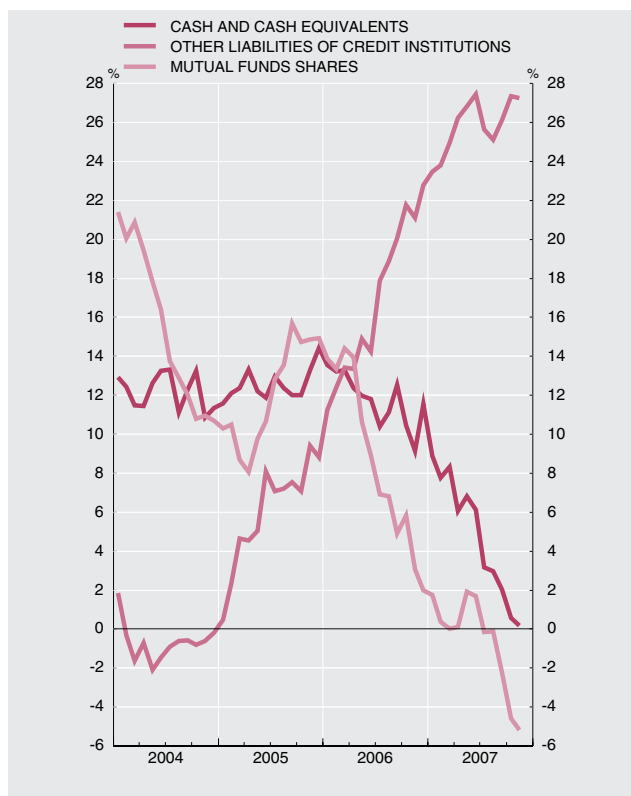
## 8.2 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

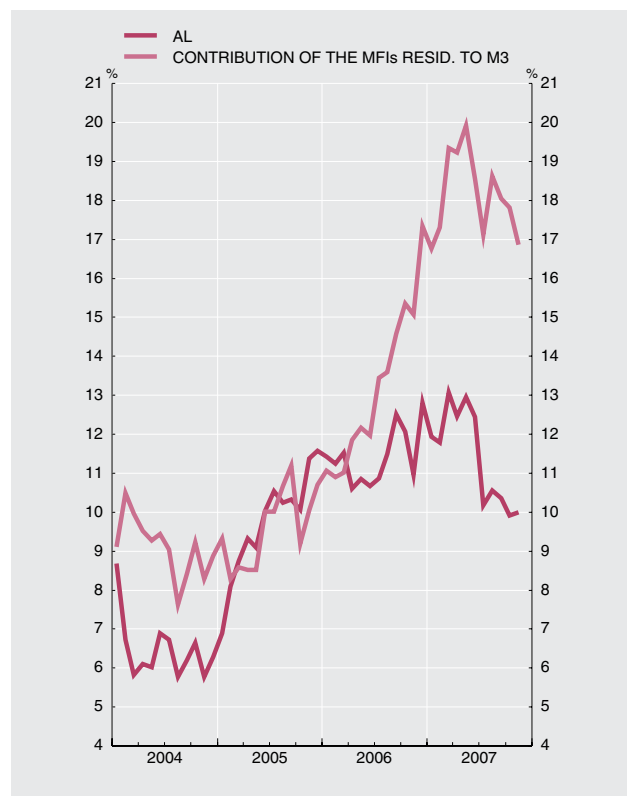
EUR millions and %

	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
<b>04</b>	401 569	11.3	19.7	9.5	277 903	-0.2	8.4	-28.4	-8.3	192 531	10.7	6.1	16.1	6.3	8.9
<b>05</b>	459 550	14.4	16.1	14.0	302 369	8.8	10.5	0.0	7.3	221 306	14.9	7.7	22.6	11.6	10.7
<b>06</b>	512 581	11.5	9.9	11.9	371 208	22.8	22.8	29.2	0.9	225 687	2.0	-10.1	13.1	12.8	17.3
<b>06 Aug</b>	476 857	11.1	12.4	10.8	344 018	18.9	17.7	33.1	-3.3	227 969	6.8	-6.8	20.7	11.5	13.6
<b>Sep</b>	490 567	12.5	11.4	12.8	346 630	20.0	19.3	33.3	-5.5	227 577	4.9	-7.7	17.4	12.5	14.6
<b>Oct</b>	481 540	10.5	10.5	10.4	351 519	21.8	20.5	36.6	1.2	229 123	5.8	-7.4	18.9	12.1	15.3
<b>Nov</b>	486 157	9.1	10.6	8.8	358 921	21.1	21.4	27.0	-3.5	226 128	3.1	-9.6	15.1	11.0	15.1
<b>Dec</b>	512 581	11.5	9.9	11.9	371 208	22.8	22.8	29.2	0.9	225 687	2.0	-10.1	13.1	12.8	17.3
<b>07 Jan</b>	490 546	8.9	9.2	8.8	379 151	23.5	26.0	17.5	-4.0	225 798	1.8	-9.0	11.1	11.9	16.8
<b>Feb</b>	491 056	7.8	8.6	7.6	385 795	23.8	26.6	15.8	-4.1	225 755	0.4	-7.1	6.5	11.8	17.3
<b>Mar</b>	501 750	8.3	8.3	8.4	397 686	24.9	27.7	14.6	8.9	228 073	0.0	-3.1	2.4	13.1	19.3
<b>Apr</b>	491 186	6.0	7.2	5.8	402 175	26.2	28.5	18.6	7.1	228 575	0.1	-2.1	1.8	12.5	19.2
<b>May</b>	498 400	6.8	7.2	6.7	410 168	26.8	28.0	22.5	17.9	230 073	1.9	-3.7	6.2	12.9	19.9
<b>Jun</b>	516 493	6.1	6.5	6.0	419 806	27.4	28.5	27.0	5.4	229 351	1.7	-6.0	8.0	12.4	18.6
<b>Jul</b>	502 322	3.2	5.5	2.6	422 516	25.6	27.0	22.5	8.3	225 037	-0.2	-7.8	5.9	10.2	17.1
<b>Aug</b>	491 019	3.0	5.9	2.3	430 422	25.1	26.3	22.2	10.5	227 669	-0.1	-3.3	2.4	10.6	18.6
<b>Sep</b>	500 430	2.0	4.7	1.4	437 183	26.1	27.9	19.5	12.1	222 421	-2.3	-3.3	-1.4	10.4	18.0
<b>Oct</b>	484 336	0.6	3.7	-0.2	447 703	27.4	29.8	18.5	5.6	218 623	-4.6	-6.5	-3.1	9.9	17.8
<b>Nov</b>	486 977	0.2	2.7	-0.4	456 698	27.2	30.0	17.7	1.1	214 383	-5.2	-4.6	-5.7	10.0	16.9

NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHS  
Annual percentage change



NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHS  
Annual percentage change



Source: BE.

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

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

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

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

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

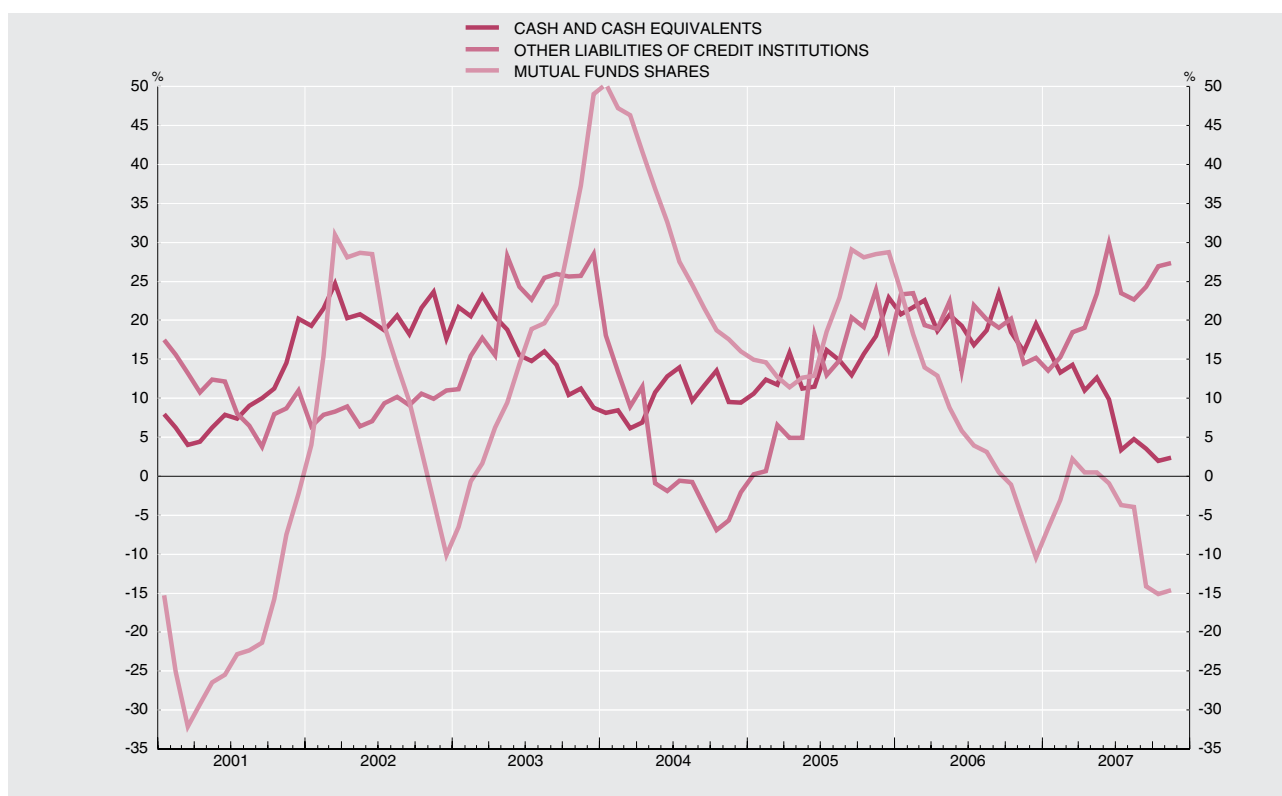
### 8.3 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF NON-FINANCIAL CORPORATIONS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

EUR millions and %

	Cash and cash equivalents (b)		Other liabilities of credit institutions				Mutual funds shares			
	Stocks	Annual growth rate	Stocks	Annual growth rate	Annual growth rate		Stocks	Annual growth rate	Annual growth rate	
					Other deposits (c)	Repos + credit instit.' securit.+ dep. in branches abroad			Fixed income in EUR (d)	Other
1	2	3	4	5	6	7	8	9	10	
04	93 495	9.4	62 387	-2.1	24.6	-19.7	23 738	16.0	18.5	13.5
05	114 876	22.9	72 732	16.6	30.5	2.3	30 552	28.7	14.8	42.8
06	137 357	19.6	83 788	15.2	17.4	12.3	27 359	-10.5	-15.5	-6.4
06 Aug	120 495	18.8	78 598	20.1	21.8	17.8	29 057	3.1	-8.9	14.3
Sep	128 117	23.5	79 242	19.0	24.3	12.3	29 075	0.5	-10.0	9.8
Oct	123 226	18.4	78 730	20.2	22.0	17.7	28 899	-1.0	-9.8	6.7
Nov	126 253	16.0	79 853	14.4	19.5	7.7	28 178	-5.9	-12.0	-0.7
Dec	137 357	19.6	83 788	15.2	17.4	12.3	27 359	-10.5	-15.5	-6.4
07 Jan	128 823	16.3	82 361	13.6	24.5	0.3	28 093	-6.7	-12.6	-2.0
Feb	129 819	13.3	83 177	15.3	28.2	-0.6	28 740	-3.1	-6.4	-0.5
Mar	134 565	14.3	86 917	18.4	30.7	3.1	29 765	2.2	2.4	2.0
Apr	128 862	11.0	85 992	19.0	28.8	6.1	29 234	0.5	1.5	-0.3
May	133 554	12.7	90 233	23.4	29.8	14.8	28 803	0.5	-1.9	2.2
Jun	137 293	9.9	96 277	29.9	36.9	20.1	28 110	-0.9	-4.7	2.0
Jul	128 420	3.4	93 119	23.5	30.3	14.2	27 581	-3.7	-8.1	-0.5
Aug	126 227	4.8	96 396	22.6	27.4	16.1	27 903	-4.0	-3.7	-4.2
Sep	132 591	3.5	98 478	24.3	30.7	15.3	24 966	-14.1	-11.8	-15.9
Oct	125 602	1.9	99 909	26.9	35.8	14.1	24 540	-15.1	-15.2	-15.0
Nov	129 236	2.4	101 703	27.4	36.8	13.4	24 064	-14.6	-14.0	-15.1

#### NON-FINANCIAL CORPORATIONS Annual percentage change



Source: BE.

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

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

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

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

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

■ Series depicted in chart.

EUR millions and %

	Cash and cash equivalents				Other liabilities of credit institutions				Mutual funds shares			
	Stocks	Annual growth rate	Annual growth rate		Stocks	Annual growth rate	Annual growth rate		Stocks	Annual growth rate	Annual growth rate	
			Cash	Deposits (b)			Other deposits (c)	Repos + credit instit. securit.+ dep. in branches abroad			Fixed income in EUR (d)	Other
	1	2	3	4	5	6	7	8	9	10	11	12
04	308 075	11.9	19.9	9.8	215 516	0.4	6.1	-30.7	168 793	10.0	4.5	16.4
05	344 674	11.9	14.3	11.2	229 637	6.6	7.3	0.7	190 753	13.0	6.7	19.6
06	375 224	8.9	9.2	8.8	287 420	25.2	23.8	36.9	198 328	4.0	-9.3	16.5
06 Aug	356 362	8.8	11.3	8.0	265 420	18.5	17.0	31.8	198 912	7.4	-6.4	21.8
Sep	362 451	9.1	10.4	8.7	267 387	20.4	18.3	39.2	198 501	5.6	-7.4	18.7
Oct	358 315	7.9	9.6	7.5	272 788	22.2	20.2	41.0	200 224	6.9	-7.0	20.9
Nov	359 904	6.9	9.8	6.1	279 067	23.2	21.8	35.4	197 950	4.5	-9.2	17.8
Dec	375 224	8.9	9.2	8.8	287 420	25.2	23.8	36.9	198 328	4.0	-9.3	16.5
07 Jan	361 723	6.4	8.6	5.8	296 790	26.5	26.2	29.1	197 705	3.1	-8.5	13.3
Feb	361 237	5.9	8.1	5.3	302 618	26.4	26.3	26.5	197 014	0.9	-7.2	7.6
Mar	367 185	6.3	7.8	5.9	310 769	26.9	27.1	25.3	198 308	-0.3	-3.8	2.4
Apr	362 324	4.4	6.9	3.6	316 183	28.3	28.4	27.4	199 340	0.1	-2.6	2.1
May	364 846	4.8	7.0	4.2	319 935	27.8	27.7	29.0	201 270	2.1	-3.9	6.8
Jun	379 200	4.8	6.4	4.4	323 530	26.7	26.9	25.4	201 241	2.1	-6.2	8.9
Jul	373 902	3.1	5.4	2.4	329 396	26.3	26.3	25.6	197 456	0.4	-7.7	6.8
Aug	364 792	2.4	5.9	1.3	334 025	25.8	26.1	24.1	199 766	0.4	-3.2	3.4
Sep	367 839	1.5	4.8	0.5	338 705	26.7	27.4	21.2	197 455	-0.5	-2.2	0.8
Oct	358 735	0.1	3.9	-1.0	347 794	27.5	28.7	18.0	194 083	-3.1	-5.3	-1.3
Nov	357 741	-0.6	3.0	-1.7	354 995	27.2	28.7	15.5	190 319	-3.9	-3.2	-4.3

## 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.

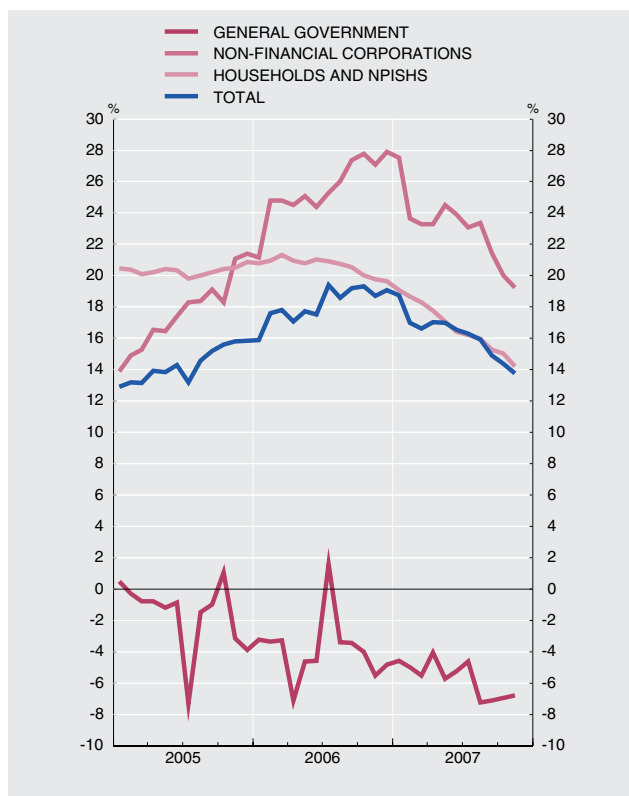
## 8.5. FINANCING OF NON-FINANCIAL SECTORS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

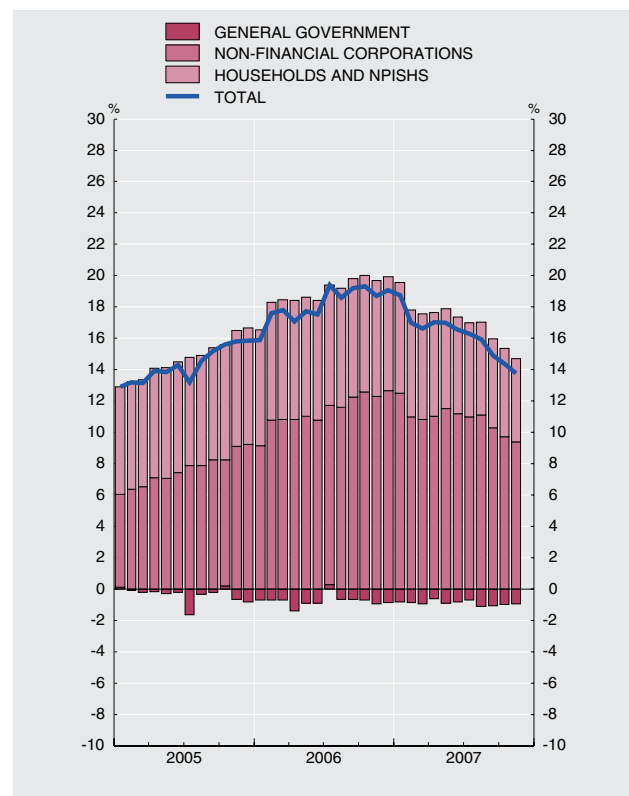
EUR millions and %

	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
04	1 510 072	165 523	12.4	-0.2	16.3	13.2	20.2	19.1	-1.2	3.5	-0.0	12.4	5.6	6.8	12.0	-0.0	0.4
05	1 756 788	239 370	15.9	-3.9	21.2	21.4	20.9	23.0	23.7	10.7	-0.8	16.7	9.2	7.5	15.2	0.2	1.3
06	2 095 767	335 476	19.1	-4.8	24.2	27.9	19.6	24.4	135.1	15.6	-0.8	19.9	12.7	7.3	17.1	1.0	1.8
06 Aug	1 969 270	5 475	18.6	-3.4	23.7	26.0	20.8	24.0	112.6	16.1	-0.6	19.2	11.6	7.6	16.4	0.9	1.9
Sep	1 999 646	33 161	19.2	-3.4	24.3	27.4	20.6	24.4	123.3	17.2	-0.6	19.8	12.3	7.6	16.9	0.9	2.0
Oct	2 014 209	14 317	19.3	-4.0	24.3	27.8	20.0	24.2	132.5	17.6	-0.7	20.0	12.6	7.4	17.0	1.0	2.1
Nov	2 047 507	31 303	18.7	-5.5	23.8	27.1	19.8	24.6	131.0	12.4	-1.0	19.7	12.3	7.4	17.2	1.0	1.5
Dec	2 095 767	47 364	19.1	-4.8	24.2	27.9	19.6	24.4	135.1	15.6	-0.8	19.9	12.7	7.3	17.1	1.0	1.8
07 Jan	2 120 279	20 466	18.8	-4.6	23.7	27.5	19.1	24.3	132.0	13.5	-0.8	19.6	12.5	7.1	17.0	1.0	1.6
Feb	2 132 051	10 966	17.0	-5.0	21.5	23.7	18.7	23.7	61.5	5.5	-0.8	17.8	11.0	6.9	16.5	0.7	0.7
Mar	2 165 612	29 741	16.6	-5.5	21.1	23.3	18.3	23.3	58.9	5.2	-0.9	17.6	10.8	6.7	16.3	0.7	0.7
Apr	2 173 042	11 050	17.0	-4.0	20.9	23.3	17.8	22.6	56.7	7.9	-0.6	17.6	11.0	6.6	16.0	0.6	1.0
May	2 210 898	37 019	17.0	-5.7	21.2	24.5	17.1	22.5	55.9	10.7	-0.9	17.9	11.5	6.4	16.0	0.6	1.3
Jun	2 262 274	43 532	16.5	-5.2	20.6	23.9	16.4	21.9	30.2	11.9	-0.8	17.4	11.2	6.1	15.5	0.4	1.4
Jul	2 292 178	35 957	16.3	-4.6	20.1	23.1	16.2	21.3	30.3	11.8	-0.7	17.0	11.0	6.0	15.2	0.4	1.4
Aug	2 292 979	-718	16.0	-7.2	20.1	23.4	16.0	21.3	30.7	12.0	-1.1	17.1	11.1	5.9	15.2	0.4	1.4
Sep	2 310 253	17 064	14.9	-7.1	18.8	21.5	15.3	19.9	28.5	10.6	-1.1	16.0	10.3	5.7	14.3	0.4	1.3
Oct	P 2 315 809	5 641	14.4	-6.9	17.9	20.0	15.0	18.7	24.4	11.7	-1.0	15.3	9.7	5.6	13.6	0.4	1.4
Nov	P 2 339 737	24 047	13.8	-6.8	17.1	19.3	14.2	17.6	22.1	13.0	-0.9	14.7	9.4	5.3	12.9	0.3	1.5

FINANCING OF NON-FINANCIAL SECTORS  
Annual percentage change



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



Source: BE.

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

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

b. Total liabilities (consolidated) less deposits. Inter-general government liabilities are deduced.

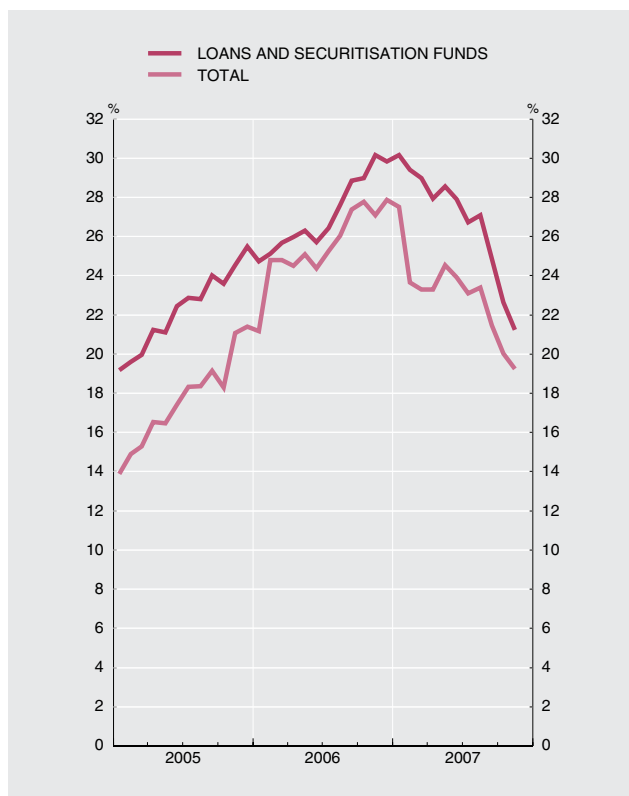
## 8.6. FINANCING OF NON-FINANCIAL CORPORATIONS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

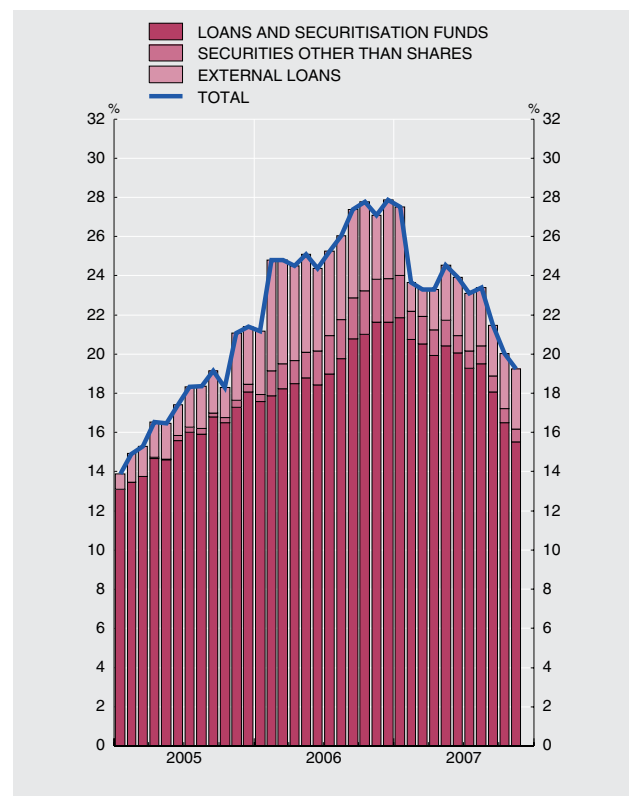
EUR millions and %

	Total			Resident credit 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	Contribution 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 resident financ. subsid.						
	1	2	3	4	5	6	7	8	9	10	11	12	13	
04	650 617	75 420	13.2	461 109	17.8	12.2	10 678	-	-1.2	-0.0	178 830	3.4	1.0	15 538
05	797 581	139 236	21.4	578 229	25.5	18.1	13 207	2 634	23.7	0.4	206 145	10.7	2.9	5 581
06	1 023 962	222 367	27.9	750 137	29.8	21.6	31 044	19 474	135.1	2.2	242 781	15.6	4.0	3 230
06 Aug	935 576	76	26.0	674 023	27.6	19.8	27 551	16 436	112.6	2.0	234 002	16.1	4.3	4 345
Sep	959 120	26 253	27.4	696 660	28.8	20.8	28 436	17 203	123.3	2.1	234 025	17.1	4.5	4 245
Oct	979 426	20 035	27.8	713 145	29.0	21.0	29 674	18 149	132.5	2.2	236 607	17.6	4.6	3 844
Nov	997 776	16 315	27.1	729 232	30.1	21.6	30 111	18 282	131.0	2.2	238 433	12.3	3.3	3 824
Dec	1 023 962	25 147	27.9	750 137	29.8	21.6	31 044	19 474	135.1	2.2	242 781	15.6	4.0	3 230
07 Jan	1 039 134	11 069	27.5	761 073	30.2	21.8	31 055	19 630	132.0	2.2	247 006	13.5	3.5	3 162
Feb	1 050 032	10 052	23.7	767 344	29.4	20.7	32 189	20 925	61.5	1.5	250 499	5.4	1.5	3 090
Mar	1 069 168	15 215	23.3	783 187	29.0	20.5	32 465	21 277	58.9	1.4	253 516	5.1	1.4	3 008
Apr	1 086 749	21 102	23.3	798 348	27.9	19.9	31 998	21 154	56.7	1.3	256 402	7.8	2.0	3 032
May	1 110 299	22 701	24.5	812 942	28.6	20.4	32 672	21 242	55.9	1.3	264 685	10.7	2.8	2 691
Jun	1 136 036	17 759	23.9	832 475	27.9	20.1	33 507	21 494	30.2	0.9	270 054	11.8	3.0	2 932
Jul	1 160 401	30 383	23.1	854 128	26.7	19.3	36 006	23 426	30.3	0.9	270 267	11.7	2.9	2 688
Aug	1 164 672	2 708	23.4	855 984	27.1	19.5	35 999	23 408	30.7	0.9	272 689	11.9	3.0	2 593
Sep	1 178 489	13 340	21.5	869 102	24.9	18.1	36 529	23 127	28.5	0.8	272 858	10.5	2.6	2 228
Oct	P 1 188 821	10 358	20.0	873 983	22.7	16.5	36 904	23 443	24.4	0.7	277 934	11.6	2.8	2 078
Nov	P 1 201 065	12 283	19.3	883 392	21.2	15.5	36 754	23 338	22.1	0.7	280 919	12.8	3.1	1 805

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.

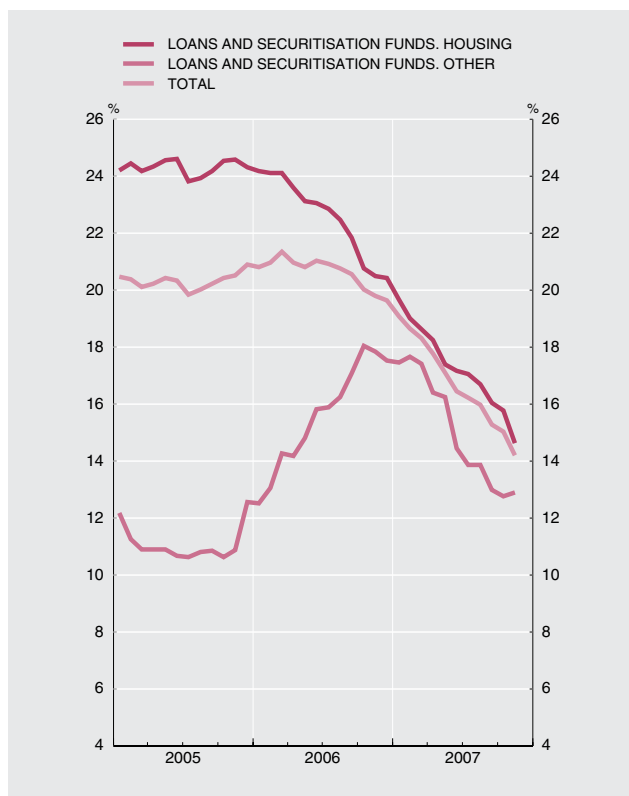
## 8.7. FINANCING OF HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

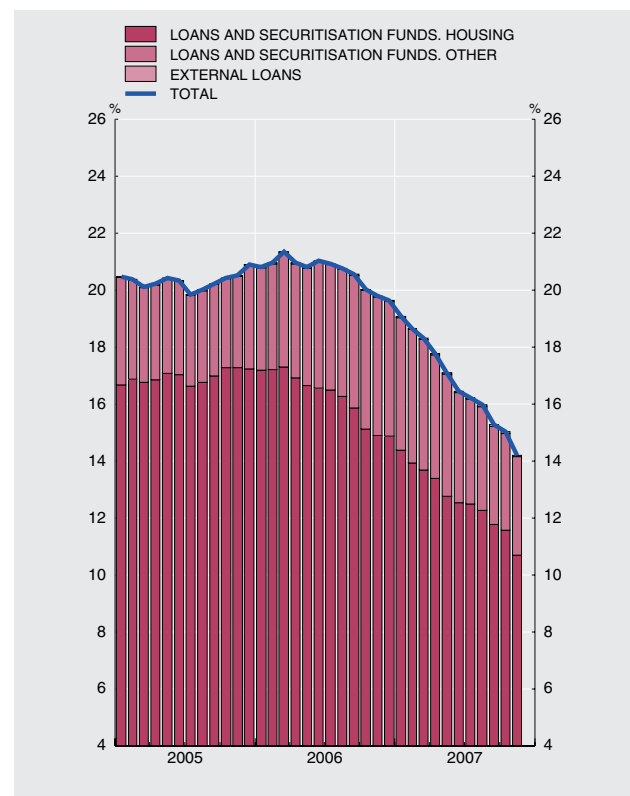
EUR millions and %

	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
<b>04</b>	538 881	90 646	20.2	381 698	23.7	16.3	156 322	12.5	3.9	861	19.3	0.0	47 873	9 802
<b>05</b>	651 071	112 572	20.9	474 499	24.3	17.2	175 571	12.5	3.6	1 002	16.3	0.0	28 527	3 030
<b>06</b>	778 454	127 893	19.6	571 325	20.4	14.9	205 872	17.5	4.7	1 256	25.4	0.0	26 937	3 421
<b>06 Aug</b>	733 376	5 116	20.8	538 912	22.5	16.3	193 274	16.2	4.5	1 190	24.8	0.0	26 625	2 091
<b>Sep</b>	742 532	9 232	20.6	545 322	21.8	15.9	196 009	17.1	4.6	1 202	24.1	0.0	26 192	2 216
<b>Oct</b>	751 781	9 274	20.0	551 352	20.7	15.1	199 231	18.0	4.9	1 199	23.3	0.0	25 903	3 431
<b>Nov</b>	767 682	15 940	19.8	561 518	20.5	14.9	204 953	17.8	4.8	1 211	23.9	0.0	26 587	3 250
<b>Dec</b>	778 454	10 915	19.6	571 325	20.4	14.9	205 872	17.5	4.7	1 256	25.4	0.0	26 937	3 421
<b>07 Jan</b>	782 874	4 477	19.1	575 791	19.6	14.4	205 814	17.5	4.7	1 269	19.8	0.0	26 423	3 416
<b>Feb</b>	790 612	7 779	18.7	581 809	19.0	13.9	207 527	17.7	4.7	1 276	19.8	0.0	25 735	3 638
<b>Mar</b>	803 744	13 233	18.3	592 049	18.6	13.7	210 362	17.4	4.6	1 333	24.0	0.0	25 708	3 196
<b>Apr</b>	812 374	8 730	17.8	598 772	18.2	13.4	212 254	16.4	4.3	1 348	20.8	0.0	26 108	3 333
<b>May</b>	821 292	8 929	17.1	604 835	17.4	12.8	215 069	16.2	4.3	1 388	22.3	0.0	25 294	5 101
<b>Jun</b>	838 695	17 538	16.4	616 513	17.2	12.5	220 775	14.4	3.9	1 407	21.0	0.0	27 819	5 143
<b>Jul</b>	845 624	6 963	16.2	625 074	17.0	12.5	219 063	13.9	3.7	1 487	26.6	0.0	27 842	5 208
<b>Aug</b>	849 691	4 110	16.0	628 701	16.7	12.3	219 399	13.9	3.7	1 591	33.7	0.1	28 675	5 120
<b>Sep</b>	854 890	5 466	15.3	632 594	16.0	11.8	220 652	13.0	3.4	1 644	36.8	0.1	27 971	6 211
<b>Oct</b>	P 863 653	8 821	15.0	638 100	15.8	11.6	223 876	12.8	3.4	1 676	39.8	0.1	27 802	6 191
<b>Nov</b>	P 875 671	12 099	14.2	643 451	14.6	10.7	230 512	12.9	3.4	1 708	41.0	0.1	27 578	6 052

FINANCING OF HOUSEHOLDS AND NPISHS  
Annual percentage change



FINANCING OF HOUSEHOLDS AND NPISHS  
Contributions to the annual percentage change



Source: BE.

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

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

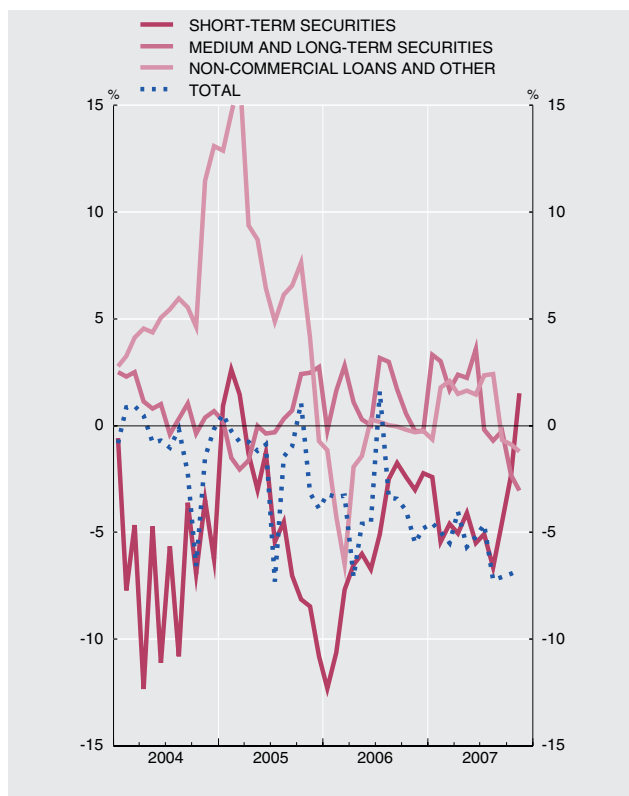
## 8.8. NET FINANCING OF SPAIN'S GENERAL GOVERNMENT

■ Series depicted in chart.

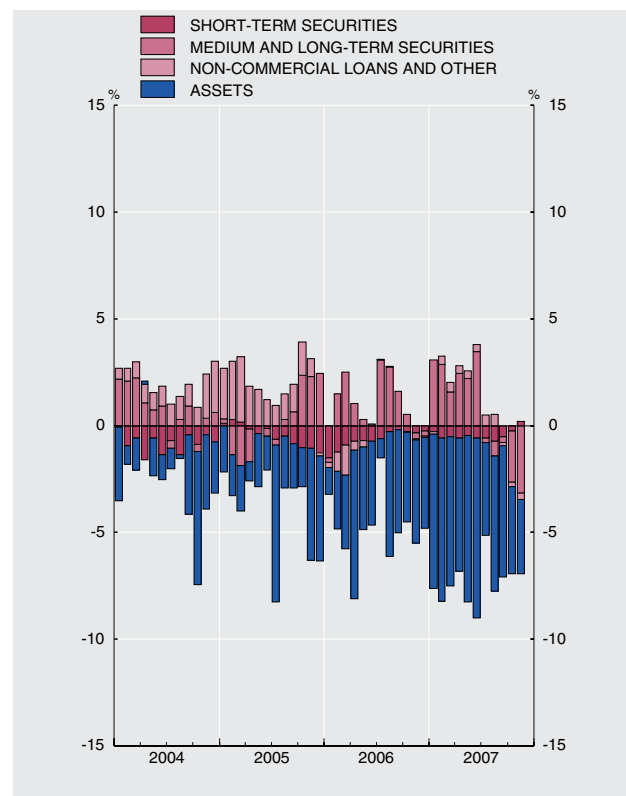
EUR millions and %

	Net financing			Monthly change in stocks							12-month % change in stocks				Contribution to 12-month % change in net stocks of liabilities			
				Liabilities (a)			Assets				Liabilities			Assets	Liabilities			Assets
	Net stock of liabilities	Monthly change (columns 4-8-9)	12-month % change of col. 1	Total	Securities		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
03	321 117	2 030	0.6	-567	3 047	-4 738	1 124	1 767	-4 363	-0.1	8.3	-1.6	1.9	-3.9	1.0	-1.5	0.4	0.8
04	320 574	-543	-0.2	7 148	-2 491	1 947	7 693	-1 817	9 508	1.9	-6.2	0.7	13.1	12.1	-0.8	0.6	2.4	-2.4
05	308 136	-12 438	-3.9	3 337	-4 042	7 866	-487	-695	16 470	0.9	-10.8	2.7	-0.7	22.2	-1.3	2.5	-0.2	-4.9
06	P 293 351	-14 784	-4.8	-1 703	-744	-786	-173	1 780	11 301	-0.4	-2.2	-0.3	-0.3	15.0	-0.2	-0.3	-0.1	-4.2
06 Jun	P 303 352	7 183	-4.6	-568	-2 278	1 643	67	-314	-7 437	-0.5	-6.7	0.0	0.3	16.3	-0.7	0.0	0.1	-3.9
Jul	P 300 034	-3 318	1.6	2 466	1 846	703	-82	-5 223	11 007	1.9	-5.1	3.2	0.2	2.9	-0.6	3.1	0.0	-0.9
Aug	P 300 318	284	-3.4	-2 073	-1 368	-596	-109	-121	-2 237	2.0	-2.5	3.0	0.0	24.5	-0.3	2.8	0.0	-5.9
Sep	P 297 994	-2 324	-3.4	3 372	1 974	1 471	-73	-101	5 797	1.1	-1.8	1.7	-0.0	17.8	-0.2	1.6	-0.0	-4.8
Oct	P 283 002	-14 992	-4.0	-5 992	-1 988	-4 174	170	-5	9 005	0.2	-2.4	0.5	-0.2	13.0	-0.3	0.5	-0.0	-4.2
Nov	P 282 050	-952	-5.5	3 914	1 588	1 817	509	-190	5 057	-0.5	-3.0	-0.3	-0.3	14.6	-0.4	-0.3	-0.1	-4.8
Dec	P 293 351	11 302	-4.8	-869	-1 774	639	266	32	12 203	-0.4	-2.2	-0.3	-0.3	15.0	-0.2	-0.3	-0.1	-4.2
07 Jan	P 298 272	4 920	-4.6	5 901	1 638	4 151	112	926	54	2.1	-2.4	3.3	-0.6	28.8	-0.3	3.1	-0.1	-7.2
Feb	P 291 407	-6 865	-5.0	-151	-3 007	2 607	249	71	6 643	2.1	-5.4	3.0	1.8	27.8	-0.6	2.9	0.4	-7.6
Mar	P 292 700	1 293	-5.5	1 089	2 379	-1 631	342	422	-626	1.2	-4.6	1.7	2.1	25.2	-0.5	1.6	0.4	-7.0
Apr	P 273 919	-18 781	-4.0	-2 982	-2 692	-124	-167	13 375	2 424	1.6	-5.0	2.4	1.5	16.9	-0.6	2.4	0.3	-6.2
May	P 279 307	5 389	-5.7	2 087	2 267	35	-215	131	-3 433	1.6	-4.1	2.2	1.6	23.8	-0.5	2.2	0.4	-7.8
Jun	P 287 542	8 235	-5.2	2 955	-2 643	5 649	-51	-4 295	-985	2.5	-5.5	3.6	1.5	28.6	-0.6	3.5	0.3	-8.4
Jul	P 286 152	-1 390	-4.6	-8 076	1 892	-10 458	490	-6 321	-365	-0.2	-5.1	-0.2	2.3	13.7	-0.6	-0.2	0.5	-4.4
Aug	P 278 616	-7 536	-7.2	-3 912	-1 808	-2 043	-61	-158	3 782	-0.7	-6.6	-0.7	2.4	20.5	-0.7	-0.7	0.5	-6.3
Sep	P 276 873	-1 743	-7.1	3 262	2 582	2 767	-2 087	-72	5 077	-0.7	-4.5	-0.3	-0.7	18.7	-0.5	-0.3	-0.1	-6.2
Oct	A 263 336	-13 538	-6.9	-11 301	-1 178	-10 160	37	1 859	378	-2.1	-2.3	-2.3	-0.9	10.8	-0.3	-2.4	-0.2	-4.1
Nov	A 263 001	-335	-6.8	2 799	2 868	-361	292	-2 152	5 286	-2.3	1.5	-3.0	-1.2	8.8	0.2	-3.2	-0.3	-3.5

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.

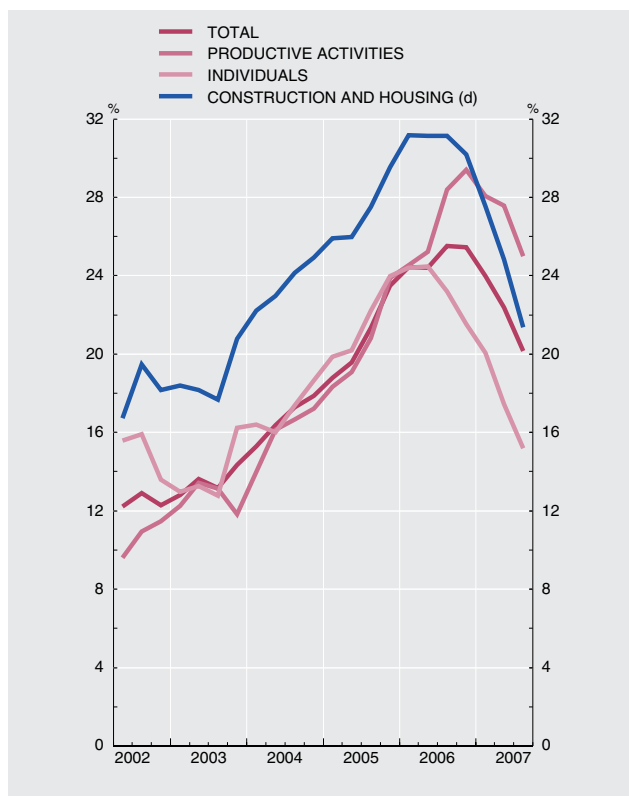
## 8.9 LENDING BY CREDIT INSTITUTIONS TO OTHER RESIDENT SECTORS. BREAKDOWN BY END-USE.

■ Series depicted in chart.

EUR millions and percentages

	Financing of productive activities							Financing of individuals					Financing of private non-profit institutions	Unclassified	Memo-randum item: construction and housing (d)
	Total (a)	Total	Agriculture and fisheries	Industry excluding construction	Construction	Services		Total	Home purchases and improvements	Purchases of consumer durables	Other (b)				
						Total	Of which								
												Real estate activities			
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 Q2	754 872	389 249	15 712	87 015	59 431	227 091	65 837	349 500	256 010	244 414	35 676	57 814	2 512	13 608	381 278
Q3	770 523	398 206	16 462	87 240	61 902	232 601	70 782	357 146	264 453	252 316	36 468	56 225	2 651	12 520	397 137
Q4	802 212	411 986	16 402	85 829	65 784	243 972	77 980	372 013	275 958	263 192	35 136	60 919	3 002	15 212	419 722
04 Q1	832 734	428 517	16 973	85 326	68 171	258 047	85 136	386 179	288 736	275 107	36 201	61 242	3 108	14 930	442 044
Q2	878 477	452 030	17 102	86 636	72 362	275 930	94 970	405 486	301 537	286 744	37 374	66 575	3 183	17 777	468 869
Q3	903 590	464 578	17 655	88 360	75 494	283 069	102 455	419 230	315 021	299 447	38 075	66 134	3 426	16 355	492 970
Q4	945 697	482 984	18 104	90 487	78 372	296 020	112 165	441 443	333 826	317 268	38 379	69 238	3 677	17 594	524 363
05 Q1	989 196	507 089	18 188	93 815	83 421	311 665	121 444	462 910	351 757	334 224	39 375	71 778	3 548	15 649	556 622
Q2	R1 085 320	544 048	19 501	99 393	89 806	335 349	135 483	516 384	394 989	375 523	42 531	78 864	4 200	20 687	620 277
Q3	1 131 241	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	1 706 116	909 991	25 023	140 365	150 368	594 235	292 588	768 197	604 623	577 337	54 035	109 539	6 106	21 822	1 047 580

**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](http://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.

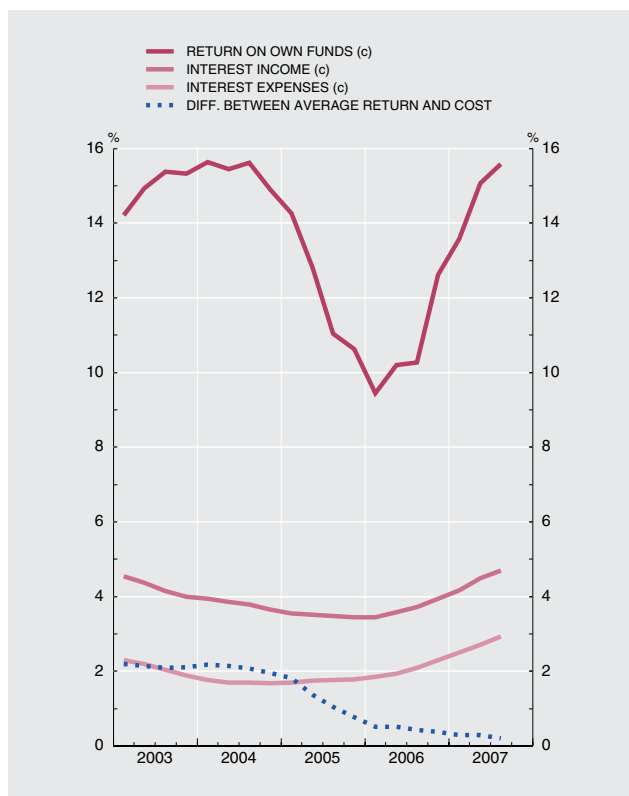
d. Including: construction, real estate activities and home purchases and improvements

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

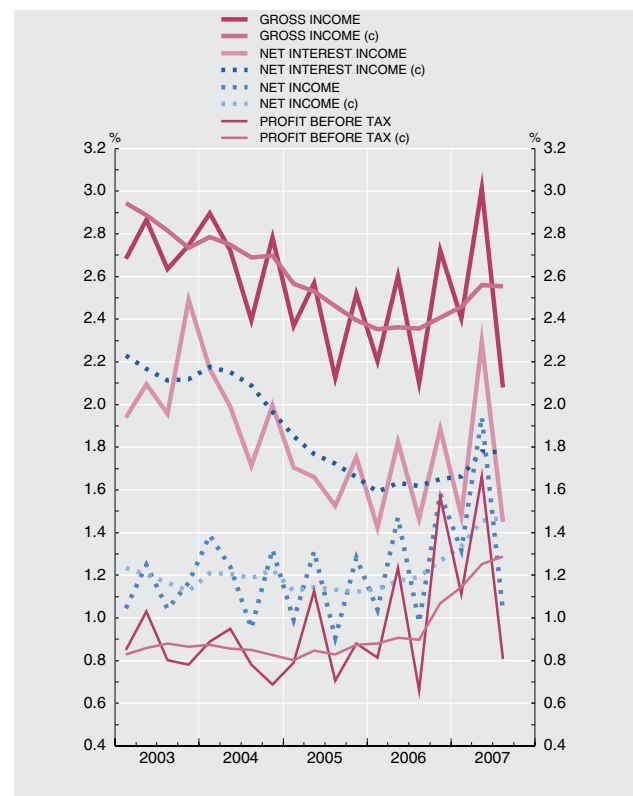
■ Series depicted in chart.

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
<b>04</b>		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
<b>05</b>	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
<b>06</b>		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
<b>04 Q3</b>		3.4	1.7	1.7	0.7	2.4	1.4	0.9	1.0	-0.2	0.8	14.8	4.0	1.9
<b>04 Q4</b>		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
<b>05 Q1</b>		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
<b>05 Q2</b>	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
<b>05 Q3</b>		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
<b>05 Q4</b>		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
<b>06 Q1</b>		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
<b>06 Q2</b>		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
<b>06 Q3</b>		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
<b>06 Q4</b>		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
<b>07 Q1</b>		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
<b>07 Q2</b>		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
<b>07 Q3</b>		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

**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.

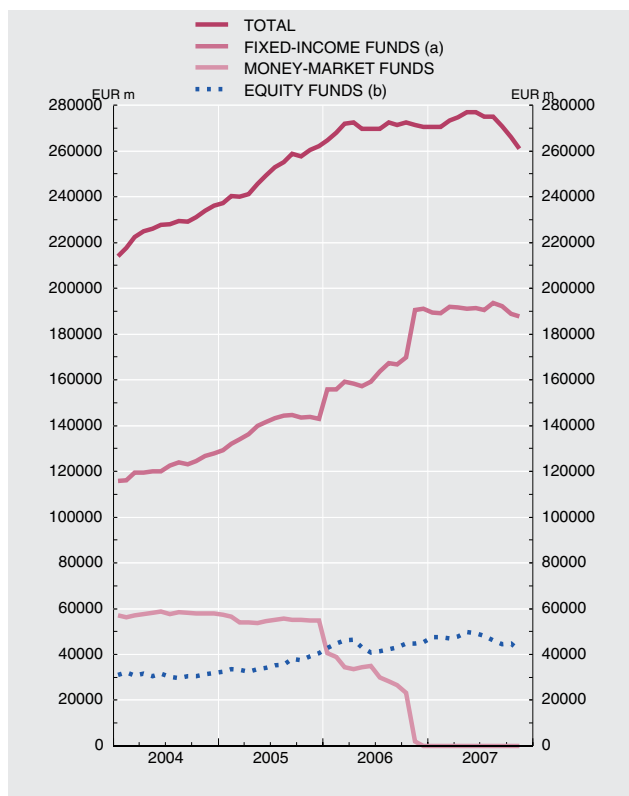
## 8.11. MUTUAL FUNDS RESIDENT IN SPAIN

■ Series depicted in chart.

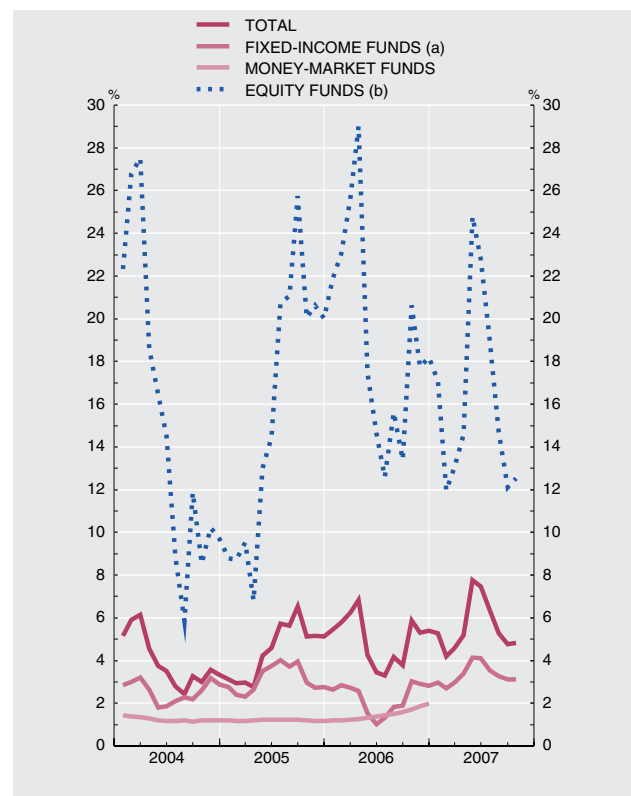
EUR millions

	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
04	236 088	25 461	18 250	3.3	57 989	-66	-744	1.2	127 735	11 917	10 445	2.9	32 023	2 622	480	9.7	18 341
05	262 201	26 113	14 270	5.1	54 751	-3 237	-3 881	1.2	143 047	15 312	12 061	2.8	40 672	8 649	2 303	20.0	23 730
06	270 407	8 206	-10 861	5.4	106	-54 645	-55 113	2.0	191 002	47 954	39 212	2.8	45 365	4 693	-2 189	18.2	33 934
06 Jul	269 647	-131	-1 722	3.3	30 010	-4 889	-4 939	1.4	163 570	4 362	3 662	1.3	41 501	774	99	12.6	34 566
Aug	272 323	2 676	-1 173	4.2	28 196	-1 814	-1 863	1.5	167 363	3 792	972	1.8	42 273	772	-118	15.6	34 491
Sep	271 361	-962	-3 298	3.8	26 628	-1 568	-1 616	1.6	166 752	-611	-169	1.9	43 016	743	-520	13.4	34 966
Oct	272 448	1 087	-1 801	5.9	23 336	-3 291	-3 337	1.7	169 680	2 928	2 016	3.0	44 690	1 673	124	20.6	34 742
Nov	271 467	-981	-1 292	5.3	2 059	-21 277	-21 281	1.9	190 536	20 856	20 667	2.9	44 885	195	66	17.7	33 988
Dec	270 407	-1 060	-3 100	5.4	106	-1 953	-1 953	2.0	191 002	466	314	2.8	45 365	480	-723	18.2	33 934
07 Jan	270 607	200	-1 500	5.3	-	-106	-106	...	189 293	-1 708	-2 277	3.0	47 473	2 108	1 088	17.1	33 841
Feb	270 597	-11	730	4.2	-	-	-	...	189 012	-281	-354	2.7	47 433	-40	721	12.0	34 151
Mar	273 422	2 825	898	4.6	-	-	-	...	191 896	2 883	2 302	3.0	47 088	-345	-1 194	13.1	34 438
Apr	274 562	1 140	-591	5.2	-	-	-	...	191 508	-387	-582	3.4	47 907	819	31	14.6	35 147
May	276 925	2 362	-575	7.8	-	-	-	...	191 131	-378	-819	4.1	49 730	1 824	-23	24.8	36 063
Jun	277 006	81	727	7.5	-	-	-	...	191 436	305	682	4.1	49 234	-496	-60	22.8	36 335
Jul	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	266 113	-4 623	-6 233	4.8	-	-	-	...	188 814	-3 475	-4 024	3.1	44 816	255	-1 196	12.5	32 484

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.

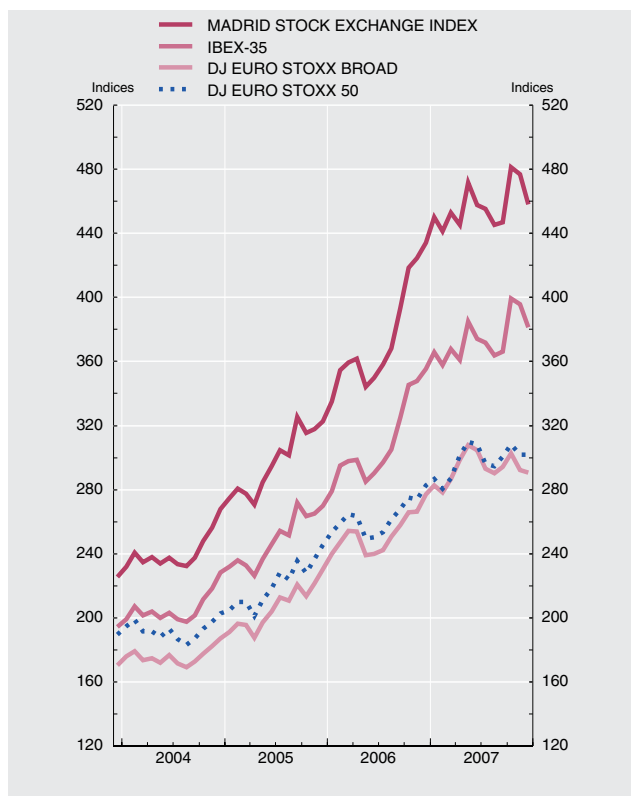
## 8.12. SHARE PRICE INDICES AND TURNOVER ON SECURITIES MARKETS. SPAIN AND EURO AREA

■ Series depicted in chart.

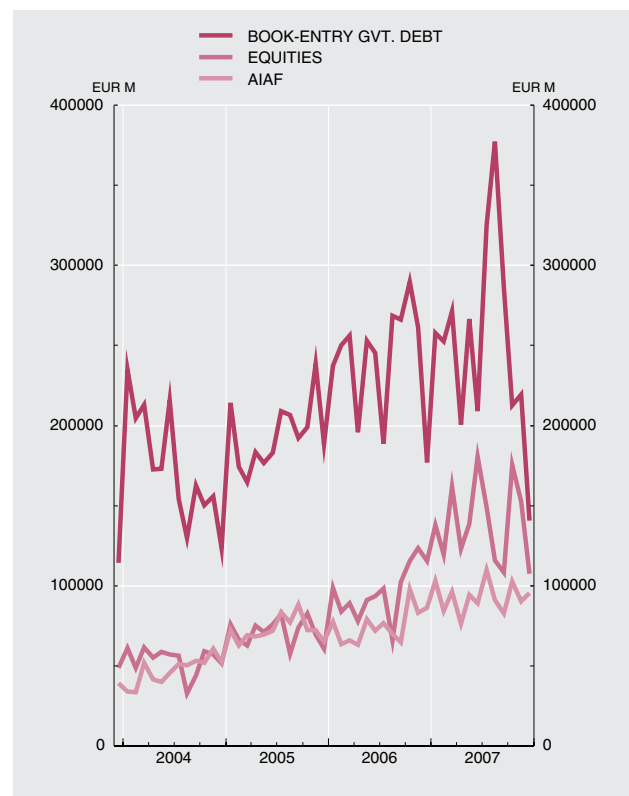
Indices, EUR millions and thousands of contracts

	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
05	1 066.43	9 903.47	295.18	3 222.05	853 971	93 191	2 330 021	872 299	-	11 356	-	5 050
06	1 344.36	12 346.51	361.00	3 830.10	1 155 682	93 449	2 888 728	900 202	-	12 977	-	6 569
07	P 1 637.50	14 899.46	419.02	4 344.48	1 670 178	89 600	3 018 575	1 115 708	-	14 161	-	8 722
06 Sep	1 409.08	12 934.70	367.92	3 899.41	102 479	6 814	266 185	64 676	...	898	...	595
Oct	1 500.12	13 753.00	379.26	4 004.80	115 556	8 785	289 772	97 968	...	1 359	...	609
Nov	1 521.28	13 849.30	379.98	3 987.23	123 561	6 551	261 362	83 252	...	1 092	...	632
Dec	1 554.93	14 146.50	395.63	4 119.94	115 451	5 616	176 997	86 306	...	1 255	...	561
07 Jan	1 612.11	14 553.20	403.74	4 178.54	137 777	6 527	257 796	102 927	...	810	...	647
Feb	1 581.73	14 248.40	397.25	4 087.12	119 325	6 155	252 674	84 385	...	985	...	639
Mar	1 622.49	14 641.70	408.97	4 181.03	161 924	9 882	271 139	96 198	...	1 470	...	833
Apr	1 595.92	14 374.60	426.32	4 392.34	123 156	6 930	200 727	76 317	...	888	...	733
May	1 690.28	15 329.40	439.24	4 512.65	138 715	8 206	266 433	94 244	...	854	...	731
Jun	1 640.40	14 892.00	434.76	4 489.77	180 794	7 209	209 163	89 256	...	1 441	...	842
Jul	1 630.91	14 802.40	418.05	4 315.69	148 942	8 404	324 836	110 001	...	750	...	772
Aug	1 595.04	14 479.80	414.30	4 294.56	115 739	7 388	377 247	91 052	...	1 086	...	777
Sep	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	P 1 642.01	15 182.30	414.90	4 399.72	107 346	6 163	140 544	95 535	...	1 719	...	549

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)

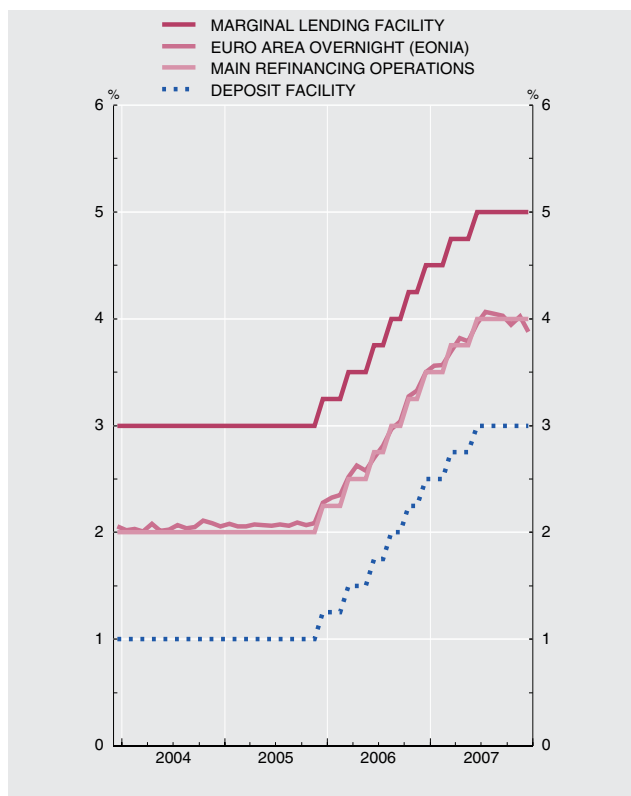
## 9.1. INTEREST RATES. EUROSISTEM AND MONEY MARKET. EURO AREA AND SPAIN

■ Series depicted in chart.

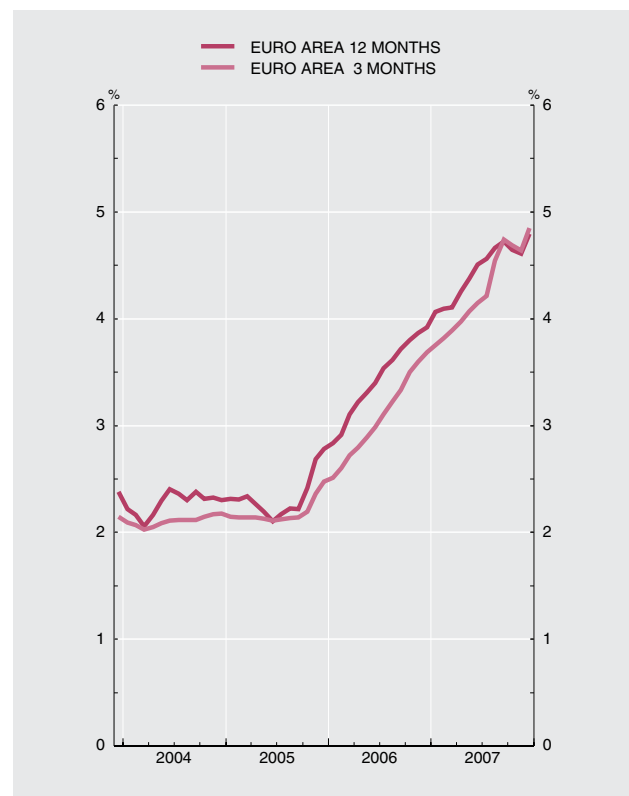
Averages of daily data. Percentages per annum

	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	1-year	Over-night	1-month	3-month	1-year
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
05	2.25	2.45	3.25	1.25	2.088	2.14	2.19	2.24	2.33	2.09	2.13	2.18	2.34	2.04	2.05	2.07	2.23
06	3.50	3.66	4.50	2.50	2.839	2.94	3.08	3.24	3.44	2.83	2.93	3.08	3.44	2.75	2.82	2.93	3.28
07	4.00	4.00	5.00	3.00	3.866	4.09	4.28	4.35	4.45	3.85	4.08	4.27	4.44	3.78	3.85	3.90	4.11
06 Sep	3.00	3.30	4.00	2.00	3.041	3.16	3.34	3.53	3.72	3.03	3.14	3.33	3.70	2.96	3.03	3.18	3.55
Oct	3.25	3.48	4.25	2.25	3.276	3.35	3.50	3.65	3.80	3.26	3.34	3.51	3.79	3.18	3.23	3.34	3.66
Nov	3.25	3.58	4.25	2.25	3.328	3.42	3.60	3.73	3.86	3.32	3.41	3.59	3.85	3.25	3.31	3.43	3.69
Dec	3.50	3.66	4.50	2.50	3.501	3.64	3.68	3.79	3.92	3.48	3.63	3.69	3.92	3.34	3.49	3.52	3.80
07 Jan	3.50	-	4.50	2.50	3.563	3.62	3.75	3.89	4.06	3.55	3.60	3.75	4.05	3.51	3.50	3.61	3.95
Feb	3.50	3.72	4.50	2.50	3.570	3.65	3.82	3.94	4.09	3.55	3.62	3.81	4.09	3.50	3.54	3.67	3.93
Mar	3.75	3.87	4.75	2.75	3.691	3.84	3.89	4.00	4.11	3.70	3.83	3.89	4.12	3.64	3.73	3.75	-
Apr	3.75	3.96	4.75	2.75	3.819	3.86	3.98	4.10	4.25	3.80	3.85	3.97	4.25	3.71	3.75	3.84	-
May	3.75	4.06	4.75	2.75	3.790	3.92	4.07	4.20	4.37	3.79	3.90	4.07	4.39	3.73	3.81	3.94	-
Jun	4.00	4.11	5.00	3.00	3.956	4.10	4.15	4.28	4.51	3.95	4.08	4.14	4.48	3.88	3.99	4.01	-
Jul	4.00	4.20	5.00	3.00	4.063	4.11	4.22	4.36	4.56	4.05	4.10	4.19	4.56	3.96	3.99	4.05	4.36
Aug	4.00	4.56	5.00	3.00	4.047	4.31	4.54	4.59	4.67	4.03	4.31	4.54	4.64	3.86	3.97	4.06	4.37
Sep	4.00	4.50	5.00	3.00	4.029	4.43	4.74	4.75	4.73	3.99	4.38	4.72	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	4.64	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	4.59	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	4.78	3.80	3.94	3.92	-

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

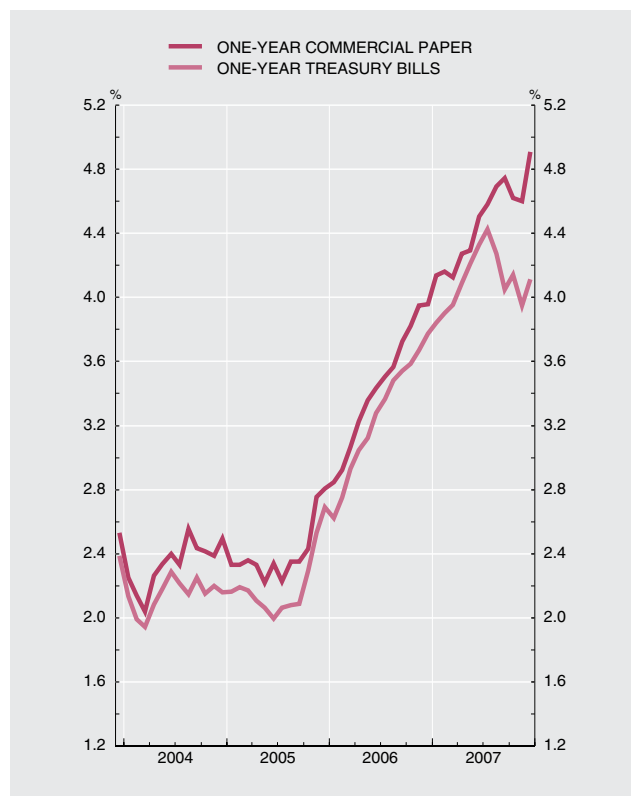
## 9.2. INTEREST RATES: SPANISH SHORT-TERM AND LONG-TERM SECURITIES MARKETS

■ Series depicted in chart.

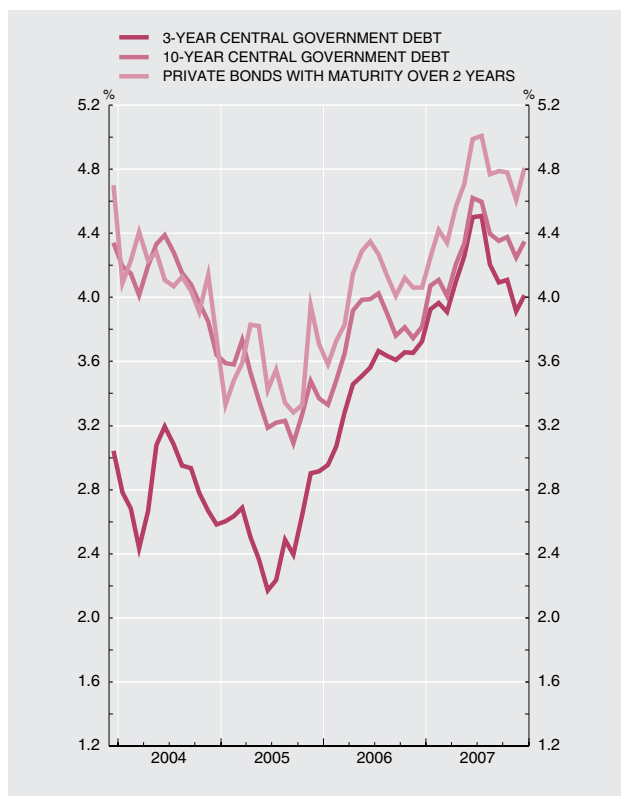
Percentages per annum

	Short-term securities				Long-term securities								Private bonds with a maturity of over two years traded on the AIAF
	One-year Treasury bills		One-year commercial paper		Central Government debt								
	Marginal rate at issue	Secondary market: outright spot purchases between market members	Rate at issue	Secondary market: outright spot purchases	Marginal rate at issue					Secondary market. Book-entry debt. Outright spot purchases between market members			
					3-year bonds	5-year bonds	10-year bonds	15-year bonds	30-year bonds	At 3-years	At 10-years		
	1	2	3	4	5	6	7	8	9	10	11	12	
05	2.20	2.19	2.40	2.36	2.38	2.89	3.44	3.70	3.84	2.55	3.39	3.55	
06	3.27	3.26	3.45	3.44	3.36	3.57	3.76	-	4.04	3.48	3.79	4.05	
07	4.11	4.07	4.47	4.49	4.00	4.16	4.24	-	4.49	4.13	4.31	4.67	
06 Sep	3.54	3.43	3.73	3.76	-	3.68	-	-	4.03	3.61	3.76	4.01	
Oct	3.59	3.59	3.82	3.81	-	-	-	-	-	3.66	3.81	4.12	
Nov	3.67	3.67	3.95	3.89	-	3.66	-	-	-	3.65	3.75	4.06	
Dec	3.78	3.75	3.96	3.96	3.65	-	-	-	-	3.73	3.82	4.06	
07 Jan	3.84	3.81	4.14	4.08	-	4.01	4.11	-	-	3.93	4.07	4.25	
Feb	3.90	3.88	4.16	4.13	3.95	-	-	-	4.25	3.97	4.11	4.42	
Mar	3.95	3.89	4.12	4.12	-	3.95	3.96	-	-	3.91	4.01	4.34	
Apr	4.09	4.08	4.27	4.25	-	-	-	-	-	4.10	4.21	4.57	
May	4.21	4.22	4.29	4.37	-	-	-	-	-	4.26	4.34	4.71	
Jun	4.33	4.32	4.51	4.51	-	4.49	-	-	-	4.50	4.62	4.99	
Jul	4.42	4.36	4.58	4.54	-	-	4.65	-	-	4.51	4.60	5.01	
Aug	4.27	4.18	4.69	4.75	-	-	-	-	-	4.20	4.40	4.77	
Sep	4.05	4.03	4.74	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	4.91	4.88	4.05	-	-	-	-	4.01	4.35	4.81	

### PRIMARY MARKET



### SECONDARY MARKET



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

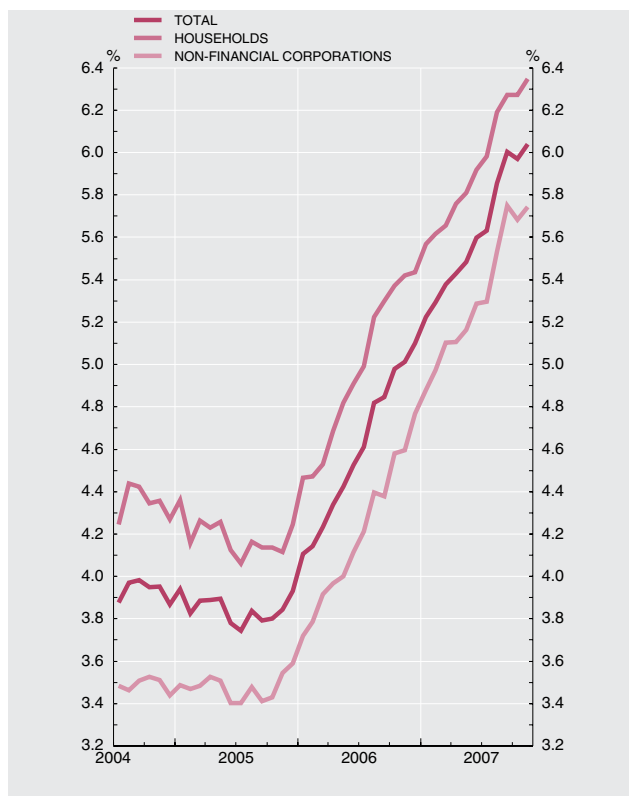
### 9.3. INTEREST RATES ON NEW BUSINESS. CREDIT INSTITUTIONS. (CBE 4/2002)

■ Series depicted in chart.

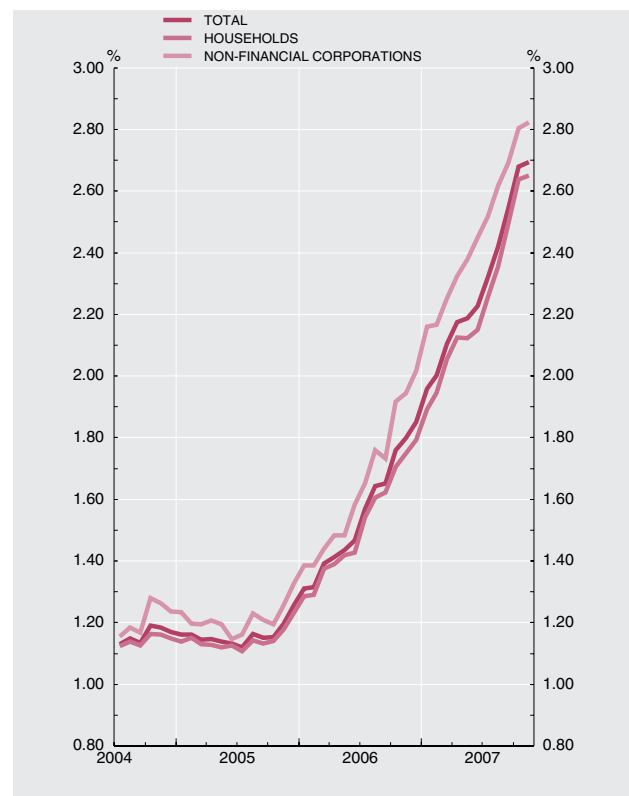
Percentages

	Loans (APRC) (a)							Deposits (NDER) (a)								
	Synthetic rate (c)	Households and NPISH			Non-financial corporations			Synthetic rate (c)	Households and NPISH				Non-financial corporations			
		Synthetic rate	House purchase	Consumption and other	Synthetic rate	Up to EUR 1 million	Over EUR 1 million (b)		Synthetic rate	Over-night and re-deemable at notice	Time	Repos	Synthetic rate	Over-night	Time	Repos
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
05		3.93	4.24	3.46	6.27	3.59	4.04	3.26	1.26	1.23	0.41	2.27	2.25	1.33	0.82	2.22
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
07	A	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	4.23
06 Apr		4.34	4.69	3.93	6.70	3.97	4.46	3.56	1.41	1.39	0.45	2.51	2.51	1.48	0.91	2.52
May		4.42	4.82	4.10	6.74	4.00	4.54	3.58	1.43	1.42	0.44	2.58	2.45	1.48	0.92	2.51
Jun		4.52	4.91	4.19	6.78	4.11	4.59	3.78	1.47	1.43	0.43	2.63	2.61	1.58	0.95	2.81
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
Nov	P	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	4.23

#### 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.

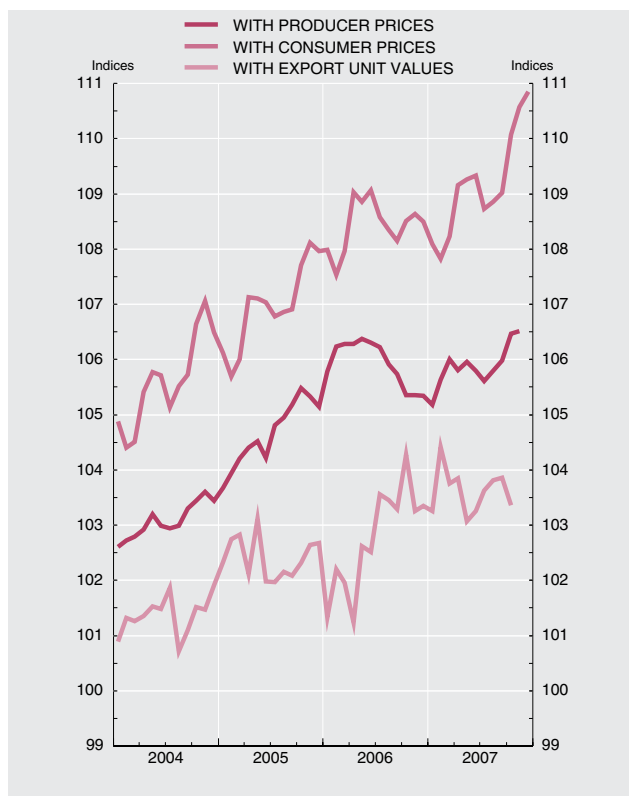
## 9.4 INDICES OF SPANISH COMPETITIVENES VIS-À-VIS THE EU-27 AND THE EURO AREA

■ Series depicted in chart.

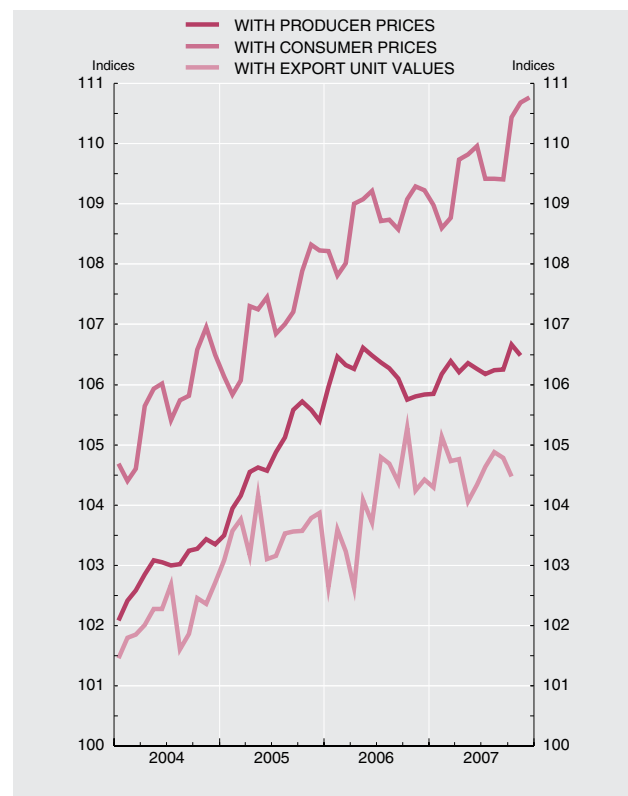
Base 1999 Q1 = 100

	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 manufac- turing 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					
04	103.1	105.6	104.2	101.4	100.1	102.9	105.5	104.1	101.2	102.9	105.7	105.0	106.9	102.1
05	104.7	107.0	105.4	102.4	100.1	104.6	106.9	105.3	102.3	104.8	107.1	106.5	110.1	103.5
06	105.9	108.4	106.6	102.8	100.0	105.9	108.5	106.6	102.8	106.2	108.8	108.0	112.1	104.0
05 Q4	105.3	107.9	105.6	102.5	100.0	105.3	107.9	105.5	102.5	105.6	108.1	106.8	110.7	103.7
06 Q1	106.1	107.8	106.3	101.8	100.1	106.0	107.8	106.2	101.8	106.2	108.0	107.5	113.3	103.1
Q2	106.3	109.0	106.5	102.1	100.1	106.2	108.9	106.4	102.0	106.5	109.1	107.7	112.3	103.5
Q3	106.0	108.4	106.3	103.4	100.0	106.0	108.4	106.3	103.4	106.2	108.7	107.7	111.0	104.6
Q4	105.4	108.5	107.2	103.6	99.8	105.6	108.8	107.5	103.9	105.8	109.2	109.0	111.9	104.7
07 Q1	105.6	108.1	107.4	103.8	99.7	105.9	108.4	107.6	104.1	106.1	108.8	109.2	112.1	104.7
Q2	105.9	109.3	107.8	103.4	99.8	106.0	109.4	108.0	103.6	106.3	109.8	109.5	111.6	104.4
Q3	105.8	108.9	107.6	103.8	99.9	105.9	109.0	107.7	103.9	106.2	109.4	109.3	111.4	104.8
07 Mar	106.0	108.2	...	103.8	99.9	106.1	108.4	...	103.9	106.4	108.8	...	...	104.7
Apr	105.8	109.2	...	103.9	99.8	106.0	109.3	...	104.0	106.2	109.7	...	...	104.8
May	106.0	109.3	...	103.1	99.9	106.1	109.4	...	103.2	106.4	109.8	...	...	104.1
Jun	105.8	109.3	...	103.3	99.8	106.0	109.5	...	103.4	106.3	110.0	...	...	104.3
Jul	105.6	108.7	...	103.6	99.7	105.9	109.0	...	103.9	106.2	109.4	...	...	104.6
Aug	105.8	108.9	...	103.8	99.8	106.0	109.0	...	104.0	106.2	109.4	...	...	104.9
Sep	106.0	109.0	...	103.9	100.0	106.0	109.0	...	103.9	106.2	109.4	...	...	104.8
Oct	106.5	110.1	...	103.4	100.1	106.4	110.0	...	103.3	106.7	110.4	...	...	104.5
Nov	106.5	110.6	...	...	100.3	106.2	110.3	...	...	106.5	110.7	...	...	...
Dec	...	110.8	...	...	100.5	...	110.3	...	...	...	110.8	...	...	...

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.

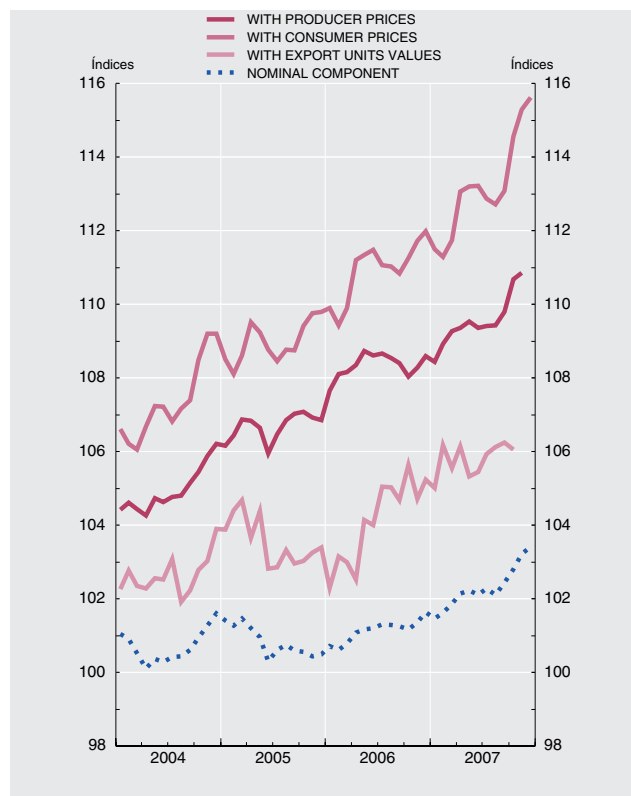
## 9.5 INDICES OF SPANISH COMPETITIVENESS VIS-À-VIS THE DEVELOPED COUNTRIES AND INDUSTRIALISED COUNTRIES

■ Series depicted in chart.

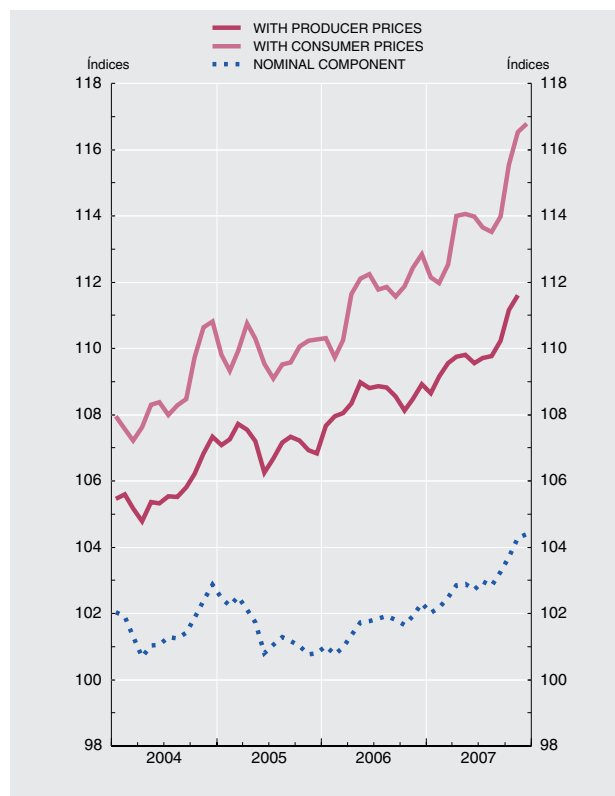
Base 1999 Q1 = 100

	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
<b>04</b>	104.9	107.4	109.3	102.6	100.7	104.2	106.6	108.5	101.9	105.7	108.6	101.6	104.1	106.9
<b>05</b>	106.7	109.0	112.1	103.5	100.8	105.8	108.1	111.1	102.7	107.1	109.9	101.5	105.5	108.3
<b>06</b>	108.3	110.9	114.1	104.1	101.1	107.1	109.7	112.8	103.0	108.5	111.6	101.6	106.8	109.8
<b>05 Q4</b>	107.0	109.7	112.1	103.2	100.5	106.4	109.1	111.5	102.7	107.0	110.2	100.9	106.1	109.2
<b>06 Q1</b>	108.0	109.8	115.0	102.8	100.7	107.2	109.0	114.2	102.1	107.9	110.1	100.9	106.9	109.1
<b>Q2</b>	108.6	111.3	114.3	103.6	101.2	107.3	110.1	113.0	102.4	108.7	112.0	101.6	107.0	110.2
<b>Q3</b>	108.5	111.0	113.1	104.9	101.3	107.2	109.6	111.6	103.6	108.7	111.7	101.9	106.8	109.7
<b>Q4</b>	108.3	111.7	114.0	105.2	101.4	106.8	110.1	112.5	103.8	108.5	112.4	102.0	106.4	110.2
<b>07 Q1</b>	108.9	111.5	114.5	105.6	101.6	107.1	109.7	112.6	103.9	109.1	112.2	102.2	106.7	109.8
<b>Q2</b>	109.4	113.2	114.4	105.6	102.2	107.1	110.8	112.0	103.4	109.7	114.0	102.8	106.7	110.9
<b>Q3</b>	109.5	112.9	114.3	106.1	102.3	107.1	110.4	111.7	103.7	109.9	113.7	103.0	106.7	110.4
<b>07 Mar</b>	109.3	111.7	...	105.6	101.9	107.3	109.7	...	103.6	109.6	112.5	102.5	106.9	109.8
<b>Apr</b>	109.4	113.1	...	106.1	102.1	107.1	110.7	...	103.9	109.8	114.0	102.9	106.7	110.8
<b>May</b>	109.5	113.2	...	105.3	102.2	107.2	110.7	...	103.0	109.8	114.1	102.9	106.7	110.9
<b>Jun</b>	109.4	113.2	...	105.4	102.1	107.1	110.9	...	103.3	109.6	114.0	102.7	106.7	111.0
<b>Jul</b>	109.4	112.9	...	105.9	102.3	107.0	110.4	...	103.6	109.7	113.7	103.0	106.6	110.4
<b>Aug</b>	109.4	112.7	...	106.1	102.1	107.2	110.4	...	103.9	109.8	113.5	102.8	106.7	110.4
<b>Sep</b>	109.8	113.1	...	106.3	102.4	107.2	110.4	...	103.7	110.2	114.0	103.3	106.8	110.4
<b>Oct</b>	110.7	114.6	...	106.0	102.8	107.7	111.4	...	103.1	111.2	115.6	103.7	107.2	111.4
<b>Nov</b>	110.9	115.3	...	...	103.2	107.4	111.7	...	...	111.6	116.5	104.3	107.0	111.8
<b>Dec</b>	...	115.6	...	...	103.4	...	111.8	...	...	...	116.8	104.4	...	111.9

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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